

C



**HOUSTON OILS LIMITED 1972 ANNUAL REPORT**



# the exploration story

The picture sequence on this page shows the various exploration steps taken from the inception of the prospect to the completed well. The geologists study all of the available sub-surface, surface and geophysical data to locate a promising area on which oil and gas leases should be acquired. The land department then takes over and acquires leases in the prospect area. In a large majority of prospects located in Western Canada the leases are acquired through competitive bidding on Provincial Government lands. The geologists then take over again and coordinate a geophysical survey over the prospect area in order to locate the most favorable drillsite. In many cases geophysical data is not necessary and locations are based primarily on sub-surface data. Upon location of a valid drillsite the decision is made to drill the prospect and the engineering department makes arrangements with a drilling contractor to drill the test well. The land department then leases a sufficient amount of surface to carry out drilling and producing operations. The drilling rig is then moved on to the location and proceeds to drill the test well under the guidance of the engineering department and wellsite geologist. In the event oil or gas is discovered, the engineering department completes the well for the taking of production. Other members of our staff also play an important role in carrying out an exploration program as depicted below.



1 Geologists Bob Fleming, Darrell Long and John Mazingo (left to right) locate promising area.

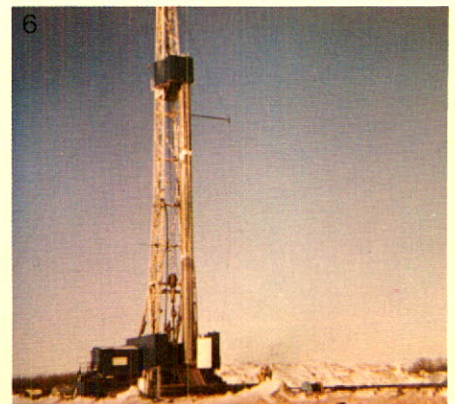
2 Landman Wayne Wells (left) and Treasurer Mac Bender prepare bids to be offered for Crown leases.

3 Conducting Geophysical Operations over prospect.



4 Engineer Joe Stafinski (right) negotiates drilling contract with Henry Wilson of Cactus Drilling Corp. Ltd.

5 Land Agent Don Manson (left) acquires surface lease from land owner John T. Jenkins.



6 Drilling the test well.

7 The test is completed as a flowing oil well.

8 Other members of the Company staff (left to right) Jan Hogarth, Land Secretary, Muriel Marshall, Executive Secretary, Pat Matsucka, Engineering Technician, Pat Farley, Engineering Secretary, Brian Wyatt, Draftsman, Myrna Stephenson, Acc. Assistant.



# report to the shareholders

This has been an eventful year for Houston. Corporate strength was augmented in several key areas, the most significant being the private placement of 2,500,000 treasury shares which netted the Company \$5,050,000. Subsequent to the September 30th fiscal reporting period, holders of 292,270 Company share purchase warrants converted their warrants to an equal number of common shares. This represented the conversion of 97.4% of the 300,000 warrants which were outstanding. The exercise price of the warrants was \$2.94 per share, adding \$859,273.80 to Company working capital which now amounts to approximately \$5,500,000.

Houston was also able to obtain \$3,000,000 in outside drilling funds which has allowed us to expand exploration activities considerably. We anticipate raising additional drilling funds in 1973.

The Company had net income of \$787,711 or 16.5 cents per share based on the weighted average number of shares outstanding during the year. The major portion of this income was realized from the sale of two gas properties which were sold to improve the Company's working capital prior to the private placement of shares. Cash flow for the year from operations and the sale of properties was \$1,045,608.00, or 21.9 cents per share.

During the year the Company's proven oil reserves were increased by approximately 262,000 barrels and proven gas reserves were increased by approximately 20 billion cubic feet despite the sale of the two gas properties and a reduction of gas reserves in two new fields due to poor productivity. Development drilling in the Calling Lake - Wandering River, Buick Creek, Grizzly Valley - Monkman Pass and Sherard prospects dur-

ing 1973 could add significantly more to Houston's future proven gas reserves.

Drilling activity during the past year was extensive with the Company drilling or participating in the drilling of 46 exploratory test wells and 60 development test wells. 12 exploratory tests resulted in gas wells and 3 resulted in oil wells. 31 development tests were completed as gas wells. 31 exploratory and 29 development test wells resulted in dry holes. Our overall success ratio for the year was 43.4%. Drilling activity for the next reporting period will be increased considerably due to the strong financial position of the Company and the infusion of outside drilling funds. Houston and its subsidiaries will drill or participate in over 100 development and exploratory tests in 1973.

Land holdings throughout the world at the year-end amounted to 24,435,089 gross acres and 1,545,457 net acres. An interest is held in an additional 14,197,690 acres in the Arctic Islands by virtue of our 10.6% equity ownership in Magnorth Petroleum Ltd. Land holdings could be increased substantially in 1973 due to pending concession applications in several foreign countries. (See Foreign Exploration).

Since many Company shareholders are not familiar with the manner in which oil and gas exploration is carried out, the Exploration Story on the inside cover gives you a brief idea as to how your exploration team functions.

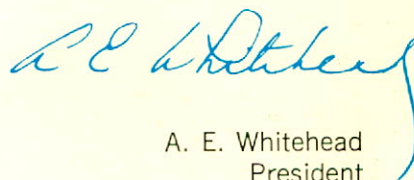
The front cover of this report is a picture of a beautiful Alberta stream on which a drilling rig is superimposed. This picture is designed to convey the theme that Houston is dedicated to the protection of the environment. With proper planning, we believe oil

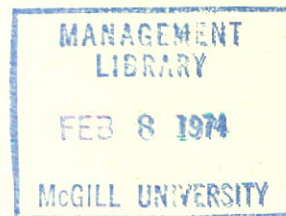
and gas exploration can be carried out without adverse effects upon the natural environment.

