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*TEMAGAMI  
Oil & Gas Ltd.*

*Annual Report  
1983*







TEMAGAMI OIL & GAS LTD.CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGSTHREE MONTHS ENDED AUGUST 31, 1983

	<u>1983</u>	<u>1982</u>
Revenue		
Oil and gas sales	\$ 487,489	\$ 717,550
Other	29,421	25,828
Expenses		
Production and production tax	163,504	244,334
General and administration	70,828	124,934
Interest on long-term debt	202,530	318,628
Depletion	186,664	312,000
Depreciation and amortization	<u>88,000</u>	<u>50,000</u>
	711,526	1,049,896
Earnings (loss) before income taxes	(194,616)	(306,518)
Deferred income taxes (recovery)	<u>(85,342)</u>	<u>(111,000)</u>
Net earnings (loss)	(109,274)	(195,518)
Retained earnings, beginning of period (deficit)	<u>( 13,804)</u>	<u>469,962</u>
Retained earnings, end of period	<u>(123,078)</u>	<u>274,444</u>

TEMAGAMI OIL & GAS LTD.CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITIONTHREE MONTHS ENDED AUGUST 31, 1983

	<u>1983</u>	<u>1982</u>
Working capital provided from:		
Operations	\$ 80,048	\$ 63,981
Proceeds from sale of property & equipment	-	43,692
Increase in long-term debt	<u>9,216</u>	<u>-</u>
	89,264	107,673
Working capital used for:		
Acquisition of property and equipment	131,432	263,052
Reduction of long-term debt	201,447	63,809
Long-term accounts receivable	<u>3,375</u>	<u>83,876</u>
	336,254	410,737
Increase in working capital (decrease)	(246,990)	(303,064)
Working capital (deficiency), beginning of period	<u>(965,840)</u>	<u>(535,181)</u>
Working capital (deficiency), end of period	<u>\$(1,212,830)</u>	<u>\$ (838,245)</u>





## **OFFICERS AND DIRECTORS**

Donald C. Campbell

President, Chief Executive Officer and Director

John S. Grant, Jr.

Assistant Secretary and Director

Carl R. Jonsson

Secretary and Director

Frederick G. Roman

Vice-President and Director

Stephen G. Roman

Director

Irene Huntley

Controller

## **TRANSFER AGENT AND REGISTRAR**

Guaranty Trust Company of Canada

800 West Pender Street

Vancouver, British Columbia

V6C 2V7

Guaranty Trust Company of Canada

88 University Avenue

Toronto, Ontario

M5J 1T8

## **GENERAL COUNCIL**

Tupper, Jonsson, Shroff & Zink

Vancouver, British Columbia

## **AUDITORS**

Collins Barrow

Calgary, Alberta

## **BANKERS**

First Interstate Bank of California

Bank of Nova Scotia

## **HEAD OFFICE**

1710, 1177 West Hastings Street

Vancouver, British Columbia

V6E 2L3

## **CORPORATE OFFICE**

500 Mount Royal Village

1550 - 8th Street S.W.

Calgary, Alberta

T2R 1K1



## TO OUR SHAREHOLDERS:

The last year has once again been a very difficult one for your Company and the next year looks equally as difficult. There has been some evidence of an improving economy and the oil price decline appears to be slowing or may have stopped, nevertheless oil prices are now about thirty percent below their peak level of two years ago.

In early 1982, the directors took a number of key decisions in an attempt to enable your Company to regain its ability to be an efficient, low-cost oil and gas company, able to concentrate on its most promising properties. We have had reasonable success in these endeavours during the past year. General and administrative costs have been reduced by over fifty-eight percent. Some further reductions are possible, but they will be much more difficult to obtain. Due to falling interest rates, our interest costs have declined, however they are still taking too large a portion of our operating cash flow. For this reason, various steps are being taken for the reduction of the principal amount of the outstanding bank loan.

We have been successful in selling off some interests in wells and prospective areas which are not considered key to the Company's operations. We sold our working interest in one well in Wyoming and have arranged to sell two wells in Texas. We have also sold a small working interest in some acreage in Western Canada and, during the year, sold a total of twenty-two and a half percent working interest in our Rio Grande Embayment program in South Texas. This program is considered to be one of the keys for the Company's future success, but it was necessary to spread the risks

and reduce our working interest in this program to a more appropriate twenty percent. We will consider, at a later date, a further sale to reduce our working interest to the range of ten to fifteen percent. There are still a number of other wells and properties which we are attempting to sell in order to further rationalize our ongoing operations.

