

**Giant Reef  
Petroleums Limited**

**Annual  
Report  
1985**



# Highlights

## A. Land holdings at March 31, 1985

	1985		1984	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta .....	59,804	7,708	60,644	7,953
British Columbia .....	3,337	641	3,337	641
Saskatchewan .....	9,287	1,635	10,369	1,821
TOTAL .....	<u>72,428</u>	<u>9,984</u>	<u>74,350</u>	<u>10,415</u>

## B. Production and sales for the year ended March 31, 1985

	Gross before Royalties	Net after Royalties
Crude oil & liquids — bbls. ....	76,437	56,321
Natural gas — mcf .....	767,562	540,072
Sulphur — tonnes .....	3,091	2,593

## C. Net proven and probable reserves as determined by independent reservoir engineers at March 31, 1985

	Crude Oil and Natural Gas Liquids (Barrels)	Natural Gas (Millions of Cubic Feet)
Proven .....	383,900	5,068
Probable .....	261,900	1,614
Total proven and probable .....	<u>645,800</u>	<u>6,682</u>

## D. Future net revenues and present value of proven and probable reserves as determined by independent reservoir engineers at March 31, 1985

Future net revenues .....	<u>\$35,855,000</u>
Present worth discounted @ 12% .....	<u>\$14,420,000</u>
Present worth discounted @ 18% .....	<u>\$10,945,000</u>

# Report to the Shareholders

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During fiscal 1985, Giant Reef Petroleums Limited improved its operating results and financial position through a successful exploration and development program conducted in Western Canada.

Revenues of \$3,146,000 increased 44.6 percent from \$2,175,000 last year, net earnings of \$1,443,000 improved 38.8 percent compared with \$1,040,000 in the previous fiscal year and earnings per common share were \$0.44 compared with \$0.31. Cash flow for the current year increased to \$2,018,000 from \$1,488,000.

Giant Reef participated in 17 oilwells, 1 gaswell and 6 dry or suspended wells (1 was in progress at year end) for a success ratio of 75 percent in fiscal 1985. Exploration and development was focused on oil prospects at existing land holdings in the Lochend and Ferguson Lake areas of Alberta and at Coleville, Saskatchewan.

In the coming year, the Company will participate in a projected 25 wells concentrating on oil prospects. Giant Reef, with its strong financial position, will finance its 1986 projected drilling program from cash on hand and cash flow from operations.

The payment of dividends to common shareholders was commenced in 1982. This policy will be continued in fiscal 1986. The quarterly dividend is presently set at \$0.05 per common share.

On behalf of the Board



Jack Scrymgeour  
President  
July 15, 1985.