The Company is now operating from a sound base of oil and gas reserves and its financial position is sufficiently strong to conduct a very active exploration and development program. The price of crude oil in Western Canada was recently increased by \$.10 cents per barrel and most oilmen are predicting another price increase in early 1973. Natural gas prices in Alberta are likely to be increased significantly within the next year and therefore the general atmosphere within the industry is one of optimism. Houston's management shares that same feeling.

I should like to extend my thanks to the Board of Directors, officers and employees of the Company for their contributions to the Company during the past year and express my appreciation to the shareholders for their continued support.

ON BEHALF OF THE BOARD

  
A. E. Whitehead  
President



*The annual meeting of shareholders will be held in the Company Board Room on February 28, 1973 at 2:00 p.m.*



## (Oil and Gas)

### Alberta

During the year the Company drilled 12 development and exploratory test wells on its acreage in the Calling Lake—Wandering River area of northeastern Alberta. Production casing was set in 11 of these tests which encountered gas in one or more zones. The Company now has an interest in 18 gas wells on this prospect and plans have been completed with partners to drill 20 development and exploratory test wells during the 1973 winter drilling season. Houston has an interest in 303,000 acres on this prospect; however, we have entered into a farmout agreement whereby we have the right to earn an interest in an additional 72,320 acres within the prospect area.

The Company participated in an excellent oil discovery in the Wood River — Bashaw area of Central Alberta. The HOL Wood

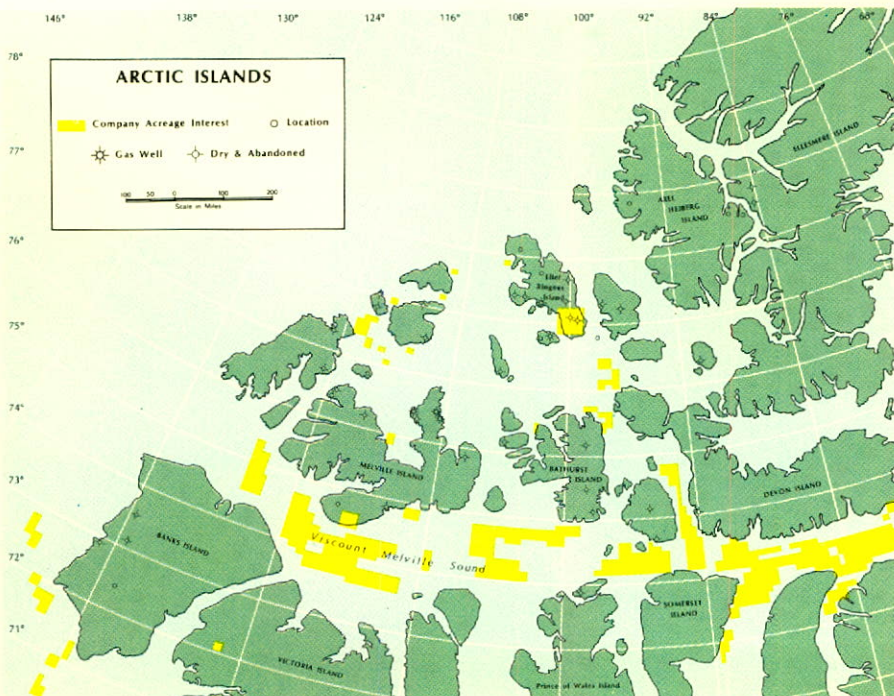
River 16-28-42-23-W4 was completed as a Devonian (Nisku) oil well and during initial production tests flowed at rates up to 76 barrels per hour (equivalent to 1,824 barrels per day). The Company has a 30% interest in this well which easily flows its daily allowable of approximately 450 barrels. Attempts to follow up this well have been disappointing so far due to having drilled three offsetting dry holes.

### Montana

Development and exploratory drilling was successful in the Sherard area of Northern Montana. Bridger Petroleum Corporation, a wholly-owned subsidiary, now has an interest in 18 gas wells on this prospect. The gas reserves are under contract to Northern Natural Gas Company and although the gas is not being produced, as of July revenue has been received under the take or pay provision of the gas contract. Plans are being

made to carry out an active development and exploratory drilling program on the 156,000 acres contained on this prospect during the coming fiscal year. Northern plans to commence taking gas from this area in the fall of 1973.

Unitization of the Tiger Ridge Field in Northern Montana was approved during the year. The field was made ready for the taking of production by the completion of 32 previously drilled wells and the drilling of 38 development wells, of which 21 were completed and tied into the gathering system. Northern Natural Gas Company recently amended their contract on this gas by increasing the well-head price from 15.5 to 23.5 cents per thousand cubic feet. Production was commenced from this field in December and the gas is transported north into Canada, then east through TransCanada PipeLines Limited's system to Emerson, Manitoba, where it re-enters the U.S. Ensign Oils, Inc.,



Winter drilling in northeast British Columbia.





## SUMMARY OF GROSS PRODUCTION

(For year ended September 30, 1972)

Oil Production	— Annual—Barrels . . . . .	200,782
	— Daily Average—Barrels . . . . .	548
Gas Production	— Annual—Million Cubic Feet . . . . .	271,100
	— Daily Average—Thousand Cubic Feet . . . . .	740
*Take or Pay Gas	— Annual—Billion Cubic Feet . . . . .	2.2
	— Daily Average—Million Cubic Feet . . . . .	6.06

\*Gas for which Company is being paid even though it is not produced.

a wholly-owned subsidiary, has a 9.64% interest in the Tiger Ridge Unit which contains 73 gas wells.