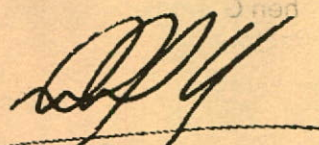
By agreement with our bankers, we have started to repay, on a regular monthly basis, our U.S. dollar bank loan. In order to enable us to continue to make payments against the bank loan or to substantially reduce the loan so as to bring our interest costs to a more acceptable level, we are considering several possibilities. We are carrying on discussions with a number of companies with a view to selling our entire working interest in the Hiland field in Wyoming for cash, sufficient to retire the bank loan, and leave your Company debt-free to concentrate on its other key areas. We are also investigating the possibility of farming out the first three wells in a further development program on the Hiland leases, so as to increase our cash flow and make the interest and principal payments on the bank loan more manageable. The third alternative, is the possible infusion of new equity capital into the Company.

During the year the Company participated in five wells, all located in the United States. Two of these wells were completed as oil wells and the remaining three were plugged and abandoned. Participation in ten wells is planned for this year.

While we have made some strides towards bringing the financial position of Temagami under control, we still have a difficult task ahead

of us. Your Company is fortunate in having several key properties where a successful discovery could dramatically enhance the complexion of your Company for the future.

ON BEHALF OF THE BOARD



Donald C. Campbell,  
President and Chief Executive  
Officer

November 10, 1983



# EXPLORATION AND DEVELOPMENT

## WYOMING

The five wells on the Hiland leases in Wyoming, where the Company has a sixty percent working interest, are currently producing about 9,500 gross barrels of crude oil per month. Production declines, from the 11,000 barrel level for the previous year, are as expected for Phosphoria production. The Hiland gas plant (where we also hold a sixty percent interest), is treating about 650 MCF per day of gas from our wells, plus purchased gas from other producers in the area. The Company is continuing with its attempts to arrange a farmout for the next three wells to be drilled on these leases or, alternately, to sell its entire working interest in the leases for an amount sufficient to pay off the bank loan and leave the Company debt-free. A number of companies are interested in the Hiland leases, but no agreement has yet been reached.

During the year, the Company sold for cash, its interest in a marginal producer in Wyoming and plugged and abandoned two suspended dry holes which had been drilled several years ago. The Company still has varying interests in a number of other Wyoming wells which continue to produce relatively small amounts of oil and/or gas. The Company is still trying to sell some of these interests, while other marginal wells will be considered for plugging and abandoning so that we can salvage the equipment and materials.

## TEXAS

Activity on the "Rio Grande Embayment" project in which your Company is participating was at a low level during the year, due to depressed gas markets in the Texas area.

The first well, drilled as part of this program, was plugged and abandoned during the year. The next well is tentatively scheduled for mid 1984. Additional activity will depend on improvements in the gas markets.

During the year, the Company was successful in selling portions of its working interest in this Rio Grande Embayment project to four companies. These sales provided the Company with needed cash and, at the same time, reduced the Company's involvement in this program to a more manageable level. The Company still retains about a 20% working interest and will consider the sale of another 5 to 7% when the gas markets in South Texas improve sufficiently so that we can obtain a fair market value for this interest.

The Company has reached an agreement for the sale of two of its four producing wells in Burleson County, Texas. These two wells were considered to be marginal producers and, as such, would be a drain on the Company's cash flow in the future. Production from the remaining two producing wells is about 2,000 gross barrels of crude oil per month plus associated gas.

Two wells, in which Temagami has a carried interest, were drilled and completed as oil wells as part of a six well exploratory program in North Texas. Three of the four wells drilled to date have been completed as oil wells. One development well drilled during the year was plugged and abandoned.

## MICHIGAN

The Company and its joint venture partners in Michigan completed a farmout of 50% of their interest in about 34,000 acres of leases in Southern Michigan.

One well, that was drilled under this farmout during the year, has been plugged and abandoned. It is anticipated that a second well will be spudded before year end.

## INDIANA

The farmors on the approximately 125,000 acres of oil and gas leases in Indiana in which the Company holds a 10.5% interest, carried out an extensive seismic program, accompanied by the drilling of about 50 stratigraphic tests. It is anticipated that the farmor will drill three 5,000 to 7,000 foot wells beginning before the end of this year to complete its obligations under the farmout agreement.

