

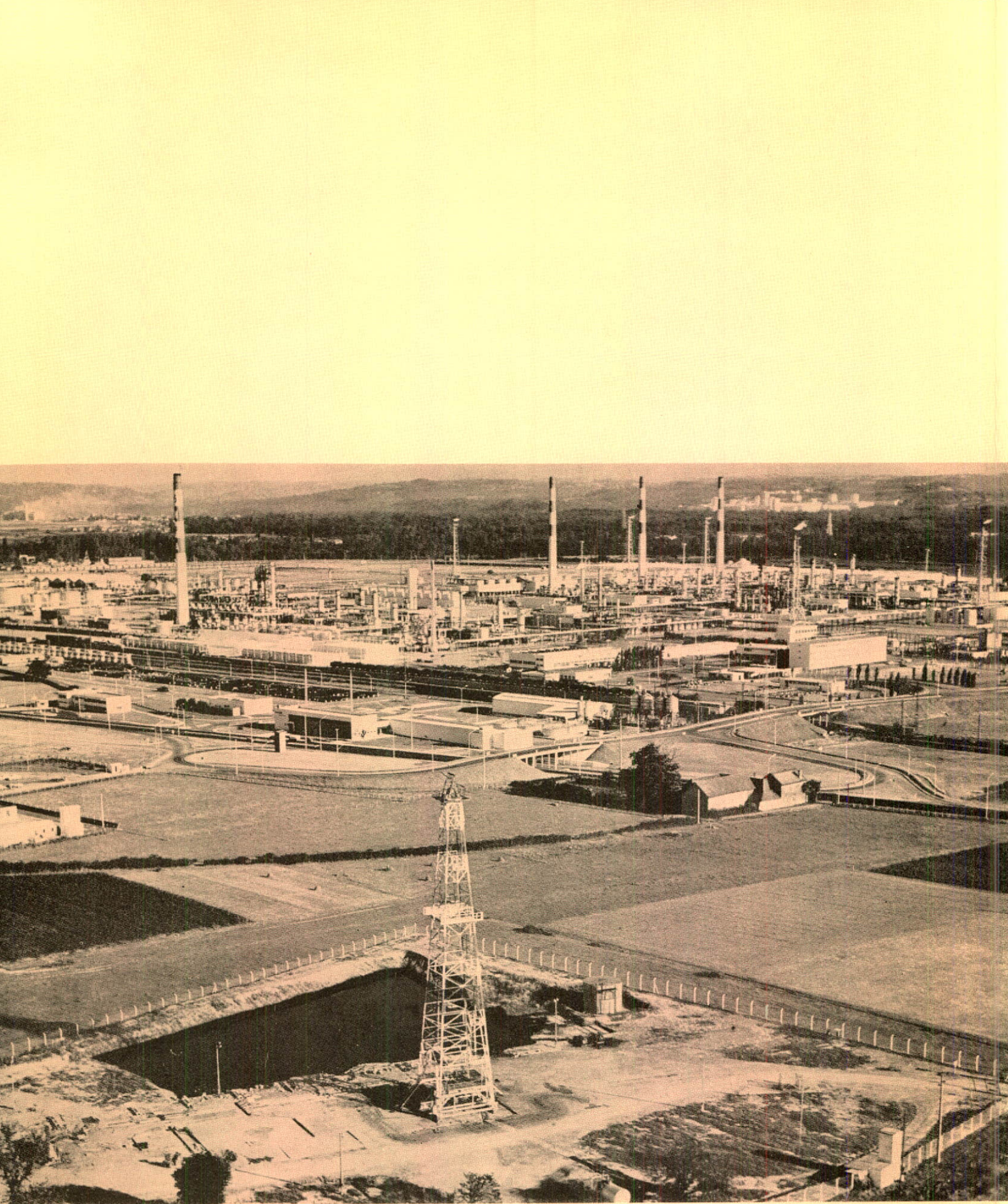
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AQUITAINE COMPANY OF CANADA LTD.



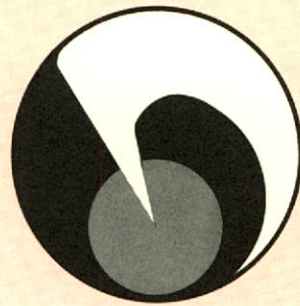
FIRST ANNUAL REPORT
1964

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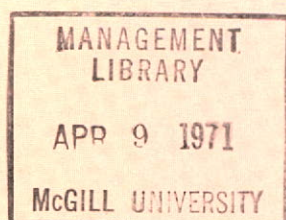


GAS PLANT - LACQ, FRANCE

AQUITAINÉ COMPANY OF CANADA LTD.



