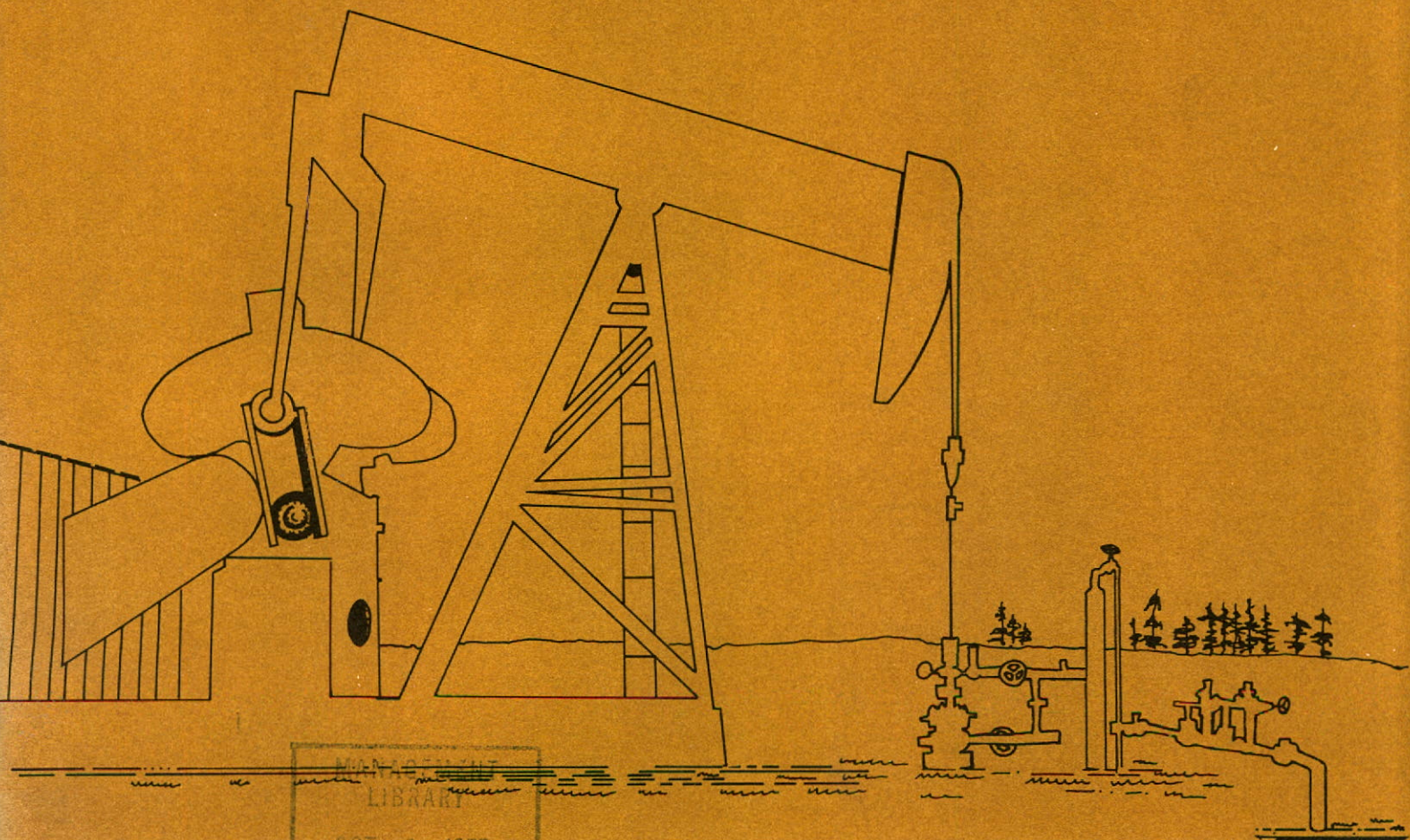




HOUSTON OILS LIMITED  
Annual Report



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1971

Wise Oil has completed its dual Eagle-Judith River discovery in Blaine County, Montana, flowing approximately 5.8 million cu ft of gas per day. The field opener, 11-34 Robinson, ne sw 34-26n-19e, was gauged at 5,400,000 cu ft per day from Eagle perforated between 1514 and 1624 ft. Judith River yielded 497,000 cu ft of gas per day through perforations 851-854 ft. Total depth is 1707 ft. The discovery, is 13 miles northeast of Sherard gas field and about 26 miles south of Tiger Ridge field. It is the second test drilled in the operator's 20 well series on the south side of the Bearpaw arch which is designed to evaluate a spread of about 164,000 acres in southwestern Blaine and eastern Chouteau counties. Participants in the program include Anadarko Production, Bridger Petroleum and Pickens Co. 9-9-71

### Arco starts second Indonesia venture

ATLANTIC Richfield is launching a second offshore Indonesia venture. ARCO says it has acquired 51% interest in a 15,440-sq-mile block in the Straits of Malacca off the northeast coast of Central Sumatra and intends to begin seismic work shortly.

The acquisition in the production-sharing contract area was made from Pan Ocean Oil Corp. of New York, which retains a 35.1% interest. Pan Ocean acquired its interest earlier this year from Kondur Petroleum S.A., a subsidiary of Ingram Corp., New Orleans. Kondur, which originally acquired the contract area, holds 10% interest. Houston Oils Ltd., Calgary, Alta., has a 3.9% interest. THE OIL AND GAS JOURNAL—JULY 26, 1971

### Northern hikes stake in Arctic search

NORTHERN Natural Gas Co. of Omaha has increased its stake in the search for gas in the Canadian Arctic Islands to the tune of \$9.5 million, hard on the heels of its share of a recent deal with Panarctic Oils (OGJ, July 19, p. 32).

An agreement with Magnorth Petroleum Ltd., Calgary, calls for Northern to undertake a \$9.5-million exploration program over 5 years on some 13.8 million net permit acres held by Magnorth. The acreage is concentrated offshore in Viscount Melville Sound, Barrow Strait, and Lancaster Sound. Northern would thereby earn 25% of Magnorth's working interest.

Northern also has the option to con-

tinue exploration and development for 4 more years at a cost of \$26 million to earn 50% interest, and it will have first rights on a competitive basis to buy any gas discovered, provided the gas is surplus to Canadian requirements.

Magnorth is a consortium of 11 oil and mining companies. Its issued capital is held by Supertest Investments, Petroleum Ltd., Houston Oils, Ashland Oil Canada, Pan Ocean Oil, Pennzoil United, Sabre Petroleum, Mikas Oil, Paddon Hughes Development, Redstone Mines, and Fort Reliance Minerals.

It will spend some \$2 million in 1971 and 1972 on seismic surveys.