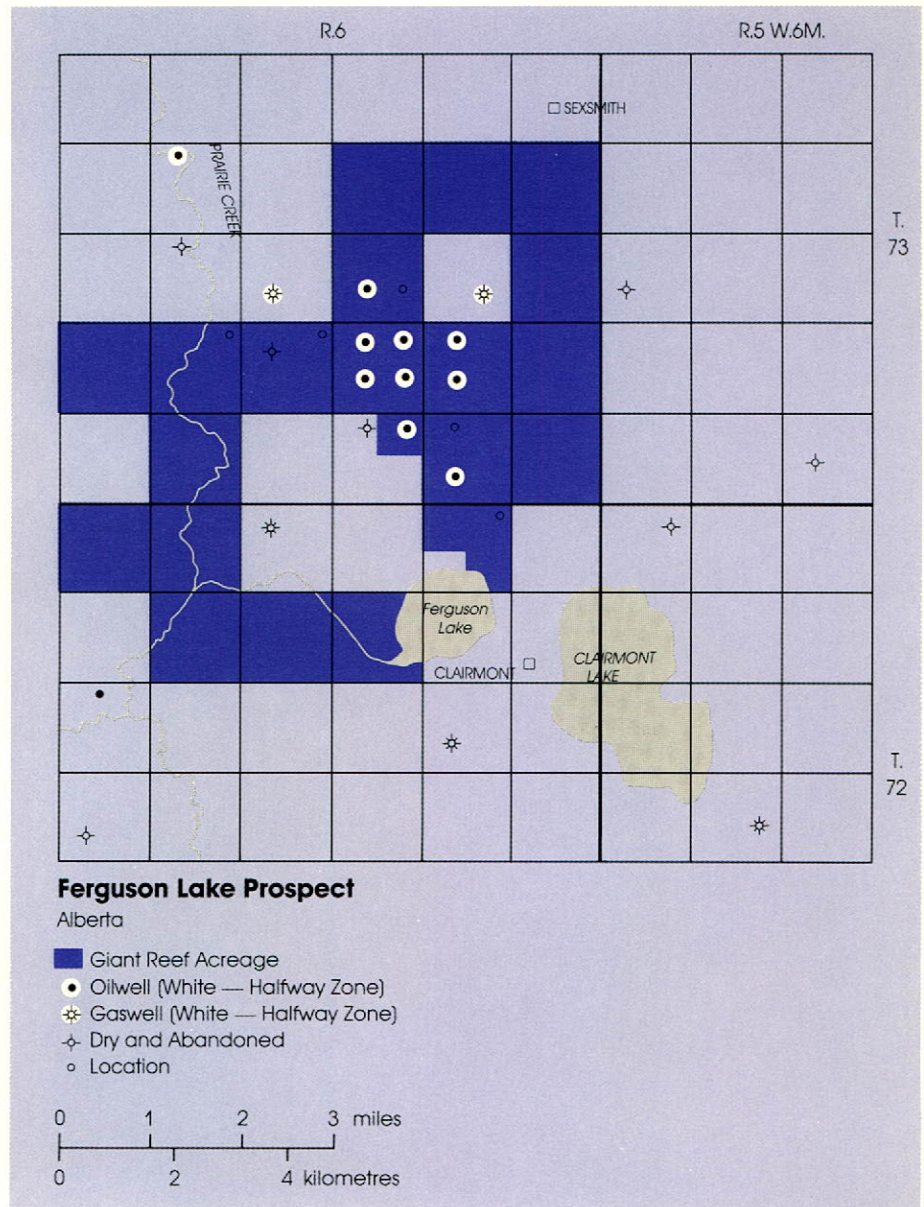
# Exploration and Development

## Alberta

### Ferguson Lake

Giant Reef has an interest in nine oilwells which have an average net production of approximately 540 barrels of oil per day (BOPD) in the Ferguson Lake area of Alberta. Our interest in these wells ranges from 4 to 12 percent resulting in net production of 30 BOPD to the Company.

Giant Reef has a net interest in 13,760 acres in this area and will drill an additional four wells at Ferguson Lake in the coming year.



