

Giant Reef Petroleum Limited

1982 Annual Report



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GIANT REEF PETROLEUMS LIMITED

Incorporated under the laws of The Province of British Columbia

15th Annual Report

YEAR ENDING MARCH 31, 1982

HEAD OFFICE: 1460 - 639 5th Ave. S.W.
CALGARY, Alberta, T2P 0M9
Area Code (403) 233-6600

OFFICERS: P. D. WILLIAMS — *President*
D. B. MUIR — *Secretary*
J. K. TOMS — *Controller*
C. J. GALLIVAN — *Treasurer*

DIRECTORS: P. D. WILLIAMS
D. W. WESTCOTT
C. A. RAUGUST
H. M. ARMSTRONG
N. McDUFFIE
R. T. VANDERHAM

BANKERS: BANK of MONTREAL
604 - 8th Avenue S.W.
CALGARY, Alberta T2P 1G4

**REGISTRAR AND
TRANSFER AGENT:** CANADA TRUST CO.,
505 - 3rd Street S.W.
CALGARY, Alberta T2P 3E6
901 West Pender St.,
VANCOUVER, B.C.

AUDITORS: TOUCHE ROSS & CO.
3500, 700 - 2 St. S.W.
CALGARY, Alberta T2P 2W2

STOCK LISTING: VANCOUVER STOCK EXCHANGE

DEAR SHAREHOLDER:

EXPLORATION ACTIVITY

In June 1982, the Company participated in the acquisition of Crown Lands in the Roncott Area of Saskatchewan. After pooling with adjacent lands, Giant Reef has a 33¹/₃% working interest in 1920 acres. A 6000' well is proposed on this acreage during the summer to evaluate the Bakken Sand and the Lower Mississippian Lodge Pole for oil potential. Giant Reef is also participating in two seismic options as to 25% of the costs, one in Harman Valley, Alberta and one in the Peace River area.

DRILLING ACTIVITY

A well was drilled in the Garrington Area having approximately 16 feet of net pay as calculated from the logs, the well has been perforated and fraced. However, as of the date of this report, no production data is available. Your Company has a 25% working interest in this potential oil well.

INDUSTRY COMMENT

It is believed that the recent incentives, increasing the royalty tax credits and lessening the royalty tax burdens by the Provincial and Federal Government will benefit your Company during the upcoming year.

In addition, other measures designed to provide three years royalty holidays for gas wells drilled before January 1, 1983 coupled with potential gas export proposals now under hearings should help to reactivate exploration programs in Alberta.

Following are the Company's operational statistics.

LAND HOLDINGS AT MARCH 31, 1982

	Gross Acres	Net Acres
Alberta	40,364	6,648
British Columbia	3,334	640
TOTAL	<u>43,698</u>	<u>7,288</u>

PRODUCTION

Gross Production	1982	1981	1980 10 Months
Gas sales (mcf = 1000 cu. ft.)	661,500	616,000	700,000
Liquids (barrels)	26,500	27,000	29,000
Sulphur (tons)	2,300	4,000	3,000
Oil (barrels)	3,500	4,000	3,000

RESERVES

Remaining net reserves at 31/3/82	Proven	Probable	Total	Discounted at 18%
				(000's)
Gas sales (Mmcf)	7,345	4,289	11,634	\$ 8,489
Liquids (barrels)	239,000	165,000	404,000	2,950
Sulphur (tons)	33,300	63,600	96,900	452
Oil (barrels)	7,800	3,300	11,100	122
TOTAL				<u>\$12,013</u>

GIANT REEF PETROLEUMS LIMITED

Balance Sheet as at March 31, 1982

Assets

	1982	1981
Current assets		
Cash and short-term deposits	\$1,729,704	\$ 791,224
Accounts receivable	397,292	430,819
Income taxes recoverable	363,854	—
	<u>2,490,850</u>	<u>1,222,043</u>
Investments and advances, at cost		
Investments (market value \$5,662; 1981 — \$19,500)	3,236	3,236
Other	2,878	2,878
Advances to affiliated company	—	348
	<u>6,114</u>	<u>6,462</u>
Property, plant and equipment (Note 2)	3,960,431	4,192,618
Other	2,500	2,500
	<u>\$6,459,895</u>	<u>\$5,423,623</u>