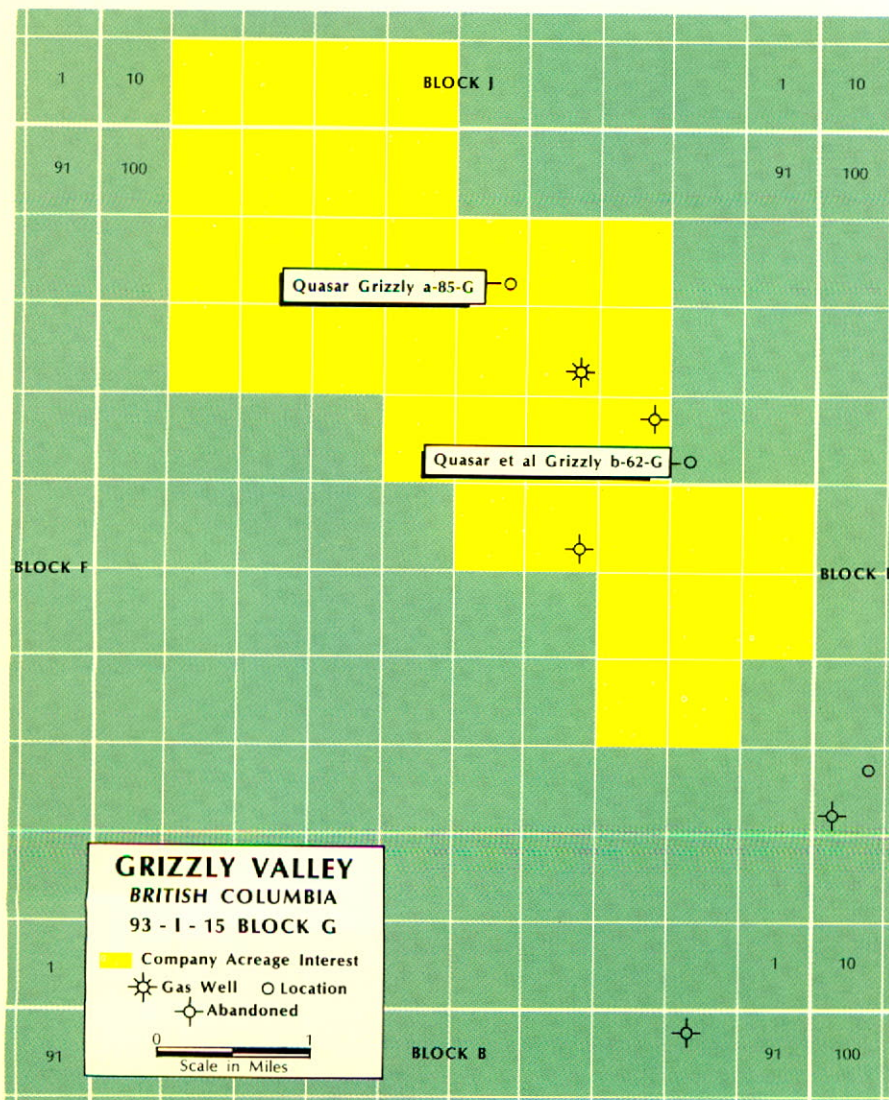
### North Dakota

Bridger sold one-half of its 50% interest in a lease block consisting of approximately 180,000 acres in the Towner area of North Dakota. Two Winnipegosis Reef test wells were then drilled; one test was abandoned as a dry hole and the other was abandoned due to drilling problems before it was adequately tested. We have now entered into a farmout agreement whereby another company has agreed to drill five Winnipegosis Reef tests on the prospect lands in early 1973 to earn an interest in approximately 40,000 acres.

### British Columbia

In August, the Company discovered gas in two zones in its HOL APC Buick 1-83-B 94-A-14 located in the Buick Creek area of northeast British Columbia. A follow-up to the discovery has been drilled and completed as a gas well and plans have been made to drill one more follow-up test in early 1973. The Company expects this gas to go on production in the fall of 1973. We have a 25% interest in 7,700 acres on this prospect.

A large gas discovery was made on Company lands in the Grizzly Valley-Monkman Pass area of northeast British Columbia. The operator of this discovery encountered commercial gas in three zones and during a blowout the well flowed at rates estimated to be in excess of 100 million cubic feet per day. A follow-up to this discovery is presently drilling approximately one mile southeast and the operator reports gas has been encountered in two zones and further testing should be completed in early 1973. Another test well is drilling slightly less than





one mile northwest of the discovery well and is projected to 15,500 feet to test the Mississippian formation. The Company has a 3% gross overriding royalty on 6,588 acres located on the pros-

pect and although the Company's interest is small, it bears no costs and based on available well and geophysical data, could add significantly to our proven gas reserves.

## (Minerals)

### Northwest Territories

Drilling was commenced early in September on Company mineral claims in the Rankin Inlet area of the Northwest Territories. Approximately 3,000 feet of diamond drilling was carried out on 10 nickel-copper prospects. No commercial mineralization was encountered and no additional work is planned on this prospect.

### Colorado

Mining operations continued during the year in the Sun Cup and Dolores River uranium-vanadium mines in which Ensign Oils, Inc. owns a 15% interest. Underground longhole testing and additional drilling operations added 7,292 tons to proven ore reserves. Total proven reserves in the two mines as of July, 1972, was estimated to be 24,143 tons. Probable ore reserves were estimated to be an additional 7,000 tons. Additional exploration will be carried out in the prospect area with operations to be commenced immediately after spring breakup in 1973.