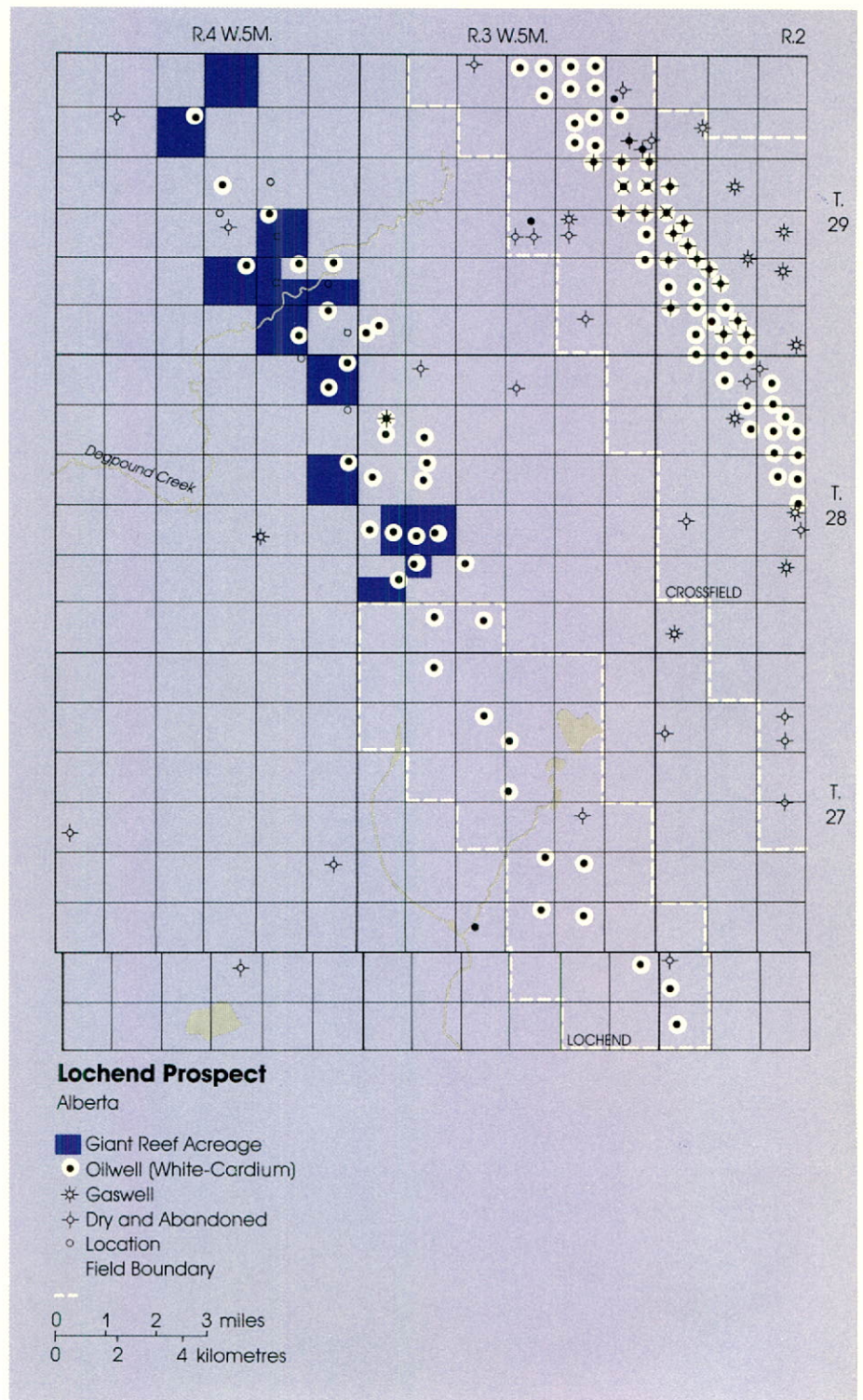


## Lochend

A drilling program was initiated at Lochend three and a half years ago which, to date, has resulted in 15 wells all of which have been completed as commercial oil producers.

Production of light gravity crude is being obtained from the Cardium formation with average production rates ranging from 17 to 21 net BOPD per well. The Company's share of the daily net production from this field is now estimated at 41 BOPD.

Giant Reef maintains an interest in 6,240 acres at Lochend and has a net earned position of 522 acres.