**FIRST ANNUAL REPORT
1964**





DIRECTORS

N. F. Phillips
L. J. Pradal
G. Rutman

Montreal, P.Q.
Calgary, Alberta
Pau, France

OFFICERS

G. Rutman
L. J. Pradal
J. Borocco
N. F. Phillips

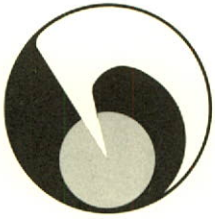
President
Vice-President and
Secretary-Treasurer
Assistant Secretary
Assistant Secretary

HEAD OFFICE

320 Seventh Avenue S.W.
CALGARY, ALBERTA, CANADA

AUDITORS

Touche, Ross, Bailey & Smart



AQUITAINE COMPANY OF CANADA LTD.

This is the First Annual Report of Aquitaine Company of Canada Limited, which was incorporated in December, 1963 under the Companies Act (Canada) as a wholly owned subsidiary of Société Nationale des Pétroles d'Aquitaine.

SNPA — as it is usually called — is a French Company of which 51% of the capital is held by the French Government, through the State Agency Bureau des Recherches du Pétrole, and the remainder is in the hands of the public, the shares being quoted on the French Stock Exchange. Such a partial ownership by the Government is not an uncommon arrangement in France, particularly where the industry concerned is of a national development nature and during its formative stages there is a lack of public response due to a high risk ratio.

SNPA found a small oil field at Lacq in the southwest of France (Basin of Aquitaine) in 1949 and deeper drilling conducted in the same area, two years later, revealed a major sour gas field. It also has a 51% working interest in the more recently discovered (1959) oil field at El Gassi-Erg el Agreb in the Sahara.

Raw gas at Lacq is desulphurized, making SNPA and France the third largest producer of sulphur in the world, and the pipe-line gas is utilized both for domestic and industrial power purposes throughout France, including Paris. SNPA also either operates or has financial interests in other activities allied with petroleum production, including the petrochemical and oil refining industries.

As a result of its successful operations, SNPA has developed and is developing considerable resources both financial and technical. The desire to fully utilize these resources has influenced the decision to actively undertake oil exploration in other parts of the world. The company realizes that although the present reserves are sufficient for a reasonable number of years, further discoveries are needed to ensure its extensive long-term continuance.

Having once reached the decision to vigorously undertake overseas exploration, SNPA's selection of the actual countries in which to establish was dependent on a number of factors, principally:

- (i) the geological potential for oil discovery;
- (ii) the stability of the country, both economical and political;
- (iii) the attitude of the Government to foreign investment.

Several technical and financial groups visited Western Canada during the year 1963 and, as a result of their investigations, SNPA's Board resolved to create a fully owned oil exploration Canadian subsidiary, which was effected in December, 1963.

Aware of the fact that Western Canada was no longer a new oil exploration area and that Aquitaine was coming rather late to a field where the competition had been severe for a long time, SNPA's Board decided at the same time to give its new subsidiary an important shareholding in an established Canadian Oil Company. This resulted in a take-over bid for 40% of the stock of Banff Oil Limited and finally the acquisition of 41% of this stock.

Once this stock was secured, Aquitaine and Banff signed an agreement by which Aquitaine has the right to share in the interests of Banff in each prospect when it comes to be drilled for exploration. Sharing of interest is 50/50



in Area I (Southeastern Alberta, Saskatchewan and Manitoba); in Area II (remainder of Alberta, British Columbia, N.W. Territories and Yukon) Aquitaine has a 90% interest in wildcat areas and an 80% interest in areas considered as extensions of proven ones.

These arrangements between the two companies lets Banff operate both as an independent Oil Company and as the exploration and production department of Aquitaine. In this way Aquitaine operates with its own very small staff and has been engaged without any delay in oil exploration.

Besides the land interests earned by its participating in the Banff exploration drilling, Aquitaine has obtained valuable properties by purchase either from the Government at various Crown sales, or from companies, by direct pur-



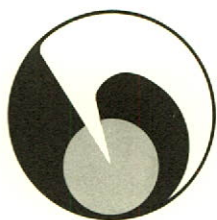
CALGARY STAMPEDE

chase or by farm-out. All these acquisitions have been made jointly with Banff, Aquitaine's interest being within the 50% - 90% interest bracket dependent upon the concerned areas.