### British Columbia

Houston has joined several other companies in providing financial support to Aquarius Mines Ltd. Aquarius is conducting field surveys in the vicinity of presently producing mines and other promising areas of British Columbia. Several interesting prospects have been located on which claims have been staked. These properties will be further explored during the 1973 summer and fall work season.

## COMPANY OIL AND GAS RESERVES

(As of September 30, 1972)

Proved crude oil (Net after royalty) . . .	2,026,135	Barrels
Probable crude oil (Net after royalty) . . .	2,789,638	Barrels
Total . . . . .	4,815,773	Barrels
Proved gas (Net after royalty) . . . . .	70,433,385	Mcf
Probable gas (Net after royalty) . . . . .	37,438,667	Mcf
Total . . . . .	107,872,052	Mcf

Drilling in south Louisiana.





## Australia

The Company has joined a mining exploration syndicate to explore for minerals in Australia. The syndicate will be managed by Derry, Michener & Booth, Mining Geological Consultants of Toronto. Applications for mineral exploration rights in certain areas are presently pending with the Australian Government. The intent of the syndicate is to locate and acquire exploration rights on favorable prospects and then bring in other participants to bear the cost of additional exploration. The Company will have a 7.5% interest in the syndicate.

## Wyoming-Utah

An exploration agreement has been negotiated with a Wyoming consulting geologist to drill four mineral prospects located in Wyoming and Utah. Bridger has a 50% interest in this prospect.

## FOREIGN EXPLORATION (Oil and Gas)

### Indonesia

During the year additional geophysical surveys were conducted

by Atlantic Richfield Indonesia Inc., on the 10,000,000 acre concession located in the Strait of Malacca in which a Company subsidiary owns a 4.33% interest. Results of the geophysical program have been very encouraging and plans are now being made to drill three or four test wells on the concession. Drilling operations are expected to be commenced during the first half of 1973. It is expected the first test will be located approximately 72 miles northeast of the Minas Oil Field, which is one of the world's largest oil fields, estimated to contain 5.8 billion barrels of original recoverable oil. It has produced approximately 1.4 billion barrels to date.

### Abu Dhabi

Since the first test was drilled on this 778,381 acre concession in 1971, Amerada Hess Corporation, the project operator, has conducted an extensive geophysical program. Indications are that drilling operations on a second exploratory test well will be commenced sometime in 1973. A Company subsidiary has a 5% interest, carried free to commercial production, in this concession.

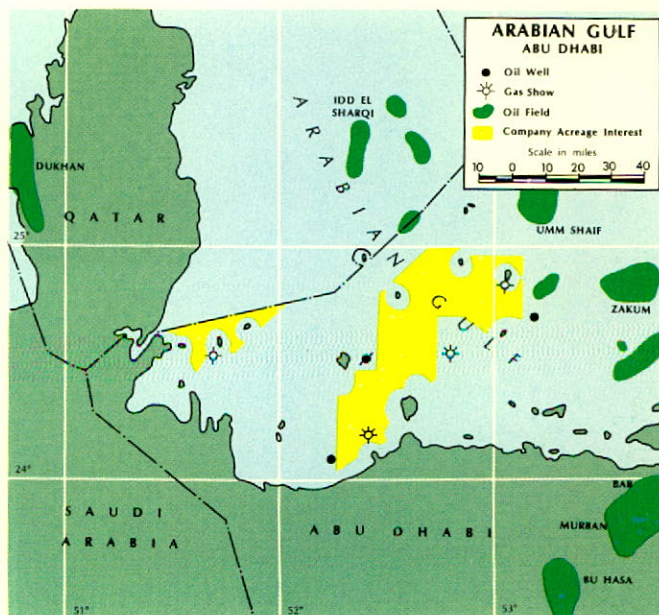
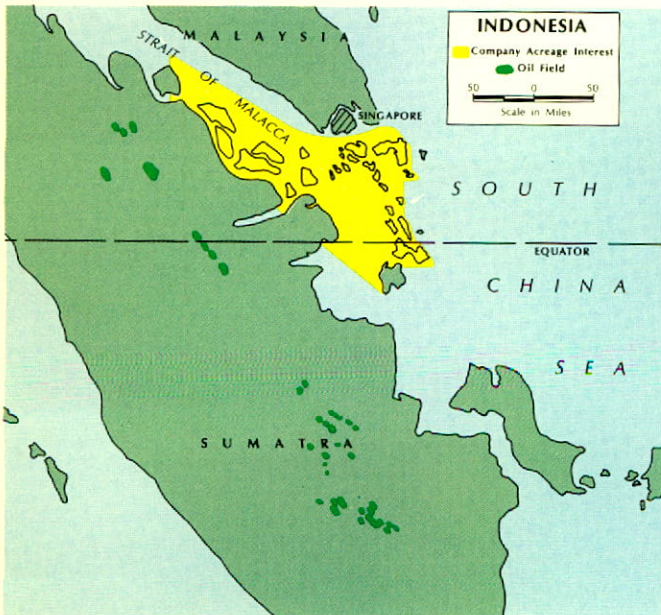
### British North Sea

Houston Oils (U.K.) Limited was the successful applicant for three Petroleum Exploration Licences containing a total of approximately 90,000 acres in the southern sector of the North Sea. Our interest is 33⅓% and a geophysical evaluation program is presently in progress. Berkley Petroleum (U.K.) Limited is the operator of this prospect.