THE OIL AND GAS JOURNAL—JULY 26, 1971

### HOUSTON OILS HAS STAKE IN SCHEDULED DRILLING IN ABU DHABI - 5% ACQUIRED FROM WINGTON CARRIED IN FIRST TEST

Although the name of Houston Oils Limited, of Calgary, is not included in the report relating to forthcoming drilling operations in offshore Abu Dhabi waters (see preceding report) it is understood that this company has a 5% stake in the acreage and proposed well. It is believed that this interest was purchased from Wington Enterprises and under terms of the acquisition Houston will be carried and not have to supply any drill costs in the initial exploratory venture. DAILY OIL BULLETIN APRIL 12th, 1971

### FOX E BASIN STRAT TEST ANNOUNCED BY AQUITAINE & CDN, OCCIDENTAL, OTHER PERMIT HOLDERS HAVE STAKE.....

AQUITAINE COMPANY OF CANADA LTD. and CANADIAN OCCIDENTAL PETROLEUM LTD. (formerly Jefferson Lake Petrochemicals of Canada Ltd.), jointly announce plans for the drilling of a stratigraphic test in the Foxe Basin of the Eastern Arctic. This is the first test to be drilled in the Foxe Basin and will be spudded in early August by the Midwest Drilling Division of GNC Industries Ltd. The site is located on Rowley Island approximately 860 miles northeast of Churchill, Manitoba.

Several other companies will be participating in the venture. These include: SYRACUSE OILS LIMITED (Bow Valley Industries Ltd.), MORE MINES LIMITED, NAHANNI MINES LIMITED, PAN OCEAN OIL (CANADA) LTD., HOUSTON OILS LIMITED, VOYAGER PETROLEUMS LTD., CLARK CANADIAN EXPLORATION COMPANY, RESTONE MINERALS LTD., FORT RELIANCE MINERALS LTD., and UNITED CANSO OIL & GAS LTD. DAILY OIL BULLETIN JULY 21st. 1971

### HOUSTON-FORT RELIANCE MOVE DIAMOND DRILL TO CLAIMS AT WOLLASTON LK., 25 MI. SOUTH GULF OPERATIONS.....

A diamond drill is now being moved to the Morell Lake properties of HOUSTON OILS LIMITED and FORT RELIANCE MINERALS LIMITED to test a series of four strong geophysical conductors. The properties lie about 25 miles south of the Gull Uranium deposit at Wollaston Lake, Saskatchewan.

The first anomaly to be tested is No. 7. It is located in the vicinity of some mineralized float with interesting zinc and silver values. Fort Reliance and Houston Oils each have a 50% working interest in the drilling project. It is expected that Hole No. 1 will be drilling by the end of this week. DAILY OIL BULLETIN SEPTEMBER 29, 1971

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**DIRECTORS**

---

C. FRANKLIN AGAR, Calgary, Alberta  
ROGER L. BALL, Calgary, Alberta  
WILLIAM A. CLARKE, Oakville, Ontario  
JOHN A. DOWNING, Calgary, Alberta  
LOUIS MARX, SR., Scarsdale, New York  
JAMES A. MILLARD, Calgary, Alberta  
ALBERT E. WHITEHEAD, Calgary, Alberta

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**OFFICERS**

---

ALBERT E. WHITEHEAD, President  
JOHN A. DOWNING, Vice President  
DARRELL R. LONG, Vice President, Exploration  
THOMAS M. M. BENDER, Treasurer  
JAMES A. MILLARD, Secretary

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**HEAD OFFICE**

---

950 Three Calgary Place  
355 - 4th Avenue S.W.  
Calgary 1, Alberta

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**SUBSIDIARY COMPANIES**

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Bridger Petroleum Corporation  
Ensign Oils, Inc.  
Bluenose Oils Limited  
Houston Oils (U.K.) Limited  
Ensign Oils of Spain Limited

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**AFFILIATED COMPANY**

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Magnorth Petroleum Limited

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**TRANSFER AGENT AND REGISTRAR**

---

The Canada Trust Company  
Vancouver, Calgary, Toronto, Montreal

---

**AUDITORS**

---

Collins, Love, Eddis, Valiquette & Barrow  
Calgary, Alberta

---

**LEGAL COUNSEL**

---

MacKimmie Matthews, Calgary, Alberta

---

**BANKER**

---

The Toronto-Dominion Bank, Calgary, Alberta

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**STOCK EXCHANGE LISTINGS**

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Toronto Stock Exchange, Toronto  
Canadian Stock Exchange, Montreal

## REPORT TO THE SHAREHOLDERS



This is the first Annual Report of our new Company which was created as a result of the amalgamation of Houston Oils Limited and Ensign Oils Limited which was completed on February 4, 1971. Since the Company's fiscal year ended September 30, 1971, this report covers the period February 4, 1971 to September 30, 1971.

Gross revenue for the eight month period was \$515,050. Cash flow from operations and future gas deliveries was \$338,261 or 8.2 cents per share.

During this reporting period the Company and its subsidiaries participated directly in the drilling of 36 exploratory and 2 development test wells. Thirteen of the exploratory test wells resulted in gas wells, 23 were abandoned. One of the development test wells was completed as an oil well and 1 was abandoned. The total results amounted to a success ratio of 36%.

The Company's land position remained strong by virtue of holding varying interests in just over 26,000,000 acres. Our net working interest acreage total declined slightly from our last report due to

selling or farming out interests in some of our larger blocks. Overall we had a slight gain since we acquired overriding royalties on 520,704 acres.

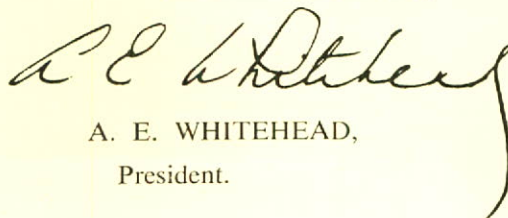
The Company is preparing for an active drilling program during the ensuing fiscal year with 32 exploratory and development test wells planned.

The employees of any company are the key to its growth. This is especially so in a small company such as Houston. Therefore, we felt you might like to become better acquainted with the people who are working to make Houston grow. You will find their pictures throughout the following pages.

Several articles have appeared in newspapers and trade journals about Company activities during the past few months. We thought you would be interested in some of these articles which you will find on the inside of the front and back covers.

Despite the present unsettled economic condition throughout the world; the probability of a serious energy crisis in the United States tends to add a premium to oil and gas reserves. It will be a considerable challenge for natural resource companies in Canada and the United States to discover sufficient new reserves to offset this crisis. The Company will attempt to do its part in helping to solve this problem through its exploration program.