A substantial part of these lands was secured from a financial group which owned 25% of the interest in some properties operated by Banff in Eastern Alberta. Aquitaine obtained these interests, including three productive wells, by assigning 47,211 of its Banff shares as consideration.

Aquitaine has also acquired a 50,000 acre lease in the Athabasca Tar Sands area in Alberta and an Oil Shale Reservation from the Government of Manitoba. In both these lands, Aquitaine's interest is 100%.

G. Rutman / President



LAND

Aquitaine Company of Canada Ltd. held a total of 469,779 gross acres representing 341,340 net acres at December 31, 1964.

At this date Aquitaine was earning 92,160 additional gross acres, representing 41,472 net acres by a farm-out from Socony Mobil in the Rainbow Lake Area (NW Alberta) and roughly 350,000 additional gross acres representing 45,000 net acres either by farm-out from Scurry Rainbow or by direct acquisition in the Estevan area (SE Saskatchewan).

Except for these lands, in time to be secured, the following schedule shows the split between the different kinds of mining rights, and between the provinces:

| | GROSS | | | NET | | |
|--------------------------------------|---------|---------------------|---------|--------|---------------------|---------|
| | Leases | Reservation Permits | Total | Leases | Reservation Permits | Total |
| Alberta Block A | 93,600 | 16,800 | 110,400 | 41,470 | 3,880 | 45,350 |
| Alberta Outside Block A | 640 | 135,680 | 136,320 | 576 | 84,123 | 84,699 |
| Saskatchewan | 2,200 | 6,880 | 9,080 | 670 | 1,180 | 1,850 |
| British Columbia | — | 45,377 | 45,377 | — | 40,839 | 40,839 |
| Alberta (Athabasca) Bituminous Sands | 49,743 | — | 49,743 | 49,743 | — | 49,743 |
| Manitoba Oil Shale | — | 118,859 | 118,859 | — | 118,859 | 118,859 |
| Total PNG only | 96,440 | 204,737 | 301,177 | 42,716 | 130,022 | 172,738 |
| Total | 146,183 | 323,596 | 469,779 | 92,459 | 248,881 | 341,340 |

From the 341,340 net acres owned by Aquitaine:

14,087 have been earned by drilling

242,198 have been directly acquired from the Government

85,055 have been acquired from persons or companies.



EXPLORATION

During the course of the year 1964, Aquitaine Company of Canada Ltd. has participated in fifteen exploratory wells resulting in two successful oil wells, one non-commercial oil well, one non-commercial gas well and eleven abandonments. All these wells have been operated by our affiliate and associated company Banff Oil Ltd.

S.E. ALBERTA. The objectives of four exploratory wells were the D2 and D3 reef formations, mainly the D3. Two of them failed to encounter productive reef (Morinville-Nestow and Bashaw-Joffre). The other two wells did not meet the productive reef either, however, one was completed as a gas well in the cretaceous basal quartz. (Morinville, Morinville N.), and the other was completed as an oil well in the cretaceous Viking formation (Bashaw-S. Chig-well). The gas well has been capped, not yet being a commercial producer due to the lack of gas transportation facilities in this area. The oil well was abandoned recently having been proven definitely non-commercial.

Three other wells (Killam, Matziwin-Nateby and Matziwin-Rosemary) had as their main objectives various cretaceous formations. All of them were abandoned.

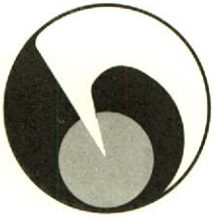
One well was drilled to the Pekisko (Mississippian) at South Hutton (Matziwin area) and was abandoned dry.

NORTH ALBERTA. Aquitaine has participated in a well in the Keg River area, the main objective being the Slave point, the secondary objective being the Gilwood sands. Two of these formations have been revealed dry and the well was abandoned.

SASKATCHEWAN AND MANITOBA. Six wells were drilled down to the Mississippian. Two of them, Hastings and Antler-Ingoldsby, in the Nottingham area were completed as oil wells in the Frobisher beds. The four other wells (Rapdan-Loomis, Queensdale W., Queensdale-Alameda and Lyleton) have been abandoned.

SUMMARY:

| | |
|--|---------|
| Exploratory Wells in which Aquitaine had an interest | 15 |
| Dry Wells | 11 |
| Non-Commercial Gas Well | 1 |
| Non-Commercial Oil Well | 1 |
| Oil Wells | 2 |
| Gross footage | 61,406' |
| Aquitaine net footage | 19,010' |



DEVELOPMENT

In the Matziwin Area where Aquitaine Company of Canada Ltd. had acquired a 25% working interest, four development wells were drilled down to the Pekisko formation (Mississippian). Two of them were completed as oil producing wells in that formation.