### Dutch North Sea

The Company holds a 4.5% interest in Block Q-11 which contains 40,000 acres. Additional seismic interpretations have been made of available data with encouraging results. It is anticipated that additional geophysical work will be conducted during the next fiscal year.

Subsequent to our September year-end, the Company was awarded Block E/7 containing approximately 100,000 acres. A rework of available seismic data shows two promising areas on this block and plans are presently being made to conduct a geophysical program in these areas. Natomas





Company is the operator of this project in which Houston holds a 10% interest.

## Norwegian North Sea

Houston is participating with a group, which includes Natomas Company and Cardinal Petroleum Company, in a geophysical program in the Norwegian sector of the North Sea. This program will enable the group to make selective applications for exploration licences. The Norwegian Government is expected to call for licence applications early in 1973. Houston holds a 10% interest in this project.

## Miscellaneous Foreign Exploration

Other interests are presently held in Italy and concession applications are pending in two offshore areas of Spain, offshore Bangla-

desh, onshore Ethiopia and onshore in Guatemala.

The Company continued its financial support of Marine International Exploration Co. (Marinex) of London, England. Marinex is a company involved in the search for geologically attractive foreign concessions and by virtue of our underwriting a portion of their direct expenses we have the option to participate in concessions which they recommend. This arrangement gives the Company international exposure for a very nominal cost.

## Directors Acknowledgment

This past year Roger L. Ball and C. Franklin Agar resigned from the Board of Directors and on behalf of Company shareholders we wish to extend our sincere thanks for their loyal service to the Company during the period

they served as directors and to wish them continued success in their new corporate endeavors.

We also wish to welcome Mr. Neil A. McConnell and Mr. Montague H. Hackett, Jr. who were elected to the Board of Directors in June.





# houston land inventory


<b>WORKING INTERESTS</b>	<b>GROSS</b>	<b>NET</b>
Alberta . . . . .	486,954	164,474
British Columbia . . . . .	8,338	2,181
Saskatchewan . . . . .	19,878	5,314
Manitoba . . . . .	1,160	752
Baffin Island (Offshore) . . . . .	1,158,884	260,749
East Coast (Offshore) . . . . .	1,603,865	400,966
Alaska (Leases and Lease Offerings)	110,072	31,352
Montana . . . . .	489,822	56,440
North Dakota . . . . .	192,825	48,027
New Mexico . . . . .	957	437
Wyoming . . . . .	2,284	571
Oklahoma . . . . .	1,120	140
Texas . . . . .	2,292	286
British North Sea . . . . .	91,602	30,534
Dutch North Sea . . . . .	4,000	1,835
Italy . . . . .	133,287	23,729
Abu Dhabi . . . . .	778,000	38,900
Indonesia . . . . .	10,000,000	430,000
	<u>15,085,340</u>	<u>1,496,687</u>

<b>NET CARRIED INTERESTS</b>		
Arctic Islands . . . . .	737,400	11,061
Northwest Territories . . . . .	<u>55,167</u>	<u>2,067</u>
	792,567	13,128

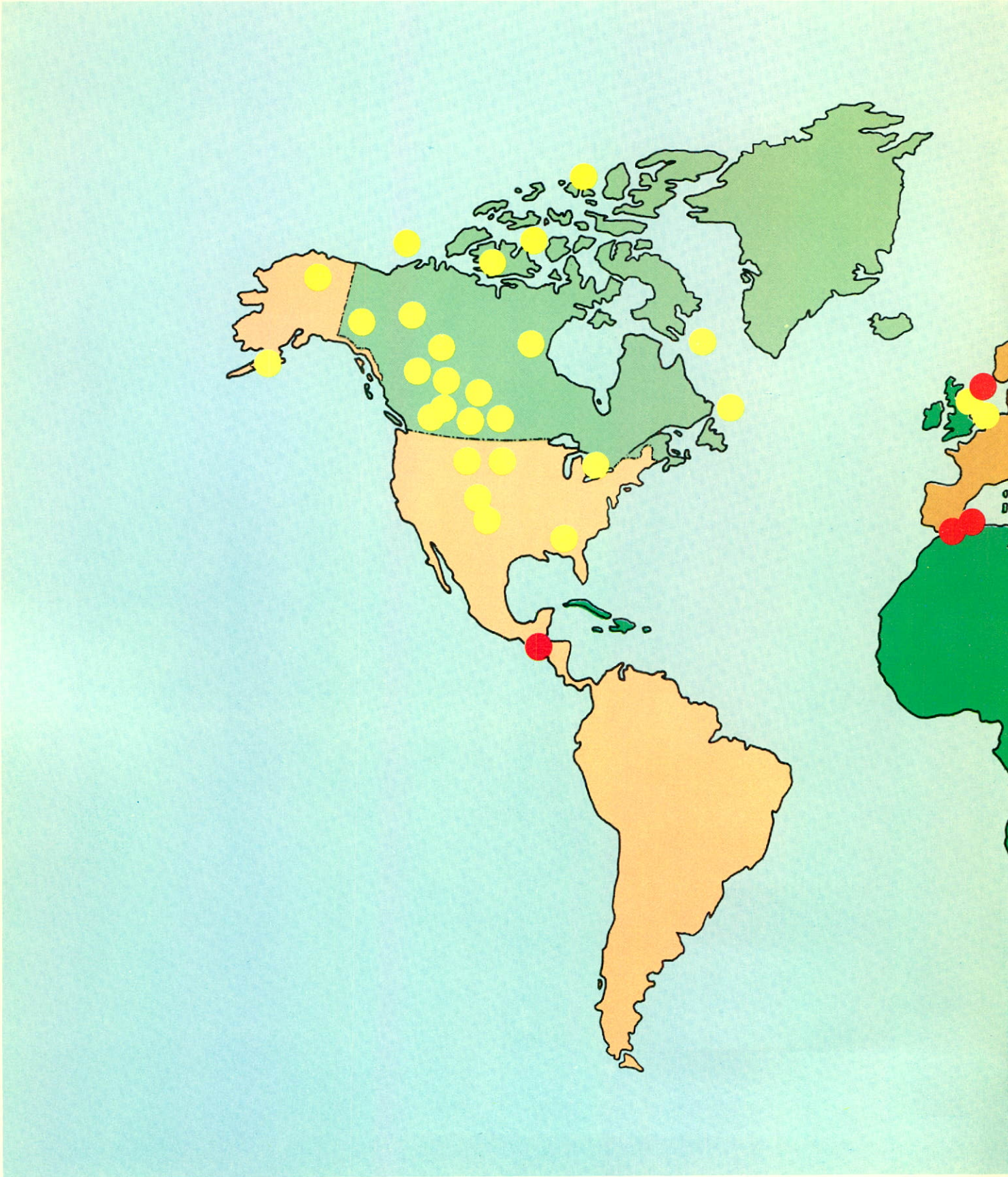
<b>ROYALTY INTERESTS</b>		
British Columbia . . . . .	26,504	3%
Alberta . . . . .	14,000	2% to 5%
Saskatchewan . . . . .	1,440	2%
Arctic Islands . . . . .	7,079,794	.25%
Yukon . . . . .	47,425	.5%
Northwest Territories . . . . .	305,190	.5% to 1.0%
Beaufort Sea . . . . .	438,241	.125%
Alaska . . . . .	50,896	.3125%
Turkey . . . . .	494,200	1.523%
	<u>8,457,690</u>	