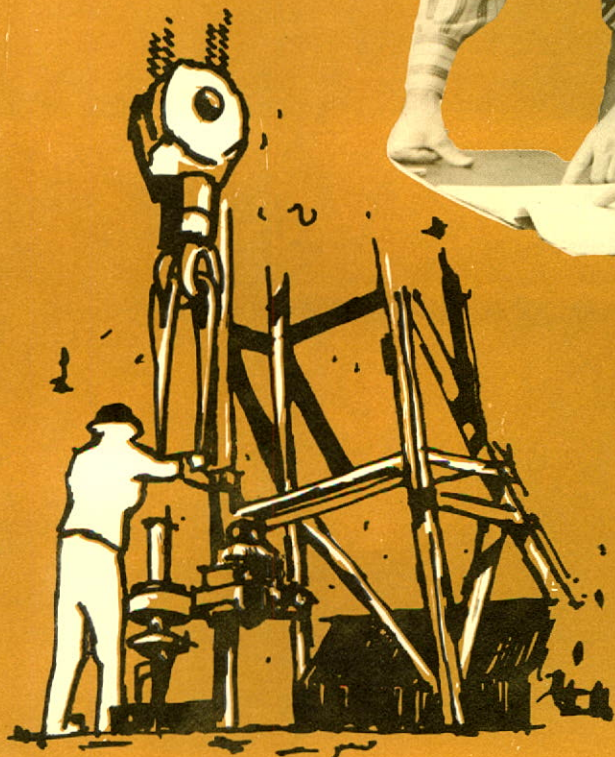
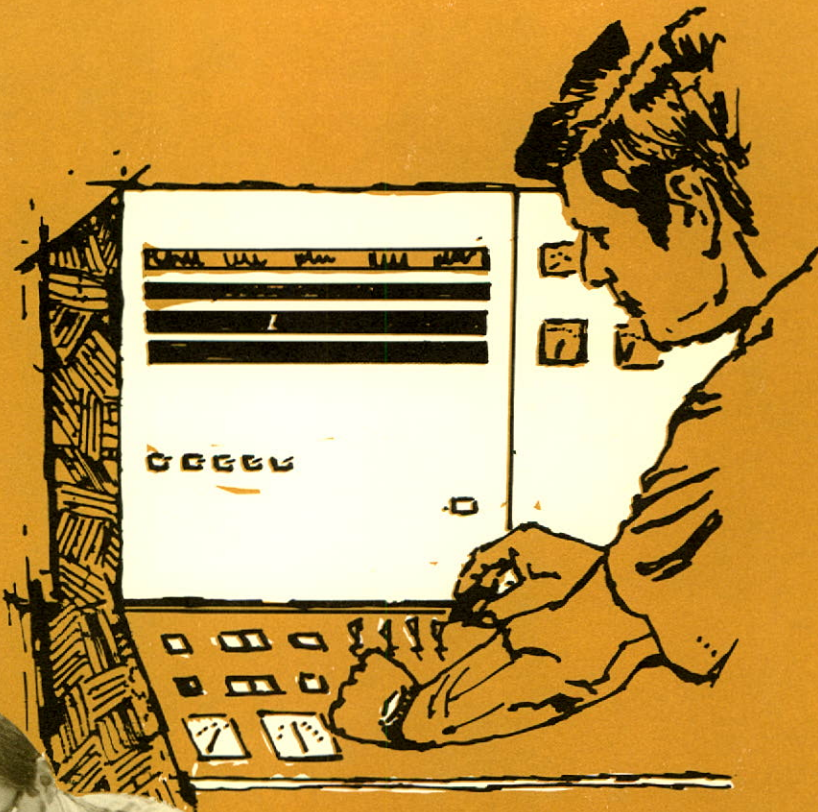
On behalf of the Board,



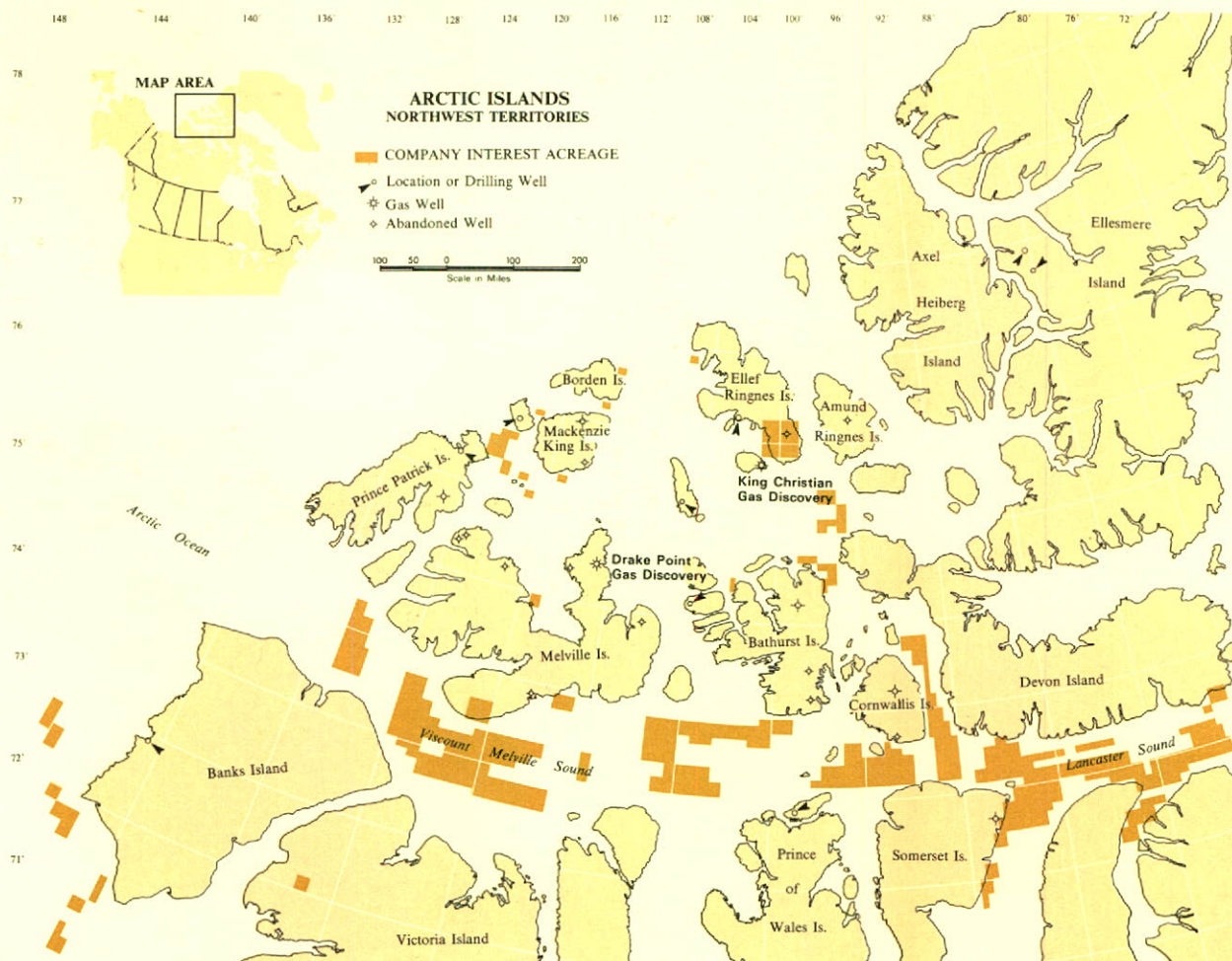
A. E. WHITEHEAD,  
President.

### ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held in the Banff Room, Calgary Inn, Calgary, Alberta, on December 20, 1971 at 2:00 P.M.



Landman Wayne Wells, left  
Drilling & Production Engineer Joe Stafinski



## EXPLORATION AND DEVELOPMENT (Oil And Gas)

The Company is preparing to commence drilling operations in the Calling Lake area of North-eastern Alberta. You will recall this was the prospect on which we discovered gas in seven out of nine test wells drilled last winter. Eight new locations have been selected for drilling; three being in the category of development tests and five as exploratory tests. The Company has acquired farmouts on an additional 62,720 acres which now brings the gross acreage in the prospect to approximately 303,000 acres. The Company plans to drill 15 to 20 development and exploratory tests on this prospect during this winter's drilling season.

The Matziwin-Verger prospect in East Central Alberta now has two oil wells producing and one well shut-in due to poor productivity. Three gas wells in this prospect have been connected to Trans-Canada's gathering system and gas sales from these wells will be commenced early in December.

Completion and testing operations are presently being carried out in the large Tiger Ridge Gas Field in Northern Montana. Approximately 40 wells, which were drilled some time ago, are now being prepared for the taking of gas production since Northern Natural Gas Company is now planning to take deliveries of this gas in November, 1972. Ensign Oils, Inc., has an interest in approximately 210,000 acres and 73 gas wells in this field. Ensign is presently receiving \$360,000 per year from this property by virtue of a take or pay clause in the gas contract with Northern Natural.

Additional gas reserves have been established in the Sherard Prospect which is located 30 miles south of the Tiger Ridge Field. Bridger Petroleum Corporation recently participated in a 20 well exploratory program on this prospect. Six of these tests resulted in gas discoveries and 14 were dry holes. An additional gas well within the prospect area was purchased giving Bridger an interest in seven wells. The prospect operator is now planning to drill an additional 20 wells as soon as partner



Geologists Darrell Long and John Mozingo



Treasurer "Mac" Bender

approval can be obtained. This gas is under contract to Northern Natural which hopes to take deliveries in November, 1972. Bridger's interest in this prospect varies from 4.4% to 12.5%. The total acreage on this prospect is approximately 169,000 acres.

A 10,800' Ordovician test is presently drilling on Bridger's North Buffalo Creek Prospect in Stark County, North Dakota. Bridger has a 15.625% interest in this test and the 3,180 acres on the prospect. This test is located northwest of an Ordovician oil well which was completed with a potential producing rate of 285 barrels per day.

Bridger has continued to consolidate its land position on its Towner Prospect located in Bottineau and McHenry Counties, North Dakota. We now have approximately 170,000 acres on the prospect in which we hold a 50% interest. Additional geophysical work was recently conducted on the prospect with excellent results. This is a Winnipegosis Reef prospect which is the same formation in which major oil fields have been discovered in the Rainbow Lake area of Alberta. Bridger is presently looking for partners to join in drilling several test wells on the prospect.

The Company expects to drill other prospects in Alberta, Saskatchewan, Montana, North Dakota and possibly other areas during the 1971-72 fiscal year. In addition to the 32 test wells already planned we anticipate participating in at least 18 more which would give us 50 for the year.

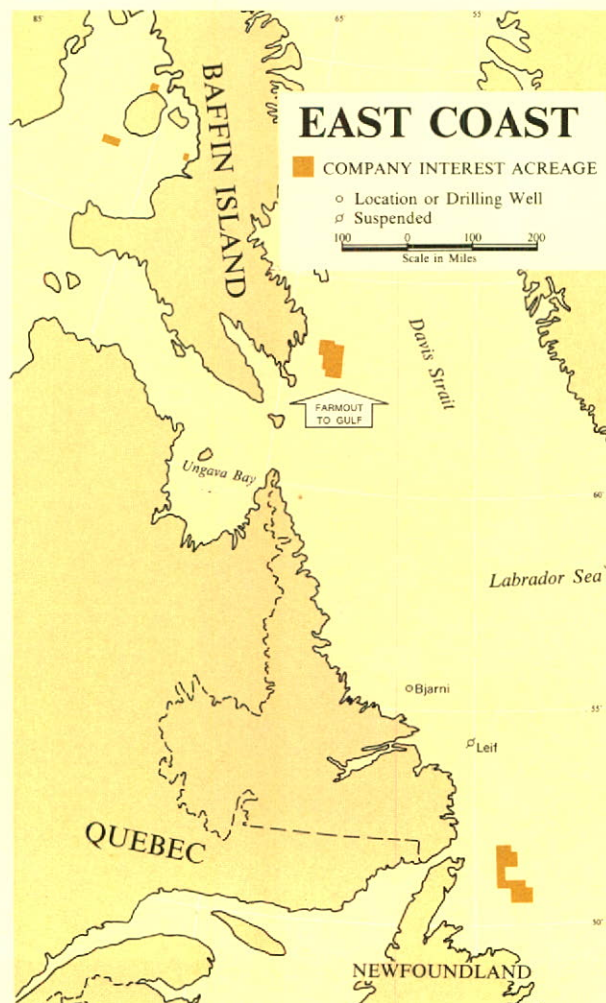
A 14,000 foot test well is presently being drilled by Quasar Petroleum Ltd. on a farmout from the Company in the Monkman Pass area of Northeast British Columbia. The Company reserved a 3% gross overriding royalty under this test and prospect acreage. Quasar estimates the cost of drilling this test at approximately 1.5 to 1.7 million dollars. Since the Company is in a royalty position it is not obligated for any of this cost.

A geophysical survey has recently been completed on Permits comprising 1,603,865 acres located offshore from Newfoundland, in which the Company has a 25% interest. Interpretation of the geophysical data is now underway.

## EXPLORATION AND DEVELOPMENT (Minerals)

The Dolores River Uranium-Vanadium mine was placed on production in late July. This is the second mine now in production on this prospect which is located in San Miguel County, Colorado. Ensign Oils, Inc. has a 15% interest in these mines and 745 mining claims in the prospect area. Exploratory drilling is being carried out in the immediate area of the two mines and just recently mineralization was encountered in a drill hole 450 feet northeast of the most easterly extent of the Sun Cup workings. Additional drilling is underway to determine if we have located another commercial ore body.