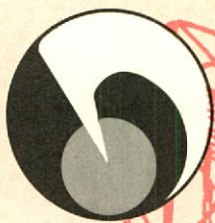
In the Hastings Area (Saskatchewan) two development wells were drilled, following the discovery. They were completed as oil producing wells in the Mission Canyon (Frobisher beds in the Mississippian).



DRILLING RIG - RAINBOW LAKE

SUMMARY:

| | |
|-----------------------------|---------|
| Development wells | 6 |
| Dry wells | 2 |
| Oil productive wells | 4 |
| Gross footage | 21,625' |
| Aquitaine net footage | 5,406' |



PRODUCTION

PRODUCING WELLS

In the Matziwin Area Aquitaine Company of Canada Ltd. has a 25% interest in five producing wells.

In the Hastings Area, Aquitaine has 25% in three producing wells, and in the Nottingham Area, 25% in one producing well.

SUMMARY:

9 gross producing wells
2.25 net producing wells.

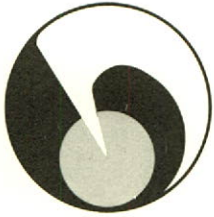
PRODUCTION

The total production of Aquitaine was 13,507 bbls. in 1964 (before royalties). This production came from Matziwin, Hastings and Nottingham.

RESERVES

At the 31st of December, the net reserves were:

| | |
|----------------|---------------------|
| Hastings | 119,344 bbls. |
| Matziwin | 199,863 bbls. |
| Antler | <u>39,070 bbls.</u> |
| | 358,277 bbls. |



AQUITAINE COMPANY OF CANADA LTD.

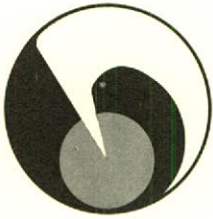
Auditors' Report To The Shareholders

We have examined the balance sheet of Aquitaine Company of Canada Ltd. as at December 31, 1964 and the related statements of income and deficit and source and application of funds for the period ended on that date and have obtained all the information and explanations we have required. 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, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and related statements of income and deficit and source and application of funds are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1964 and the results of its operations for the period ended on that date, in accordance with generally accepted accounting principles.

Chartered Accountants.

Calgary, Alberta
February 1, 1965.



AQUITAINE COMPANY OF CANADA LTD.

(Incorporated as a Private Company Under The Laws of Canada)

BALANCE SHEET AT

ASSETS

CURRENT ASSETS

| | | |
|---------------------------|---------------|---------------|
| Cash | \$ 308,811.48 | |
| Accounts receivable | 12,568.01 | \$ 321,379.49 |

| | | |
|-----------------------------------|--|----------|
| REFUNDABLE DEPOSIT, at cost | | 4,500.00 |
|-----------------------------------|--|----------|

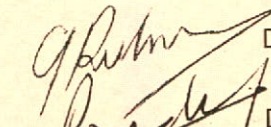
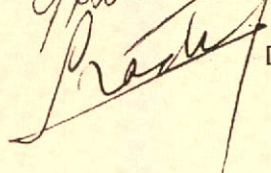
| | | |
|---|--|--------------|
| INVESTMENT IN SHARES OF BANFF OIL LTD. (Note 2) | | 2,000,000.00 |
|---|--|--------------|

PROPERTY AND EQUIPMENT, at cost

| | | |
|--------------------------------------|--------------|--|
| Non-producing properties | 1,071,237.94 | |
| Producing properties | 133,966.82 | |
| Production and other equipment | 62,215.41 | |
| Real estate and furnishings | 71,189.16 | |

| | | |
|---|--------------|--------------|
| | 1,338,609.33 | |
| Less accumulated depletion and depreciation | 14,806.55 | 1,323,802.78 |

Signed on behalf of the Board

 Director
 Director

\$3,649,682.27

The accompanying notes are part of these financial statements.