The Company participated during the year in the drilling of one dry hole on acreage outside the farm-out agreement.

## CANADA

No activity occurred on the Company's acreage in Canada during the year and none is planned for next year. We were successful in selling for cash a small working interest in one property and are carrying on discussions on possible sales of other interests.



# AUDITORS' REPORT

To the Shareholders  
Temagami Oil & Gas Ltd.

We have examined the consolidated balance sheet of Temagami Oil & Gas Ltd. as at May 31, 1983 and the consolidated statements of loss, deficit 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, except as explained in the following paragraph.

We were unable to satisfy ourselves as to the propriety and status of the agreements related to the long-term accounts receivable as described in note 2 to the financial statements. Accordingly, we can not determine whether any adjustments might be necessary to long-term accounts receivable, accounts payable, property and equipment, depletion, depreciation, deferred income taxes, net loss and retained earnings.

In our opinion, except for the effect of adjustments, if any, which might have been determined to be necessary had we been able to satisfy ourselves with respect to the balance of the long-term accounts receivable described in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at May 31, 1983 and the results of its operations and 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, Canada  
July 20, 1983

COLLINS BARROW,  
Chartered Accountants



TEMAGAMI OIL & GAS LTD.  
(Incorporated under the laws of British Columbia)  
**CONSOLIDATED BALANCE SHEET**

MAY 31, 1983

**ASSETS**

	1983	1982
Current assets		
Cash .....	\$ 325,883	\$ 8,792
Accounts receivable .....	901,789	2,006,736
Total current assets .....	1,227,672	2,015,528
Note receivable .....	—	241,500
Long-term accounts receivable (note 2) .....	808,039	921,619
Property and equipment (note 3) .....	14,226,297	15,227,093
Other assets (note 4) .....	101,446	200,907
	<u>\$16,363,454</u>	<u>\$18,606,647</u>

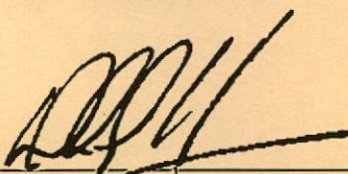
**LIABILITIES**

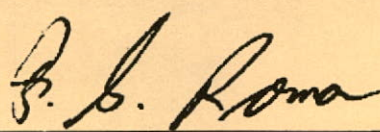
Current liabilities		
Accounts payable and accrued liabilities .....	\$ 1,441,912	\$ 2,495,100
Dividends payable .....	—	14,490
Current portion of long-term debt .....	751,600	41,119
Total current liabilities .....	2,193,512	2,550,709
Long-term debt (note 5) .....	6,580,136	7,488,466
Deferred income taxes .....	723,610	976,010

**SHAREHOLDERS' EQUITY**

Share capital (note 6) .....	6,880,000	6,913,000
Contributed surplus (note 6) .....	—	208,500
Retained earnings (deficit) .....	(13,804)	469,962
	<u>6,866,196</u>	<u>7,591,462</u>
	<u>\$16,363,454</u>	<u>\$18,606,647</u>

Approved on behalf of the Board,

 \_\_\_\_\_, Director

 \_\_\_\_\_, Director



TEMAGAMI OIL & GAS LTD.

# CONSOLIDATED STATEMENT OF LOSS

YEAR ENDED MAY 31, 1983

	1983	1982
Revenue		
Oil and gas sales.....	\$ 2,115,221	\$ 3,573,694
Gas processing income.....	321,603	—
Other.....	18,250	14,490
	<u>2,455,074</u>	<u>3,588,184</u>
Expenses		
Production and production taxes.....	569,810	1,373,996
Gas processing.....	195,903	—
General and administrative.....	383,698	737,800
Interest on long-term debt.....	930,992	1,150,607
Depletion.....	758,800	1,222,000
Depreciation and amortization.....	352,037	215,000
	<u>3,191,240</u>	<u>4,699,403</u>
Loss before income taxes.....	736,166	1,111,219
Deferred income tax recovery.....	(252,400)	(403,000)
Net loss.....	<u>\$ 483,766</u>	<u>\$ 708,219</u>
Loss per share.....	<u>\$ 0.046</u>	<u>\$ 0.075</u>

TEMAGAMI OIL & GAS LTD.