<b>WORKING INTERESTS</b>	<b>GROSS</b>	<b>NET</b>
Saskatchewan . . . . .	26,000	13,000
Northwest Territories . . . . .	43,612	16,662
Colorado . . . . .	14,900	2,235
Utah . . . . .	14,980	3,745
	<u>99,492</u>	<u>35,642</u>

Refer  
to  
Houston  
Land  
Holdings  
Map  
Pages 8 & 9

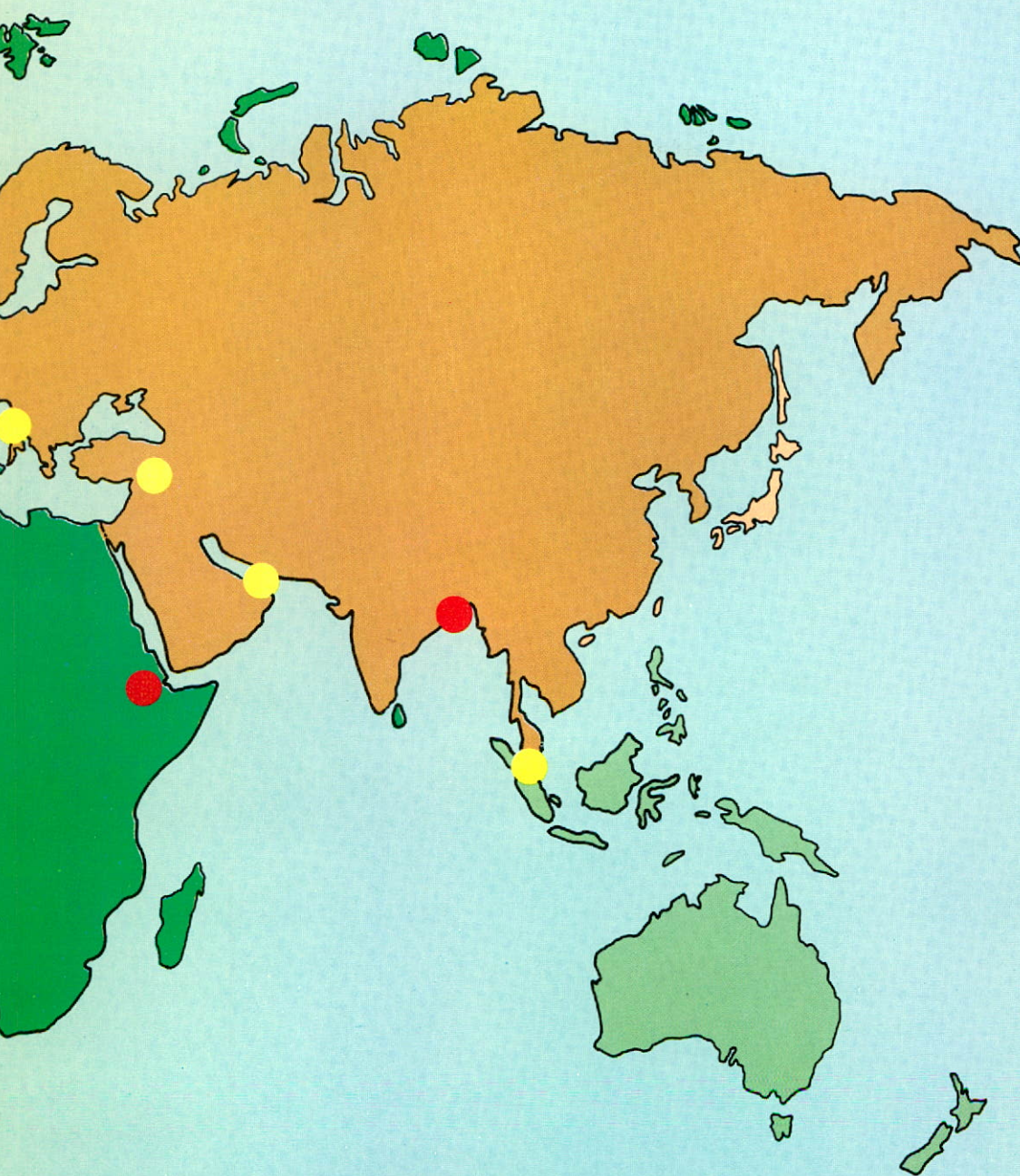








- COMPANY HOLDINGS
- PENDING CONCESSION APPLICATIONS

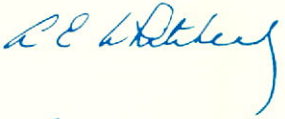





consolidated  
balance sheet

Assets	September 30 1972	September 30 1971
Current assets		
Cash . . . . .	\$ 35,933	\$ 28,593
Deposit certificates . . . . .	6,691,440	—
Accounts receivable . . . . .	582,155	335,111
Marketable securities, at cost (market value \$2,298) . . . . .	4,700	4,700
Prepaid expenses . . . . .	27,260	9,928
	<u>7,341,488</u>	<u>378,332</u>
Drilling and exploration deposits . . . . .	99,354	72,354
Property and equipment, net — note 5 . . . . .	<u>5,088,189</u>	<u>4,377,748</u>
Other assets, at cost		
Note receivable — note 3 . . . . .	25,000	25,000
Loan receivable — note 4 . . . . .	128,670	128,670
Investments (no quoted market value) . . . . .	76,909	90,009
Sundry . . . . .	54,040	24,234
	<u>284,619</u>	<u>267,913</u>
	<u>\$12,813,650</u>	<u>\$ 5,096,347</u>

Approved on behalf of the Board,

 , Director  
 , Director

The accompanying notes are an integral part of these financial statements



<b>Liabilities</b>	<b>September 30 1972</b>	<b>September 30 1971</b>
Current liabilities		
Accounts payable and accrued charges . . . . .	\$ 751,958	\$ 265,463
Unexpended joint venture drilling advances . . . . .	1,790,377	—
Current portion of long term debt . . . . .	140,000	144,000
	<u>2,682,335</u>	<u>409,463</u>
Long term debt — note 6		
Bank loans . . . . .	—	443,500
Development loans . . . . .	160,681	312,960
Prepayment of future gas deliveries . . . . .	722,088	519,589
	<u>882,769</u>	<u>1,276,049</u>
 <b>Shareholders' Equity</b>		
Capital stock — note 7 and 11		
Authorized		
20,000,000 common shares of no par value		
Issued		
6,645,000 shares (1971 — 4,145,000 shares) . . . . .	9,784,791	4,734,791
Deficit . . . . .	(536,245)	(1,323,956)
	<u>9,248,546</u>	<u>3,410,835</u>
	<u>\$12,813,650</u>	<u>\$ 5,096,347</u>

The accompanying notes are an integral part of these financial statements



## consolidated statement of income and deficit

	Year ended September 30 1972	Eight months ended September 30 1971
Revenue		
Oil, gas and ore sales, less royalties . . . . .	\$ 526,103	\$ 328,537
Exploratory ventures and lease sales . . . . .	587,514	159,427
Other . . . . .	148,398	27,086