DECEMBER 31, 1964

LIABILITIES

CURRENT LIABILITIES

| | | |
|----------------------------------|-----------------------------|--------------|
| Accounts payable | \$ 64,149.58 | |
| Mortgages payable, secured | 30,590.33 | \$ 94,739.91 |
| | <u> </u> | |

PAYABLE TO PARENT COMPANY

| | | |
|--|--|--------------|
| Société Nationale des Pétroles d'Aquitaine | | 4,842,791.08 |
|--|--|--------------|

| | | |
|-------------------------|--|-----------------------|
| Total liabilities | | <u>\$4,937,530.99</u> |
|-------------------------|--|-----------------------|

SHAREHOLDERS' DEFICIENCY

CAPITAL STOCK

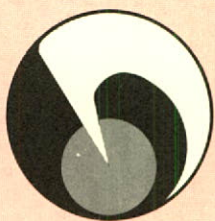
Authorized - 3,000,000 shares without nominal
or par value

| | | |
|--|--------------|--|
| Issued - 1,000,000 shares for cash | 1,000,000.00 | |
|--|--------------|--|

| | | |
|---------------|-----------------------|----------------|
| DEFICIT | <u>(2,287,848.72)</u> | (1,287,848.72) |
|---------------|-----------------------|----------------|

COMMITMENT (Note 3)

\$3,649,682.27



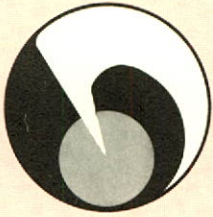
AQUITAINE COMPANY OF CANADA LTD.

STATEMENT OF INCOME AND DEFICIT

For the Period from Incorporation December 30, 1963 to December 31, 1964

| | | |
|---|--------------|----------------|
| Crude oil sales, less royalties | \$ 24,523.89 | |
| Production expenses | 11,748.52 | \$ 12,775.37 |
| | | <hr/> |
| General and administrative expenses | | 136,090.04 |
| | | <hr/> |
| Loss before the following items | | 123,314.67 |
| Depletion | 3,720.16 | |
| Depreciation | 11,086.39 | |
| Exploration abandonments | 7,598.75 | |
| Organization costs | 8,385.65 | 30,790.95 |
| | | <hr/> |
| NET LOSS FOR THE PERIOD | | 154,105.62 |
| Write down in valuation of investment in shares of Banff Oil Ltd. (Note 2) | | 2,133,743.10 |
| | | <hr/> |
| Deficit at December 31, 1964 | | \$2,287,848.72 |
| | | <hr/> |

The accompanying notes are part of these financial statements.



AQUITAINE COMPANY OF CANADA LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Period from Incorporation December 30, 1963 to December 31, 1964

SOURCE OF FUNDS

| | |
|--|-----------------|
| Crude oil sales, less royalties and production expenses .. | \$ 12,775.37 |
| Sale of capital stock | 1,000,000.00 |
| Advances from parent company | 4,842,791.08 |
| | <hr/> |
| | \$ 5,855,566.45 |

APPLICATION OF FUNDS.

| | |
|--|-----------------|
| General and administrative expenses | \$ 136,090.04 |
| Investment in shares of Banff Oil Ltd. | 4,133,743.10 |
| Land acquisitions and rentals | 845,764.62 |
| Drilling and exploration expenditures | 367,038.89 |
| Production and other equipment | 62,215.41 |
| Real estate and furnishings | 71,189.16 |
| Refundable deposit | 4,500.00 |
| Organization costs | 8,385.65 |
| | <hr/> |
| | 5,628,926.87 |
| Balance of funds used to provide working capital | 226,639.58 |
| | <hr/> |
| | \$ 5,855,566.45 |

WORKING CAPITAL CONSISTED OF THE FOLLOWING

| | |
|---------------------------|---------------|
| Current assets | \$ 321,379.49 |
| Current liabilities | 94,739.91 |
| | <hr/> |
| | \$ 226,639.58 |



AQUITAINE COMPANY OF CANADA LTD.

Explanatory Notes To Financial Statements

DECEMBER 31, 1964

1. ACCOUNTING POLICY

All acquisition, exploration, rental and drilling costs are capitalized as non-producing properties. Costs relating to properties surrendered and costs of unproductive wells remain capitalized unless all properties within the related area are abandoned. If properties prove productive, the related costs are designated as producing properties.

Depletion of producing properties is provided for on an area basis by the unit of production method based on the estimate recoverable reserves. Depreciation of production, other equipment, real estate and furnishings is provided for on the straight line method at various rates corresponding to the estimated useful life of the asset.