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED MAY 31, 1983

	1983	1982
Retained earnings, beginning of year.....	\$ 469,962	\$1,192,671
Deduct: Net loss.....	483,766	708,219
	<u>(13,804)</u>	<u>484,452</u>
Deduct: Dividends on Preferred Shares		
Series A.....	—	3,510
Series B.....	—	5,220
Series C.....	—	5,760
	<u>—</u>	<u>14,490</u>
Retained earnings (deficit), end of year.....	<u>\$ (13,804)</u>	<u>\$ 469,962</u>



TEMAGAMI OIL & GAS LTD.

# **CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

YEAR ENDED MAY 31, 1983

	1983	1982
Working capital was provided from		
Operations.....	\$ 374,671	\$ 424,138
Proceeds on disposal of property and equipment.....	894,108	—
Decrease in notes receivable.....	241,500	729,000
Decrease in long-term accounts receivable.....	113,580	—
Increase in long-term debt.....	—	7,248,020
Issue of common shares.....	—	5,000,000
	<u>1,623,859</u>	<u>13,401,158</u>
Working capital was used for		
Reduction of long-term debt.....	908,330	9,044,128
Redemption of Preferred Shares.....	241,500	729,000
Acquisition of property and equipment.....	904,688	3,867,678
Long-term accounts receivable.....	—	921,619
Preferred share dividends.....	—	14,490
	<u>2,054,518</u>	<u>14,576,915</u>
Decrease in working capital.....	430,659	1,175,757
Working capital (deficiency), beginning of year.....	(535,181)	640,576
Working capital deficiency, end of year.....	<u>\$ 965,840</u>	<u>\$ 535,181</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1983

## 1. Significant accounting policies

The consolidated financial statements of the company have been prepared by management in accordance with accounting principles generally accepted in Canada which, in the case of the company, conform in all material respects with International Accounting Standards. These financial statements have, in management's opinion been properly prepared within reasonable limits of materiality and in light of information available up to July 20, 1983. The principal accounting policies are summarized as follows:

### (a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiary, Temagami Oil & Gas Inc.

### (b) Exploration and development costs

The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with overhead and interest directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are normally recognized in the statement of earnings.

Exploration and development costs are allocated to one cost centre, namely, North America (Canada and the United States).

Costs capitalized in the cost centre are depleted on the composite unit-of-production method based on estimated proven oil and gas reserves as determined by independent and company engineers.

### (c) Depreciation

Depreciation of production equipment is provided for on the composite unit-of-production method.

Depreciation of other equipment is computed on the declining balance method at rates varying from 20 to 30 percent per annum. Depreciation on the gas plant is provided for on the straight-line basis over ten years.

### (d) Joint venture

Substantially all of the exploration and production activities of the company are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

### (e) Unamortized deferred financing charges

Deferred financing charges included in other assets in respect of the issuance of shares and a debenture are being amortized using the straight line method over six and five years respectively.

### (f) Translation of foreign currencies

The accounts of the foreign subsidiary have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the year end. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the year.

### (g) Loss per share

Net loss per share is based on the weighted average number of common shares outstanding during the year.

### (h) Accounting for changing prices

No procedures have been adopted by the company to reflect the impact on the financial statements of specific price changes, changes in the general prices, or both.



## 2. Long-term accounts receivable

The propriety and status of certain joint venture agreements in which the company has entered into to develop oil and gas properties is uncertain, and in dispute. Included in the long-term account receivable is an amount due from a joint venture participant totalling \$808,039 (1982 — \$760,900), relating to the agreements. Management is currently in the process of negotiating with the joint venture participant in resolving the dispute and is of the opinion that any adjustments which may result upon resolution of the dispute can not be reasonably estimated at this time.

## 3. Property and equipment

Property and equipment consists of the following:

	1983			1982
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties including exploration and development costs thereon.....	\$15,573,837	\$ 3,580,599	\$11,993,238	\$12,132,239
Production equipment.....	1,144,955	397,075	747,880	1,343,758
Gas plant.....	1,433,356	143,341	1,290,015	1,442,120
Other.....	390,650	195,486	195,164	308,976
	<u>\$18,542,798</u>	<u>\$ 4,316,501</u>	<u>\$14,226,297</u>	<u>\$15,227,093</u>

During the year the company capitalized general and administrative expenses in the amount of \$77,195 (1982 — \$363,771) and interest expense in the amount of \$98,411 (1982 — \$390,830).