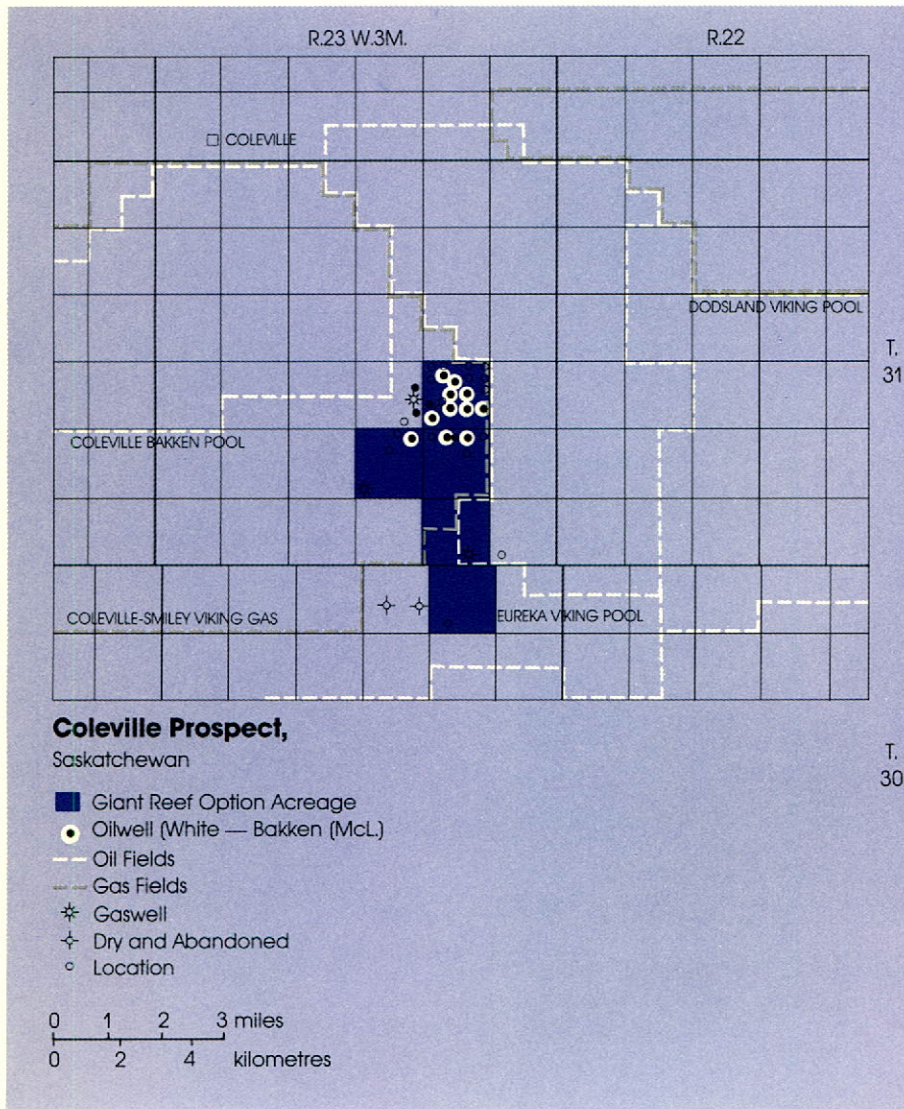
## Saskatchewan

### Coleville

Our Coleville properties are located approximately 1.5 miles from the main Coleville Bakken Sandstone pool discovered in the early 1950's. Giant Reef initiated a drilling program in the region in 1983 and has since participated in 28 wells, all of which have encountered net pay zones in the Bakken formation ranging from 8 to 41 feet. Five of these wells have encountered varying net pays in the McLaren formation ranging from 15 to 39 feet. In addition, two have encountered 10 feet of net pay in a Basal Manville sandstone.

Total recoverable reserves per section, using a recovery rate of three percent, are estimated at 800,000 barrels of oil for the Bakken sand and 250,000 barrels of oil for the McLaren sand. Our interests in the area vary from 7.5 percent to 15.0 percent with net acreage of 308 acres and gross acreage of 3,174 acres.

Six wells are scheduled in this region for fiscal 1986 and, contingent upon their success, an additional eight wells are budgeted to be drilled.





## Production

Giant Reef's exploration and development programs have resulted in a substantial increase in crude oil and natural gas production. Crude oil and liquids production in fiscal 1985 rose to 76,437 gross barrels, compared with 49,399 gross barrels for fiscal 1984, and reached 56,321 net barrels in comparison to 35,078 net

barrels for the previous fiscal year. Gross natural gas production was 767,562 mcf compared with 491,116 mcf in fiscal 1984 and net production for fiscal 1985 increased to 540,072 mcf over 342,082 mcf. During the past year, 17 oilwells in which we had interests were completed and placed on production. In fiscal 1986,

Giant Reef's exploration and development activities, budgeted at approximately \$2.1 million, will again be concentrated on crude oil prospects with early market potential. Increased gas production levels, reflecting improved export market conditions to the United States, are expected to continue.