The Company recently participated in drilling a very strong anomaly in the Morell Lake area of Saskatchewan. The results were disappointing; therefore consideration is being given to bringing in other partners before testing other anomalies in the area. The Company has a 50% interest in this



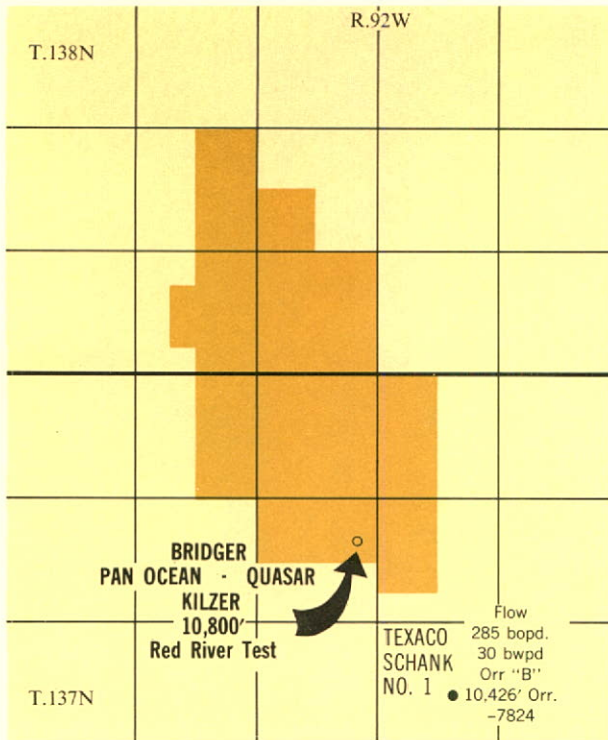




Pat Hussin

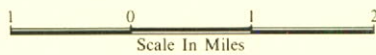
Muriel Marshall

Loanne Arnason



**NORTH BUFFALO CREEK PROSPECT  
NORTH DAKOTA**

BRIDGER INTEREST LANDS



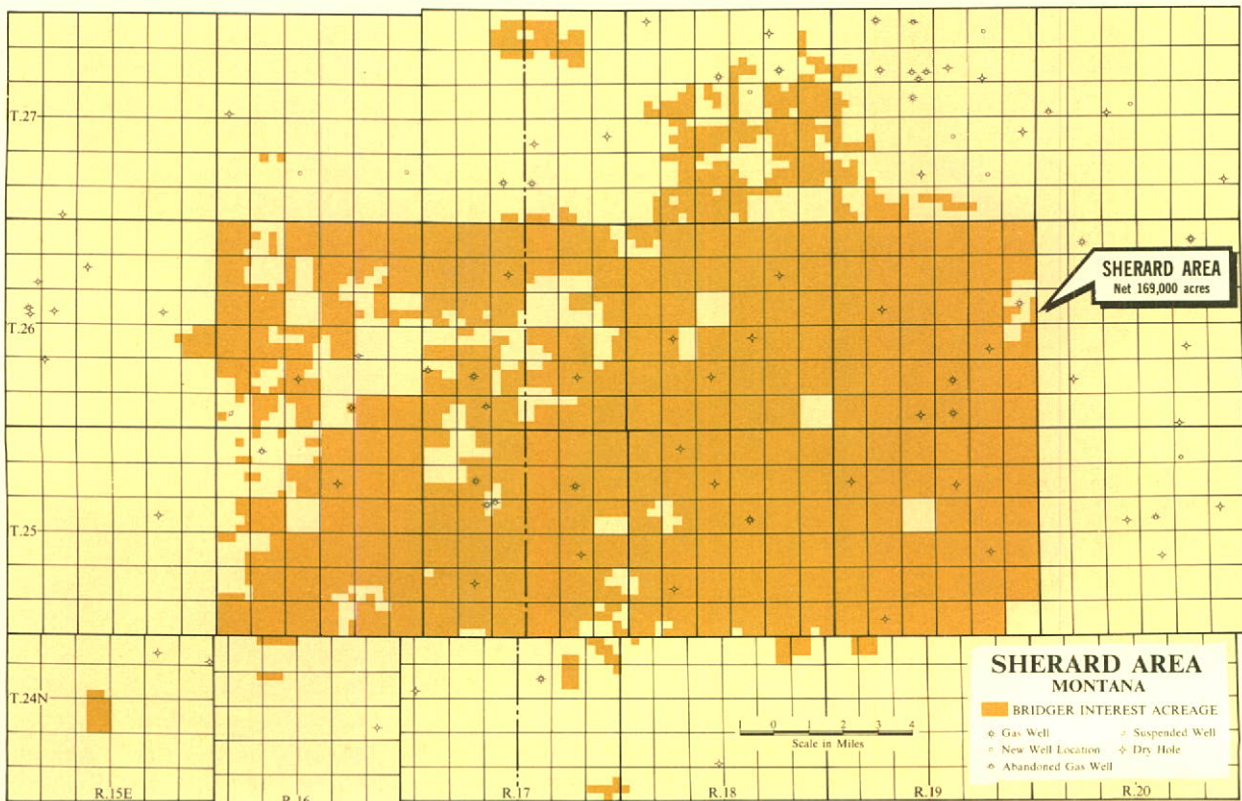
zinc-lead-silver prospect located approximately 36 miles south of the Gulf Mineral's Uranium discovery in the Wollaston Lake area.

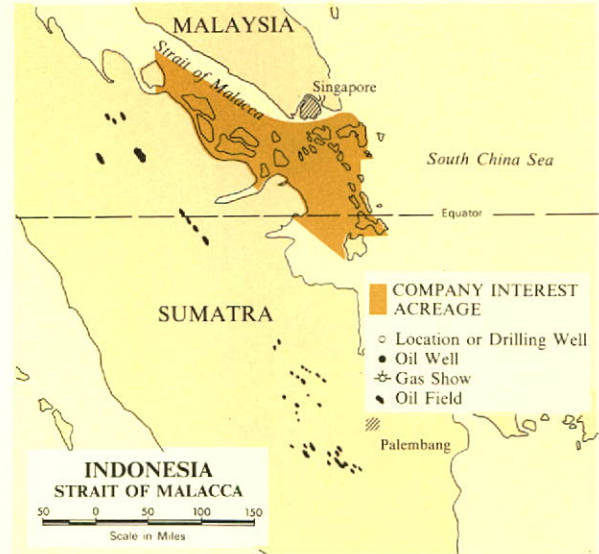
Other mining activity of the Company will be limited to its Rankin Inlet nickel-copper prospect located in Northwest Territories. Extensive airborne, ground geophysical and geological exploration has been conducted on this prospect with very encouraging results. We are continuing discussions with other companies about drilling this prospect in return for an interest. There are 402 mineral claims on this prospect in which the Company has a 33.4% interest.

**FOREIGN OPERATIONS**

**Turkey**

The Company has traded its equity position in Tur-Kan Petrol Ltd. to Pan Ocean Oil Corporation. In return for its equity position the Company received a 1.523% overriding royalty on the 494,200 acres Tur-Kan holds under Exploration Licenses in District V. We also received 2,942 shares of Pan Ocean Common Stock. Pan Ocean plans a test well in the first half of 1972, on Tur-Kan's Rabat Prospect which is located approximately three miles North of the Selmo Oil Field.