	<u>1,262,015</u>	<u>515,050</u>
Expenses		
Production . . . . .	233,627	126,153
Cost of exploratory ventures and lease sales . . . . .	315,695	136,533
Lease rentals . . . . .	165,306	94,783
General and administrative . . . . .	419,081	205,290
	<u>1,133,709</u>	<u>562,759</u>
Net cash from operations . . . . .	128,306	(47,709)
Other income		
Gain (loss) on sale of producing properties . . . . .	917,302	(27,992)
Gain on sale of investments . . . . .	—	16,084
	<u>1,045,608</u>	<u>(59,617)</u>
Non cash expenses		
Unproductive development and property abandonments . . . . .	61,773	145,678
Depletion . . . . .	126,095	74,965
Depreciation . . . . .	64,042	37,684
Other . . . . .	5,987	(6,183)
	<u>257,897</u>	<u>252,144</u>
Net income (loss) — note 12 . . . . .	787,711	(311,761)
Deficit beginning of period . . . . .	(1,323,956)	(1,012,195)
Deficit end of period . . . . .	<u>\$ (536,245)</u>	<u>\$ (1,323,956)</u>

The accompanying notes are an integral part of these financial statements



## consolidated statement of source and application of funds

Source of funds	Year ended September 30 1972	Eight months ended September 30 1971
Net cash from operations . . . . .	\$ 128,306	\$ (47,709)
Proceeds on disposal of producing properties . . . . .	1,179,208	110,000
Capital stock issued . . . . .	5,050,000	55,000
Drilling and exploration deposits (net) . . . . .	—	33,166
Long term debt (net) . . . . .	—	343,378
	<u>6,357,514</u>	<u>493,835</u>
Application of funds		
Acquisition of properties and equipment . . . . .	1,230,244	491,606
Long term debt (net) . . . . .	393,280	—
Drilling and exploration deposits (net) . . . . .	27,000	—
Other assets (net) . . . . .	16,706	69,724
	<u>1,667,230</u>	<u>561,330</u>
Increase (decrease) in working capital . . . . .	<u>\$ 4,690,284</u>	<u>\$ (67,495)</u>

*The accompanying notes are an integral part of these financial statements*

## auditors report

To the Shareholders  
HOUSTON OILS LIMITED

We have examined the consolidated balance sheet of Houston Oils Limited and Subsidiary Companies as at September 30, 1972 and the consolidated statements of income and deficit, and source and application of funds 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 companies as at September 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta  
December 21, 1972

COLLINS LOVE EDDIS VALIQUETTE & BARROW  
Chartered Accountants



notes to  
financial statements **September 30, 1972**

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 financial statements include 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, 1972.