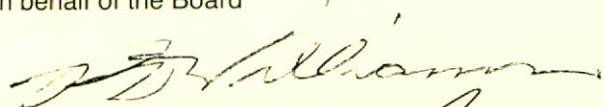
Liabilities

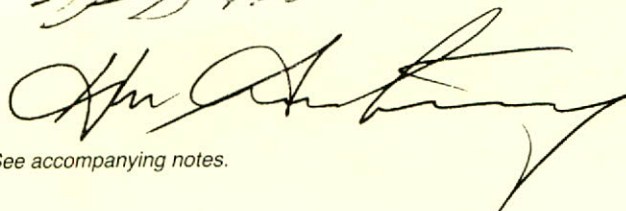
Current liabilities		
Accounts payable and accrued liabilities	\$ 293,649	\$ 168,551
Income taxes payable	285,507	40,068
Current portion of long-term debt	191,619	191,619
	<u>770,775</u>	<u>400,238</u>
Due to parent company	36,399	104,851
Long-term debt (Note 3)	191,620	383,239
Deferred revenue	914,568	650,266
Deferred income taxes	1,036,979	992,396
	<u>2,950,341</u>	<u>2,530,990</u>

Shareholders' Equity

Share capital		
Authorized		
5,000,000 common shares without nominal or par value		
Issued		
3,329,802 shares	1,102,647	1,102,647
Retained earnings	2,406,907	1,789,986
	<u>3,509,554</u>	<u>2,892,633</u>
	<u>\$6,459,895</u>	<u>\$5,423,623</u>

On behalf of the Board

 , Director

 , Director

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

**Statement of Changes in Financial Position
for the Year ended March 31, 1982**

	<u>1982</u>	<u>1981</u>
Source of funds		
From operations		
Net earnings for the period	\$ 816,709	\$ 557,932
Add (deduct) items not requiring current outlay of funds		
Deferred income taxes	44,582	86,235
Depletion and depreciation	217,686	192,163
Dry holes and abandonments	139,418	154,904
Gain on sale of assets	—	(21,072)
	1,218,395	970,162
Increase in deferred revenue	264,302	354,293
Increase (decrease) in advance from parent company	(68,452)	52,803
Proceeds from sale of assets	—	21,072
	1,414,245	1,398,330
Application of funds		
Increase (decrease) in advance to affiliated company	(348)	348
Repayment of long-term debt	191,619	191,619
Additions to property, plant and equipment	124,916	598,285
Dividends	199,788	—
Increase in other assets	—	2,500
	515,975	792,752
Increase in working capital	898,270	605,578
Working capital at beginning of year	821,805	216,227
Working capital at end of year	<u>\$1,720,075</u>	<u>\$ 821,805</u>

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

**Statement of Earnings and Retained Earnings
for the Year ended March 31, 1982**

	<u>1982</u>	<u>1981</u>
Revenues		
Oil and gas production	<u>\$1,486,291</u>	<u>\$1,415,519</u>
Operating expenses		
Oil and gas production	382,710	282,787
Depletion and depreciation	217,686	192,163
Dry holes and abandonments	139,418	154,904
General and administrative	44,266	45,386
Lease rentals	4,997	8,964
Loss on drilling agreement	—	26,387
Geological and geophysical	—	(20,844)
	<u>789,077</u>	<u>689,747</u>
Earnings from operations	<u>697,214</u>	<u>725,772</u>
Other expenses (revenues)		
Interest on long-term debt	94,133	105,343
Bank interest	9,584	35,315
Interest and other income	(189,447)	(78,049)
Gain on sale of assets	—	(21,072)
	<u>(85,730)</u>	<u>41,537</u>
Earnings before income taxes	<u>782,944</u>	<u>684,235</u>
Provision for (recovery of) income taxes (Notes 4 and 7)		
Current	(78,347)	40,068
Deferred	44,582	86,235
	<u>(33,765)</u>	<u>126,303</u>
Net earnings for the year	<u>816,709</u>	557,932
Retained earnings at beginning of year	<u>1,789,986</u>	1,232,054
Less dividends	<u>199,788</u>	—
Retained earnings at end of year	<u>\$2,406,907</u>	<u>\$1,789,986</u>
Earnings per share	<u>\$0.25</u>	<u>\$0.17</u>

See accompanying notes.