### Indonesia

An agreement was reached with Atlantic Richfield Indonesia Inc., in July which provided that Atlantic would undertake to meet the first two year's work commitments under the Concession Agreement with Pertamina, the Indonesian Government owned Oil Company. Atlantic has now conducted a reconnaissance geophysical survey which is presently being interpreted. After Atlantic earns its interest in the 10,000,000 acre concession our interest will be reduced from 10% to 4.33%.

### Abu Dhabi

The first test well was drilled this past summer on a 778,000 acre Concession in which Bridger Petroleum Corporation, holds a 5% carried working interest. This test resulted in a non-commercial gas well and was abandoned. The operator and partners are planning to conduct a geophysical survey on this concession and drill a second test well sometime in 1972. An interesting development is taking place approximately four miles off the Northeast side of the concession where a new oil well has been completed. A new test well is now drilling about two miles away. This new location appears to be an attempt to extend the productive limits of the Raazboot Field.

### MISCELLANEOUS FOREIGN OPERATIONS

The Company holds other foreign interests in Italy and the Netherlands. In Italy a portion of the acreage is under geophysical-drilling option to

another company and efforts are being made to farm out the other acreage. No activity is presently being undertaken on the Netherlands acreage.

Houston Oils (U.K.) Ltd. has joined another company on an application for a concession in the British North Sea. This concession is expected to be awarded by the British Government by the end of December. Should we be the successful applicants our interest would be 33.33%.

Ensign Oils, Inc., has entered into what could result in a very significant agreement with Marine International Exploration Co. (Marinex). In return for underwriting 50% of Marinex's direct expenses, estimated to be \$50,000. per year, Ensign will be entitled to participate in any foreign concession Marinex acquires. Marinex is owned and operated by three excellent geologists with its headquarters in London, England. The effect of our agreement with Marinex is to give the Company international exploration exposure at a very reasonable price. Initially, Marinex will concentrate its efforts on obtaining concessions which require only modest work commitments to obtain.

### MISCELLANEOUS EXPLORATIONS

Magnorth Petroleum Ltd., in which the Company has a 10.7% equity interest, has increased its land holdings in the Arctic Islands to 14,197,690 acres. Magnorth participated in a 5,000 mile geophysical survey this past summer and fall and the results have been very encouraging.

**HOUSTON OILS LIMITED**  
And Subsidiary Companies

September 30, 1971

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**CONSOLIDATED BALANCE SHEET**

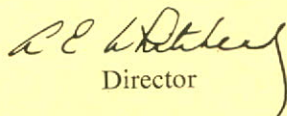
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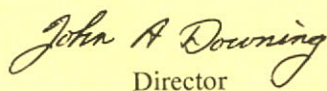
**ASSETS**

Current

Cash . . . . .	\$ 28,593
Accounts receivable . . . . .	335,111
Marketable securities, at cost (market value \$2,130) . . . . .	4,700
Prepaid expenses . . . . .	<u>9,928</u>
	378,332
Note receivable — shareholder — Note 3 . . . . .	25,000
Advances to Tur-Kan Petrol Ltd. — Note 4 . . . . .	128,670
Drilling and exploration deposits . . . . .	72,354
Investments — other, at cost (no quoted market value) . . . . .	90,009
Property and equipment, at cost — less accumulated depreciation and depletion — Note 5 . . . . .	4,377,748
Other assets, at cost . . . . .	<u>24,234</u>

On behalf of the Board

  
Director

  
Director

\$ 5,096,347

---



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**LIABILITIES**

## Current

Accounts payable and accrued charges . . . . .	\$ 265,463
Current portion of long term debt . . . . .	<u>144,000</u>
	409,463
Prepayment of future gas deliveries . . . . .	519,589
Long term debt — Note 6 . . . . .	756,460

**SHAREHOLDERS' EQUITY**

## Capital stock — Note 7

## Authorized

20,000,000 common shares of no par value

## Issued

4,145,000 shares . . . . .	\$ 4,734,791
Deficit — Statement 2 . . . . .	<u>(1,323,956)</u>
	<u>3,410,835</u>

\$ 5,096,347

The accompanying notes are an integral part of these financial statements

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**CONSOLIDATED STATEMENT OF INCOME**

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For the period February 5, 1971 to September 30, 1971

Revenue	
Oil and gas production, less royalties . . . . .	\$ 288,533
Mineral production, less royalties . . . . .	40,004
Exploratory ventures and lease sales . . . . .	159,427
Other . . . . .	27,086
	<u>515,050</u>
Expenses	
Operating . . . . .	126,153
Lease rentals . . . . .	94,783
General and administrative . . . . .	175,094
Interest . . . . .	30,196
	<u>426,226</u>
Net cash from operations before undernoted items . . . . .	<u>88,824</u>
Cost of exploratory ventures and lease sales . . . . .	136,533
Unproductive development and property abandoned . . . . .	145,678
Depletion . . . . .	74,965
Depreciation . . . . .	37,684
Loss on disposal of properties and investments (net) . . . . .	5,725
	<u>400,585</u>
Net loss . . . . .	<u>\$ 311,761</u>

Net loss per share based on the weighted average of shares outstanding during the period . . . . . 7.7¢

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**CONSOLIDATED STATEMENT OF DEFICIT**

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For the period February 5, 1971 to September 30, 1971

Deficit, beginning of period . . . . .	\$ 1,012,195
Net loss — Statement 3 . . . . .	311,761
Deficit, end of period . . . . .	<u>\$ 1,323,956</u>

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**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

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For the period February 5, 1971 to September 30, 1971

Source of funds

Net cash from operations (before property and development costs chargeable against operations) . . . . .	\$ 88,824
Prepayment of future gas deliveries . . . . .	249,437
Proceeds from sale of properties . . . . .	110,000
Bank loans . . . . .	355,000
Capital stock issued . . . . .	55,000
Other (net) . . . . .	<u>28,376</u>
	<u>886,637</u>

Application of funds

Acquisition of properties and development costs . . . . .	628,139
Repayment of bank loans . . . . .	261,059
Advances to other companies . . . . .	<u>64,934</u>
	<u>954,132</u>
Decrease in working capital . . . . .	<u>\$ 67,495</u>

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**AUDITORS' REPORT**

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The Shareholders  
 Houston Oils Limited

We have examined the consolidated balance sheet of Houston Oils Limited and its Subsidiaries as at September 30, 1971 and the consolidated statements of income, deficit and source and application of funds for the period 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 companies as at September 30, 1971 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles.

November 24, 1971  
 Calgary, Alberta

Collins, Love, Eddis, Valiquette & Barrow

Chartered Accountants

# HOUSTON OILS LIMITED

And Subsidiary Companies

## NOTES TO FINANCIAL STATEMENTS

September 30, 1971

### 1. ACCOUNTING PRACTICES

The companies follow the practice of capitalizing all lease acquisition costs and exploration costs. If the lease is subsequently surrendered the accumulated costs are charged to income at the time of surrender. The costs of drilling unproductive wells are charged to income when the prospect area is abandoned. Lease acquisition costs and exploration costs of each producing area are amortized on the unit of production method based on estimated recoverable reserves of oil and gas. Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize the costs over the estimated useful lives of the assets.