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. LOAN RECEIVABLE

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 the 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	
			1972	1971
Oil and gas properties				
Fully or partially developed . . . . .	\$2,711,732	\$ 361,122	\$2,350,610	\$1,968,644
Undeveloped . . . . .	2,059,484	—	2,059,484	1,752,457
	<u>4,771,216</u>	<u>361,122</u>	<u>4,410,094</u>	<u>3,721,101</u>
Mineral properties				
Fully or partially developed . . . . .	92,358	45,745	46,613	60,118
Undeveloped . . . . .	284,622	—	284,622	239,678
Production and other equipment . . . . .	577,584	230,724	346,860	356,851
	<u>\$5,725,780</u>	<u>\$ 637,591</u>	<u>\$5,088,189</u>	<u>\$4,377,748</u>

6. LONG TERM DEBT

The development loan, due July 1, 1974, is non-interest bearing and repayable at the rate of one-third of the proceeds from the sale of gas from certain properties. The amount estimated to be repaid in the year ending September 30, 1973 has been transferred to current liabilities. The loan is secured by a pledge of future production from the properties.

Upon retirement of the development loan, one-third of the proceeds from the sale of gas will be applied to prepayments received on future gas deliveries.



## 7. CAPITAL STOCK

Issued capital stock of the Company consists of the following:

	<u>Number of shares</u>	<u>Stated value</u>
Balance, September 30, 1971 . . . . .	4,145,000	\$4,734,791
Issued during the year for cash . . . . .	2,500,000	5,050,000
Balance, September 30, 1972 . . . . .	<u>6,645,000</u>	<u>\$9,784,791</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 the 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 the predecessor company, Houston Oils Limited. The share purchase warrants are exercisable at \$2.94 per share up to December 15, 1972 (note 11).
- (c) 120,000 shares for options to officers and employees. Options covering 98,000 shares were granted during the year. The options are exercisable on various dates up to July 21, 1977 at prices ranging from \$1.40 to \$2.45 per share.

## 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, 1972, the companies and their predecessors have incurred intangible exploration and development expenditures of approximately \$4,300,000 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, \$2,700,000 is available for carry-forward by Canadian companies and the balance of \$1,600,000 is available for carry-forward by the United States subsidiaries. Included in the \$2,700,000 carry-forward by Canadian companies is \$1,800,000 of expenditures which were incurred by the predecessor companies.

The Canadian Institute of Chartered Accountants recommends accounting for deferred income taxes which arise due to timing differences in accounting for these properties written off for tax purposes. Management feels, however, that this treatment is not appropriate and, in common with accepted practice in the oil and gas industry has not deferred income taxes on this basis.

## 9. COMMITMENTS AND CONTINGENCIES

- (a) 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 \$150,000 at September 30, 1972.
- (b) A subsidiary is obligated to pay \$67,000 in connection with certain lease applications in Alaska, if and when, the relevant leases are issued.
- (c) On July 1, 1972 the Company entered into a financial consulting agreement with a New York partnership, the partners of which are also directors of the Company. The agreement is for one year commencing July 1, 1972, subject to renewal rights and provides for the payment of \$150,000 U.S. per annum by the Company.

## 10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of the directors and senior officers of the Company during the year amounted to \$96,700 (eight months to September 30, 1971 — \$48,000).

## 11. SUBSEQUENT EVENTS

On October 15, 1972 the Company issued 15,000 shares with a stated value of \$45,454 as consideration for the acquisition of working interests in various properties.

On December 15, 1972 the Company issued a total of 292,270 shares upon the exercise of share purchase warrants as outlined in note 7(b).

## 12. EARNINGS PER SHARE

Earnings per share, based on the weighted average of shares outstanding during the year amounted to 16.5¢ per share (eight months ended September 30, 1971 — 7.7¢ loss).



# board of directors

---



William A. Clarke  
Director

James A. Millard  
Director and Secretary

Neil A. McConnell  
Director and Chairman of the  
Executive Committee

John A. Downing  
Director

Albert E. Whitehead  
Director and President

Montague H. Hackett, Jr.  
Director and Executive Vice-President



## directors

WILLIAM A. CLARKE, Oakville, Ontario  
JOHN A. DOWNING, Calgary, Alberta  
JAMES A. MILLARD, Calgary, Alberta  
ALBERT E. WHITEHEAD, Calgary, Alberta  
NEIL A. McCONNELL, New York City  
MONTAGUE H. HACKETT, JR., New York City

---

## officers

ALBERT E. WHITEHEAD, President  
MONTAGUE H. HACKETT, JR., Executive Vice  
President  
DARRELL R. LONG, Vice President, Exploration  
THOMAS M. M. BENDER, Treasurer  
JAMES A. MILLARD, Secretary

---

## head office

950 Three Calgary Place  
355 - 4th Avenue S.W.  
Calgary, Alberta T2P 0J1

---

## US office

One Battery Park Plaza  
New York, New York 10004

---

## subsidiary companies

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

---

## affiliated companies

Magnorth Petroleum Limited (10.5% equity)  
Ensign Oils of Spain Limited (50% equity)

---

## 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

---

## stock exchange listings

Toronto Stock Exchange, Toronto  
Canadian Stock Exchange, Montreal





**HOUSTON OILS LIMITED 1972 ANNUAL REPORT**