GIANT REEF PETROLEUMS LIMITED

Notes to the Financial Statements March 31, 1982

1. Summary of Significant Accounting Policies

a) Petroleum and natural gas properties

The Company follows the successful efforts method of accounting for costs of oil and gas properties. The costs of drilling and equipping successful wells are capitalized. Lease acquisition costs are capitalized and are subsequently expensed in the year of disposal, abandonment or surrender. All other exploration costs, including lease carrying costs, geological and geophysical costs and drilling costs of unsuccessful wells are expensed. Costs pertaining to producing properties are depleted on the unit-of-production method based on proven reserves as calculated by independent engineers.

Lease and well equipment is being depreciated on the unit-of-production method. The gas plant is being depreciated on the straight-line basis using a rate of 5% per annum.

Expenditures for maintenance and repairs are charged to operations as incurred, while expenditures for renewals and betterments are capitalized.

Upon the sale or retirement of properties and improvements, the cost and accumulated depletion and depreciation are removed from the respective accounts and any gain or loss is included in earnings.

b) Deferred revenue

Payments received for undelivered gas are deferred and are taken into income when deliveries are made or the make-up period expires.

c) Income taxes

The Company follows the tax allocation method of accounting for income taxes. Earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result principally from claiming different amounts for tax purposes than for book purposes for depletion and depreciation, are reflected as deferred income taxes in the financial statements. Provincial Government royalty refunds and tax credits have been taken into account in calculating the current year's income tax provision.

d) Joint ventures

The majority of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

2. Property, plant and equipment

	1982	1981
Developed oil and gas properties	\$2,756,985	\$2,819,964
Gas plant	1,286,109	1,281,857
Undeveloped oil and gas properties	761,652	744,184
Equipment	448,553	421,795
	5,253,299	5,267,800
Accumulated depletion and depreciation	1,292,868	1,075,182
	\$3,960,431	\$4,192,618

3. Long-term debt

	<u>1982</u>	<u>1981</u>
Agreement for sale payable in four annual installments of \$191,619 commencing September 1981 with interest at bank prime rate plus 1%. The annual payments are secured by letters of credit issued by the Company's bankers. A standby charge of 1% per annum is charged on the letters of credit	\$ 383,239	\$ 574,858
Less amount due within one year	191,619	191,619
	<u>\$ 191,620</u>	<u>\$ 383,239</u>

4. Alberta Royalty Tax Credit

Current income taxes have been reduced by the Alberta Royalty Tax Credit in the amount of \$371,572 (1981 — \$166,456).

5. Related Party Transactions

- a) The Company has been charged \$6,000 (1981 — \$26,137) by its parent for administrative services.
- b) During the year, the Company purchased a fixed asset from its parent for \$30,800.
- c) A loan from the Company's parent in the amount of \$36,399 (1981 — \$104,851) is non-interest bearing.

6. Dominant Industry

The Company has substantially all of its operation in the petroleum and natural gas industry. The majority of the Company's revenue is derived from oil and gas sales.

7. Restatement of prior year's income taxes

Subsequent to the calculation of the 1981 income tax provision for financial reporting purposes, it was determined that certain expenditures which were believed to be deductible for tax purposes had, in fact, been reimbursed. While the total tax provision was correctly stated, current income taxes were understated by \$206,524, and deferred income taxes and working capital were overstated by the same amount. The financial statements have been restated to reflect this reclassification.

8. Subsequent to the year-end, the Company signed an agreement with Topgas Holdings Limited and TransCanada Pipelines Limited. Under the new agreement, the Company will receive payments in addition to those provided under the present agreement for the 1980-81 and 1981-82 contract years. In return, the "take or pay" provisions of the present agreement will be eliminated. Implementation of the new agreement is subject to TransCanada Pipelines Limited's obtaining certain assurances from outside parties. The financial effect of the proposed agreement is not determinable at the present time.

Auditors' Report

The Shareholders
Giant Reef Petroleums Limited

We have examined the balance sheet of Giant Reef Petroleums Limited as at March 31, 1982 and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at March 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta
June 7, 1982

Touche Ross & Co.
Chartered Accountants