### 2. PRINCIPLES OF CONSOLIDATION

The consolidated balance sheet includes the accounts of the Company and its wholly-owned subsidiaries Bluenose Oils Ltd. (an Alberta company), Bridger Petroleum Corporation (a United States corporation) and Ensign Oils Inc. (a United States corporation).

The accounts of the foreign subsidiaries have been converted to Canadian dollars on the following basis:

Current assets and current liabilities at the rate of exchange in effect at September 30, 1971.

Other assets and liabilities at the rate of exchange in effect at the date of the transaction.

The net exchange difference has been included in the statement of income.

### 3. NOTE RECEIVABLE, SHAREHOLDER

D. R. Long, an officer and employee is indebted to the Company for \$25,000 which was used to purchase fully-paid shares of a predecessor company in 1969. The loan is evidenced by a promissory note payable on or before August 1, 1974 and is secured by certificates representing 10,000 shares of Houston Oils Limited, which certificates are deposited with The Canada Trust Company, as Trustee.

### 4. ADVANCES TO TUR-KAN PETROL LTD.

During September 1971, the company disposed of its 35.3% interest in the outstanding common shares of Tur-Kan Petrol Ltd. through an exchange of shares. As further consideration Houston Oils Limited received an overriding royalty interest in each of the licenses then owned by Tur-Kan Petrol Ltd. No gain or loss has been recognized in the accounts with respect to this transaction.

Prior to the sale of the interest in Tur-Kan Petrol Ltd. described above, the company had made advances to that company of \$128,670, such amounts to be repaid out of future profits earned by Tur-Kan Petrol Ltd. This arrangement will continue unaffected by the sale of the common shares.

The future profitability of Tur-Kan Petrol Ltd. is likely to be contingent on the results of a program of evaluation of their oil and gas exploration licenses in Turkey which is presently in process.

### 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	COST	ACCUMULATED DEPRECIATION AND DEPLETION	NET BOOK VALUE
Oil and gas properties			
Fully or partially developed . . . . .	\$ 2,241,599	\$ 227,955	\$ 1,968,644
Undeveloped . . . . .	1,752,457	—	1,752,457
	<u>3,994,056</u>	<u>272,955</u>	<u>3,721,101</u>
Mineral properties			
Fully or partially developed . . . . .	75,838	15,720	60,118
Undeveloped . . . . .	239,678	—	239,678
Production and other equipment . . . . .	530,590	173,739	356,851
	<u>\$ 4,840,162</u>	<u>\$ 462,414</u>	<u>\$ 4,377,748</u>



6. LONG TERM DEBT

Long term debt payable after one year consists of the following:

Bank loan, at prime rate plus 1% . . . . .	\$ 443,500
Interest free development loan . . . . .	<u>312,960</u>
	<u>\$ 756,460</u>

Although the bank loan is evidenced by demand notes the bank has indicated that it will accept repayment in monthly installments totalling \$144,000 per annum until the loan is repaid in full.

The development loan due July 1, 1974 is repayable in quarterly installments out of the proceeds of sale of gas from certain properties. The Company does not anticipate that any repayments will be required prior to November 1972.

The loans are secured by a pledge of future proceeds of production from specific properties.

7. CAPITAL STOCK

Issued capital stock of the Company consists of the following:

	NUMBER OF SHARES	STATED VALUE
Issued February 4, 1971 on creation of the company through amalgamation of Ensign Oils Limited and Houston Oils Limited (the predecessor company) . . . . .	4,123,000	\$ 4,679,791
Issued during the period February 5, 1971 to September 30, 1971 for an interest in oil properties . . . . .	<u>22,000</u>	<u>55,000</u>
Outstanding September 30, 1971 . . . . .	<u>4,145,000</u>	<u>\$ 4,734,791</u>

The following shares of the Company have been reserved for issuance on conversion of options and warrants:

- a. 66,667 shares for issuance under the terms of an option arising from an underwriting agreement dated August 19, 1968, entered into by a predecessor company, Ensign Oils Limited. The option is exercisable at \$1.65 per share to August 31, 1973.
- b. 300,000 shares for conversion of 300,000 share purchase warrants arising from an underwriting agreement dated December 1, 1969, entered into by Houston Oils Limited (the predecessor company). Each share purchase warrant entitles the holder to purchase one share of the company at a price of \$3.50 at any time up to December 15, 1972.
- c. 50,000 shares for issuance under a stock option plan for key employees. On August 6, 1971, stock options for 22,000 shares were granted to key employees at a price of \$2.11 per share exercisable over a period of 3 years, at the rate of 1/3 of the number of shares in each year, and cumulative to the extent not so exercised in earlier years.

8. INCOME TAXES

Under the provisions of the Canadian and United States Income Tax Acts the companies are entitled to claim intangible exploration and development expenses without regard to the amounts charged in the accounts. As at September 30, 1971 the companies and their predecessors had incurred intangible exploration and development expenditures of approximately \$4,500,000 which had not been claimed for tax purposes and which are available for carry-forward against taxable income for future years, subject, in part, to timing and certain other limitations. Of this amount, \$2,600,000 is available for carry-forward by Canadian companies and the balance of \$1,900,000 is available for carry-forward by the United States subsidiaries.

The Companies, in common with many other companies in the oil and gas industry, are of the opinion the "tax allocation" basis of recording income taxes relating to timing differences in claiming intangible exploration and development expenses as advocated by some accounting authorities is not appropriate for oil and gas companies. Had the companies adopted the "tax allocation" basis with respect to intangible exploration and development expenses the accumulated income tax deferrals as at September 30, 1971 would have amounted to \$190,000 which would have appeared as an asset in the consolidated balance sheet of the Company and its subsidiaries.

It is the policy of the companies to provide for deferred income tax liabilities with respect to timing differences relating to tangible assets. However, as at September 30, 1971, there was no deferred liability in this respect.

9. COMMITMENTS AND CONTINGENCIES

The Company has issued non-interest bearing demand promissory notes and letters of guarantee as security for the performance of work obligations by the Company and others in respect of normal exploration activities. The aggregate of such notes and guarantees amounted to approximately \$370,000 at September 30, 1971.

A subsidiary is obligated to pay \$67,000 in connection with certain lease applications in Alaska, if and when, the relevant leases are issued.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of the directors and senior officers of the companies during the period February 5, 1971 to September 30, 1971 amounted to \$48,000.