## Five Year Selected Data

Fiscal year end	1985	1984	1983	1982	1981
Thousands of dollars except per share data			(Restated)	(Restated)	(Restated)
Net operating revenue . . .	<b>\$3,146</b>	\$2,175	\$1,856	\$1,486	\$1,415
Net earnings . . . . .	<b>1,443</b>	1,040	1,172	890	636
Earnings per common share . . . . .	<b>0.44</b>	0.31	0.35	0.27	0.19
Cash flow from operations . . . . .	<b>2,018</b>	1,488	1,757	1,218	1,177
Cash flow per common share . . . . .	<b>0.62</b>	0.45	0.53	0.37	0.35
Working capital . . . . .	<b>2,781</b>	2,506	2,051	1,720	1,028
Dividends per common share . . . . .	<b>0.20</b>	0.17	0.12	0.06	—

## Drilling Participation

	Alberta	Saskatchewan	Total
For the year ended March 31, 1985			
Gross wells . . . . .	8	16	24
Net wells . . . . .	0.69	1.80	2.49
Gross producers . . . . .	7	11	18
Net producers . . . . .	0.49	1.28	1.77
Wells dry and abandoned . .	1	5	6
Drilling . . . . .	1	—	1
<b>SUCCESS RATIO:</b>	<b>87%</b>	<b>69%</b>	<b>75%</b>

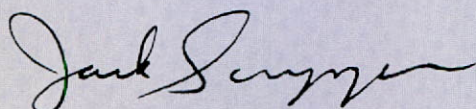


# Balance Sheet

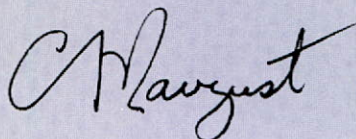
As At March 31, 1985

<b>ASSETS</b>		<u>1985</u>	<u>1984</u>
Current assets			
Cash and short-term deposits .....		<b>\$1,565,983</b>	\$1,101,184
Marketable securities .....		<b>1,283,749</b>	1,137,251
Accounts receivable (Note 2) .....		<b>472,119</b>	678,235
Income taxes recoverable .....		<b>35,631</b>	106,320
Prepaid expenses .....		<b>4,598</b>	5,899
Due from parent company .....		<b>175,850</b>	—
		<b>3,537,930</b>	3,028,889
Investments, at cost (market value \$2,548; 1984 — \$4,600) .....		<b>3,242</b>	3,242
Property, plant and equipment (Note 3) .....		<b>5,859,533</b>	5,838,303
		<b><u>\$9,400,705</u></b>	<b><u>\$8,870,434</u></b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities .....		<b>\$ 2,303</b>	\$ 35,152
Dividends payable .....		<b>163,467</b>	166,490
Income taxes payable .....		<b>590,942</b>	250,687
Due to parent company .....		<b>—</b>	70,126
		<b>756,712</b>	522,455
Deferred revenue .....		<b>1,755,865</b>	1,914,087
Deferred income taxes .....		<b>1,467,696</b>	1,526,546
		<b><u>3,980,273</u></b>	<b><u>3,963,088</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 4)			
Authorized			
5,000,000 common shares without nominal or par value			
Issued			
3,269,352 shares (1984 — 3,329,802) .....		<b>1,082,699</b>	1,102,647
Retained earnings (Note 4) .....		<b>4,337,733</b>	3,804,699
		<b><u>5,420,432</u></b>	<b><u>4,907,346</u></b>
		<b><u>\$9,400,705</u></b>	<b><u>\$8,870,434</u></b>

On behalf of the Board



Director



Director



# Statement of Earnings and Retained Earnings

For The Year Ended March 31, 1985

	1985	1984
Revenues		
Oil and gas production .....	<b>\$3,146,018</b>	\$2,175,168
Operating expenses		
Oil and gas production .....	<b>810,945</b>	613,479
General and administrative .....	<b>190,419</b>	129,254
Lease rentals .....	<b>1,867</b>	12,233
Depletion and depreciation .....	<b>633,874</b>	315,181
	<b>1,637,105</b>	1,070,147
Earnings from operations .....	<b>1,508,913</b>	1,105,021
Other revenue (expenses)		
Interest and other income .....	<b>301,712</b>	177,901
Interest and bank charges .....	<b>(8,656)</b>	(40,066)
	<b>293,056</b>	137,835
Earnings before income taxes .....	<b>1,801,969</b>	1,242,856
Provision for (recovery of) income taxes (Note 6)		
Current .....	<b>417,822</b>	69,980
Deferred .....	<b>(58,850)</b>	132,824
	<b>358,972</b>	202,804
Net earnings for the year .....	<b>1,442,997</b>	1,040,052
Retained earnings at beginning of year .....	<b>3,804,699</b>	3,330,713
	<b>5,247,696</b>	4,370,765
Redemption of shares (Note 4) .....	<b>(253,071)</b>	—
Dividends .....	<b>(656,892)</b>	(566,066)
Retained earnings at end of year .....	<b>\$4,337,733</b>	\$3,804,699
Earnings per share .....	<b>\$0.44</b>	\$0.31

## Auditors' Report

### The Shareholders Giant Reef Petroleums Limited

We have examined the balance sheet of Giant Reef Petroleums Limited as at March 31, 1985 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, 1985 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 year.