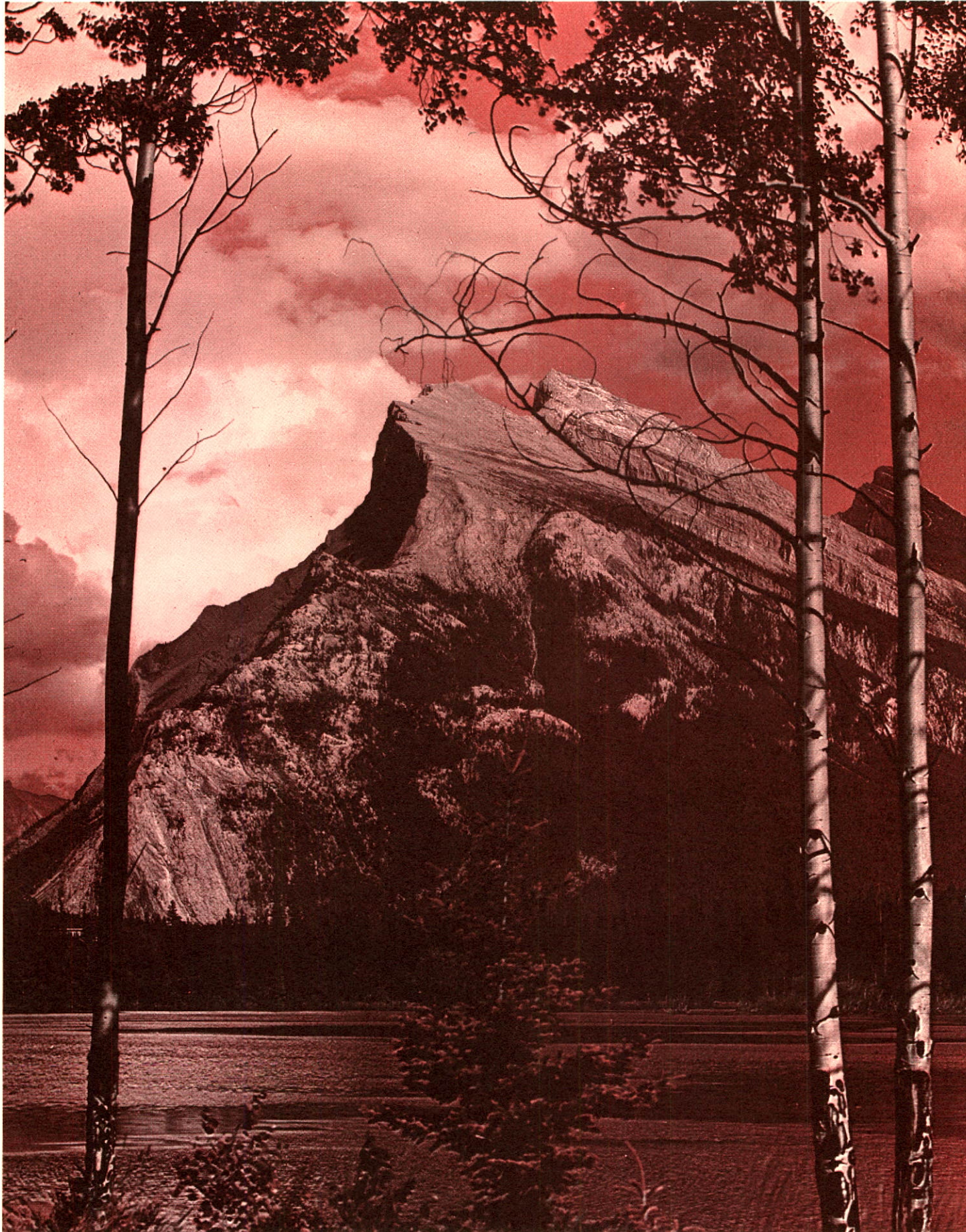
2. INVESTMENT IN SHARES OF BANFF OIL LTD.

During the year, the company acquired 1,471,590 shares representing 40.5% of the issued capital stock of Banff Oil Ltd. at a total cost of \$4,133,743.10 resulting in an average cost of \$2.81 per share. At December 31, 1964, the company's investment in these shares has been written down to \$2,000,000.00, which approximates the market value of the shares prevailing at that date.

3. COMMITMENT

The directors of Banff Oil Ltd. have accepted an offer by the company to acquire an additional 500,000 shares to be issued out of the treasury stock at a price of \$1.35 per share representing a total consideration of \$675,000.00.

The shares are to be issued in 1965, pending a favorable decision relating to the effect of the United States Interest Equalization Tax on the issue of these shares.



MOUNT RUNDLE - BANFF, ALBERTA, CANADA