## HOUSTON LAND INVENTORY

### PETROLEUM AND NATURAL GAS RIGHTS

(A) Working Interests:	Gross	Net	(C) Royalty Interest:	Gross	Houston Interest
1. Alberta . . . . .	331,425	71,958	23. (i) Alberta (Mundare) . . . . .	1,440	5%
2. British Columbia . . . . .	989	167	23. (ii) Alberta (Mundare and Provost) . . . . .	3,400	4%
3. Saskatchewan . . . . .	58,833	7,506		1,280	8%
4. Manitoba . . . . .	1,880	1,291	24. (i) Saskatchewan (Success) . . . . .	1,600	2.00%
5. Yukon . . . . .	614,340	153,585	24. (ii) Saskatchewan (Unity) . . . . .	86,720	1.00%
6. Foxe Basin . . . . .	685,810	219,566	25. Arctic Islands . . . . .	7,079,794	.25%
7. Baffin Island . . . . .	1,158,884	260,748	26. Yukon . . . . .	47,425	.50%
8. East Coast (Offshore) . . . . .	1,603,865	400,966	27. (i) N.W.T. . . . .	189,153	.50%
9. Alaska (Leases & Lease offerings) . . . . .	110,072	31,352	27. (ii) N.W.T. . . . .	145,003	.75%
10. Montana . . . . .	572,068	95,964	27. (iii) N.W.T. . . . .	88,428	1.565%
11. North Dakota . . . . .	164,603	81,848	28. Beaufort Sea . . . . .	525,949	.125%
12. New Mexico . . . . .	317	317	29. Alaska . . . . .	50,896	.3125%
13. Oklahoma . . . . .	1,120	140	30. Turkey . . . . .	494,200	1.523%
14. Texas . . . . .	3,374	421	31. British Columbia . . . . .	26,504	3.00%
15. Italy . . . . .	159,287	26,979		<u>8,741,792</u>	
16. Dutch North Sea . . . . .	40,000	1,835			
17. Abu Dhabi (Carried Working Interest) . . . . .	778,000	38,900			
18. Indonesia . . . . .	10,000,000	1,000,000			
19. Louisiana . . . . .	1,285	1,285			
	<u>16,286,152</u>	<u>2,394,828</u>			
<b>(B) Net Carried Interests:</b>			<b>MINING RIGHTS</b>		
20. Arctic Islands . . . . .	737,400	11,061	<b>(A) Working Interest:</b>	<b>Gross</b>	<b>Net</b>
21. Yukon . . . . .	138,642	25,995	32. Saskatchewan . . . . .	115,370	59,270
22. N.W.T. . . . .	55,167	2,067	33. N.W.T. . . . .	23,030	9,788
	<u>931,209</u>	<u>39,123</u>	34. Colorado & Utah . . . . .	20,743	6,915
				<u>159,143</u>	<u>75,973</u>

HOUSTON OILS LIMITED of Calgary has announced it is participating in a twenty well program in the SHERARD area of Hill and Blaine Counties, Montana. The drilling program is being carried out on a 164,000 acre block which is located approximately 20 miles south of the TIGER RIDGE gas field. The first well in the program is presently drilling. The company is also currently participating in a 7400' test well being drilled in Sheridan County, Montana, the Foxe Basin test being drilled by Aquitaine in the Eastern Arctic and a development well in the Matziwin-Verger area of central Alberta. DAILY OIL BULLETIN AUGUST 17th, 1971

## HOUSTON OILS &amp; PARTNERS CHALK UP NISKU GAS FIND IN THE SUNLAND REGION OF CENTRAL EAST ALTA "1.7 ACRE/D. CNTEST

HOUSTON OILS LIMITED, of Calgary and its partners, SABRE PETROLEUMS LTD., and SUPERTEST INVESTMENTS & PETROLEUM LIMITED, have announced the discovery of natural gas at a recently drilled wildcat in the SUNLAND region of central east Alberta. The new gas strike is situated approximately three and one-quarter miles northeast of the Ukalta gasfield, and less than seven miles southeast of gas production in the Bellis field. In addition it is offset one half mile to the north by a previous driller, taken down as Sunland #1 in December of 1951 and abandoned at a total depth of 3,200 feet. DAILY OIL BULLETIN JUNE 25th, 1971

HOUSTON OILS LTD. (TSE - \$2.85):-

For devotees of low-priced situations, Houston Oils Ltd., as the table on page 15 suggests, should afford speculators an excellent way of playing Abu Dhabi. The company's percentage interest in the soon-to-be-started exploration program here may seem small on the surface, but relative to capitalization, share price and possible addition to present asset backing...currently estimated to be about \$2.50 a share (oil, gas, cash, land at a nominal \$2 an acre minus debt).....the market impact of a Trucial Coast discovery could conceivably be even greater than it would be on higher-priced Pan Ocean Oils.

Oil Statistics Service April 7, 1971

The Financial Post

April 17, 1971

## Drilling program a success

A four-company partnership recently completed seven successful gas wells of nine holes drilled in shallow Devonian zone tests in the Lyle Lake area northeastern Alberta.

The partners, all junior companies, were Houston Oils Ltd. (with a 40% interest), Syracuse Oils Ltd. (25%), Universal Gas Co. (25%) and Wise Oil Co. (10%).

## VOYAGER IN BIG GULF OIL FARMOUT

Voyager Petroleum Ltd., operator for four oil companies owning a 1.2-million-acre block of offshore exploration permits on Baffin Island, has farmed out the property to Gulf Oil Canada Ltd.

Voyager's associates are Pan Ocean Oil (Canada) Ltd., Houston Oils Ltd., and Clark Canadian Exploration Co. Each own a 25-per-cent interest in the permits located 50 to 75 miles east of the southern end of Baffin Island.

Voyager said Gulf will conduct a substantial marine seismic survey over the permit area in return for an undisclosed interest, which will keep the permits in good standing until 1975.

THE ALBERTAN, JULY 5, 1971

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## Wise Oil Discovery Increases Interest In Blaine Gas Areas

An exceptional dual-zone gas discovery by Wise Oil has added materially to interest in Blaine county, and may have quite an effect on bidding at the upcoming state lease auction Sept. 13, when there will be oral bidding on 60 tracts in the county.

The Wise wildcat is his No. 11-34 Robinson, NE SW 34-26N-19E, about 13 miles east of the shut-in Sherard gas field, and about 26 miles south of the mammoth Tiger Ridge gas field.

Initially, the well was reported to have gauged about 500,000 cubic feet of gas in a Judith River drill stem test at about 850 feet depth, and to have gauged at more than 3,000,000 cubic feet daily in an Eagle drill stem test between 1500 and 1700 feet.

These reports were quite a bit on the low side, as was demonstrated when the two zones were tested through perforations.

The Judith River was a bit lower than the original flow estimate of 500,000 cubic feet, actually gauging 489,000 cubic feet, but the Eagle test was quite a bit above the original report indicated, with an actual flow of 5,400,000 cubic feet daily.

The discovery appears to be the biggest so far made in this portion of the county, but this is not certain, as completion reports have not been made on some wells that drilled in and ran up with no initials reported.

The discovery is on a block of 164,000 acres, with Anadarko Production, Bridger Petroleum and the Pickens Company reported as participants.

The program reportedly calls for the drilling of a total of 20 tests, with two to be carried to Mississippian and the balance to the Eagle sand.