Calgary, Alberta  
May 30, 1985

*Touche Ross & Co.*  
Chartered Accountants



# Statement of Changes in Financial Position

For The Year Ended March 31, 1985

	1985	1984
Cash provided by operating activities		
Net earnings for the year	<b>\$1,442,997</b>	\$1,040,052
Add charges to earnings not requiring a current cash payment		
Depletion and depreciation	<b>633,874</b>	315,181
Deferred income taxes	<b>(58,850)</b>	132,824
	<b>2,018,021</b>	1,488,057
Net change in working capital balances other than cash	<b>336,513</b>	(161,582)
	<b>2,354,534</b>	1,326,475
Cash provided by (used in) financing activities		
Deferred revenue	<b>(158,222)</b>	340,546
Proceeds on sale of assets	—	152,908
Redemption of shares	<b>(273,019)</b>	—
Dividends	<b>(656,892)</b>	(566,066)
	<b>(1,088,133)</b>	(72,612)
	<b>1,266,401</b>	1,253,863
Cash used in investment activities		
Property, plant and equipment	<b>832,998</b>	1,263,907
Petroleum Incentives Program grants	<b>(177,894)</b>	(303,763)
	<b>655,104</b>	960,144
Net increase in cash during the year	<b>611,297</b>	293,719
Cash position at beginning of year	<b>2,238,435</b>	1,944,716
Cash position at end of year	<b>\$2,849,732</b>	\$2,238,435
Cash comprises		
Cash and short-term deposits	<b>\$1,565,983</b>	\$1,101,184
Marketable securities	<b>1,283,749</b>	1,137,251
	<b>\$2,849,732</b>	\$2,238,435
Net change in working capital balances other than cash		
Accounts receivable	<b>\$ 206,116</b>	\$ 128,402
Income taxes recoverable	<b>70,689</b>	89,098
Prepaid expenses	<b>1,301</b>	(3,399)
Due from parent company	<b>(245,976)</b>	(746,116)
Accounts payable and accrued liabilities	<b>(32,849)</b>	36
Dividends payable	<b>(3,023)</b>	166,490
Income taxes payable	<b>340,255</b>	203,907
	<b>\$ 336,513</b>	\$ (161,582)



# Notes to the Financial Statements

March 31, 1985

## 1. Summary of Significant Accounting Policies

### a) Parent company

84% of the Company's shares are owned by Westburne Petroleum and Minerals Ltd., a wholly-owned subsidiary of Westburne International Industries Ltd.

### b) Petroleum and natural gas properties

The Company follows the full cost method of accounting for exploration and development expenditures, whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs are generally limited to the present value of the future net revenues from estimated production from proven reserves, plus the estimated value of unevaluated properties. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

Grants receivable under Provincial and Federal Petroleum Incentives Programs are recorded in the accounts at the time qualifying expenditures are applied for. The full cost pool is reduced by the amount of the grants.

Depreciation of production equipment and the gas plant and depletion of oil and gas properties have been provided on a unit of production method based on estimated proven recoverable reserves as determined by independent engineers.

### c) Deferred revenue

Payments received for undelivered gas are deferred and taken into income when deliveries are made or the makeup period expires. Deliveries of prepaid gas were made during the year and are expected to continue over the next nine years until all prepaid gas is delivered.

### d) Income taxes

The Company follows the tax allocation method of accounting for income taxes. Provincial Government royalty refunds are taken into account in calculating the current year's income tax provision.

### e) Joint ventures

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

## 2. Petroleum Incentives Program

Under government legislation, the Company is eligible to apply for grants based on qualifying oil and gas expenditures. Included in accounts receivable is \$135,589 (1984 — \$388,241) with respect to grants for which application has been made.

## 3. Property, Plant and Equipment

	1985	1984
Property, plant and equipment, at cost		
Oil and gas leases and development expenditures .....	<b>\$5,721,044</b>	\$5,333,786
Gas plant .....	<b>1,347,628</b>	1,308,726
Equipment .....	<b>1,380,502</b>	1,151,558
	<b>8,449,174</b>	7,794,070
Accumulated depletion and depreciation .....	<b>2,589,641</b>	1,955,767
	<b><u>\$5,859,533</u></b>	<u>\$5,838,303</u>



#### 4. Share Capital

During the year the Company repurchased 60,450 of its shares at \$4.15 per share plus accrued interest calculated from September 9, 1983 to June 15, 1984. Share capital has been reduced by \$19,948, based upon the proportionate reduction in the number of issued shares. The remainder of the redemption price has been charged against retained earnings.

#### 5. Related Party Transactions

The majority of the Company's recent activities have been conducted jointly with its parent which administers the affairs of the Company.

The Company has been charged \$120,000 (1984 — \$60,000) by its parent for administrative services.

Payments of \$792,832 (1984 — \$1,306,833) have been made to the parent company for the Company's proportionate cost for the purchase and development of lands in which the Company has an interest.

	<u>1985</u>	<u>1984</u>
Drilling and completion costs .....	<b>\$540,150</b>	\$ 926,891
Tangible equipment .....	<b>254,751</b>	304,864
Geological and seismic .....	<b>(2,069)</b>	48,662
Land acquisition .....	<b>—</b>	26,416
	<u><b>\$792,832</b></u>	<u>\$1,306,833</u>

The Company earned net revenue of \$1,300,047 (1984 — \$759,114) on properties operated jointly with its parent.

#### 6. Income Taxes

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rates to earnings before income taxes as shown below:

	<u>1985</u>		<u>1984</u>	
	<u>Amount</u>	<u>% of pre-tax income</u>	<u>Amount</u>	<u>% of pre-tax income</u>
Expected tax expense .....	<b>\$ 846,925</b>	<b>47.0</b>	\$ 584,142	47.0
Effect on taxes from:				
Non-deductible crown payments .....	<b>507,153</b>	<b>28.1</b>	337,723	27.2
Petroleum and gas revenue tax .....	<b>143,987</b>	<b>8.0</b>	90,240	7.3
Alberta royalty tax credit .....	<b>(519,895)</b>	<b>(28.9)</b>	(411,371)	(33.1)
Resource allowance .....	<b>(377,837)</b>	<b>(21.0)</b>	(254,569)	(20.5)
Depletion allowance .....	<b>(177,602)</b>	<b>(9.9)</b>	(119,838)	(9.6)
Other .....	<b>(63,759)</b>	<b>(3.4)</b>	(23,523)	(2.0)
Actual income tax provision .....	<u><b>\$ 358,972</b></u>	<u><b>19.9</b></u>	<u>\$ 202,804</u>	<u>16.3</u>

#### 7. Dominant Industry

The Company has substantially all of its operations in the petroleum and natural gas industry in Canada. The majority of the Company's revenues are derived from oil and gas sales.

#### 8. Comparative Figures

Certain 1984 figures have been reclassified to conform with the current year's presentation.



# Corporate Information

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**Head Office:**

200, 535 7th Ave. S.W.  
CALGARY, Alberta, T2P 0Y4  
Area Code (403) 233-6600

**Officers:**

P. D. WILLIAMS — *Chairman*  
J. SCRYMGEOUR — *President*  
D. B. MUIR — *Secretary*  
G. D. RICHARDS — *Controller*  
C. J. GALLIVAN — *Treasurer*

**Directors:**

P. D. WILLIAMS  
J. SCRYMGEOUR  
C. A. RAUGUST  
H. M. ARMSTRONG  
H. A. McQUEEN

**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 3Y8  
1055 Dunsmuir Street  
VANCOUVER, B.C. V7X 1B1

**Auditors:**

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

**Stock Listing:**

VANCOUVER STOCK EXCHANGE





**Giant Reef Petroleums Limited**

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