## 4. Other assets

Other assets consist of the following:

	1983	1982
Unamortized deferred finance charges in connection with the issue of a convertible debenture.....	\$ 82,986	\$ 160,154
Unamortized deferred finance charges in connection with the issue of Common Shares.....	17,956	39,145
Organization costs.....	504	1,608
	<u>\$ 101,446</u>	<u>\$ 200,907</u>

## 5. Long-term debt

Long-term debt consists of the following:

	1983	1982
Bank loan — net of current portion.....	\$ 6,400,590	\$ 7,248,020
Obligations under capital leases — Net of current portion.....	179,546	240,446
	<u>\$ 6,580,136</u>	<u>\$ 7,488,466</u>

- a) The bank loan is secured by certain petroleum and natural gas properties. The loan bears interest at 5/8% over an American bank's prime lending rate and is repayable in U.S. Dollars.

The company has reached an agreement with the bank, whereby monthly principal payments of \$50,000 (U.S.) plus interest will be required during the period June 1983 to December 1983. Subsequent to this time, the bank will reassess the company's situation and redetermine the required monthly principal payments. The bank has indicated that the required monthly principal payments subsequent to December 1983 will be a minimum of \$50,000 (U.S.) per month.

Long-term debt is as follows:

	1983	1982
Bank loan.....	\$ 7,125,190	\$ 7,248,020
Less: Current portion.....	724,600	—
	<u>\$ 6,400,590</u>	<u>\$ 7,248,020</u>



Principal repayments (U.S. \$) required in the next five years are as follows:

1984 .....	\$ 600,000
1985 .....	600,000
1986 .....	600,000
1987 .....	600,000
1988 and subsequent years .....	3,500,000
	<u>\$ 5,900,000</u>

b) Obligations under capital leases

The following is a schedule of future minimum lease payments under capital leases expiring in 1986 and 1987.

	1983	1982
Year ending May 31, 1983 .....	\$ —	\$ 84,588
1984 .....	62,160	84,588
1985 .....	62,160	84,588
1986 .....	62,160	75,730
1987 .....	82,500	82,500
Total minimum lease payments .....	<u>268,980</u>	<u>411,994</u>
Less: Amount representing interest at 14.25% (1982 — 13% - 20%) .....	<u>62,434</u>	<u>130,429</u>
Balance of obligations before current portion .....	<u>206,546</u>	<u>281,565</u>
Current portion .....	<u>27,000</u>	<u>41,119</u>
Balance of obligations .....	<u>\$ 179,546</u>	<u>\$ 240,446</u>

6. Share capital and contributed surplus

a) Authorized and issued share capital consist of the following:

	1983	1982
Authorized		
100,000 Preferred Shares Series A with a par value of \$1 each		
100,000 Preferred Shares Series B with a par value of \$1 each		
100,000 Preferred Shares Series C with a par value of \$1 each		
15,000,000 Common Shares without par value		
Issued		
10,470,000 Common Shares .....	\$ 6,880,000	\$ 6,880,000
— Convertible Preferred Shares Series A (1982 — 9,000 Shares) .....	—	9,000
— Convertible Preferred Shares Series B (1982 — 12,000 Shares) .....	—	12,000
— Convertible Preferred Shares Series C (1982 — 12,000 Shares) .....	—	12,000
	<u>\$ 6,880,000</u>	<u>\$ 6,913,000</u>

During the year the following Preferred Shares were redeemed from an employee upon his termination of employment with the company. The related note receivable in the amount of \$241,500 was also cancelled.

	Number of Shares	Par Value
Series A .....	9,000	\$ 9,000
Series B .....	12,000	12,000
Series C .....	12,000	12,000
	<u>33,000</u>	<u>\$ 33,000</u>

Excess of redemption proceeds over par value of shares redeemed in the amount of \$208,500 has been charged to the contributed surplus account.



## 7. Remuneration of directors and officers

The total remuneration paid to directors and officers of the company amounted to \$68,955 (1982 — \$369,568).

## 8. Lease Commitment

The company has certain lease obligations covering rental space. The minimum commitments are approximately \$120,000 per year over two years.

## 9. Related party transactions

a) Included in accounts payable is \$452,609 (1982 — \$419,946) interest payable to a related party which owns a significant interest in the company. The amount represents debenture interest accrued to November 15, 1981 (the date on which the debenture was converted to common shares) plus interest charged on the unpaid debenture interest at the rate of 1% over a Canadian bank's minimum lending rate.

Interest expense for the current year amounted to \$52,663 (1982 — \$45,768). During the year repayments of the original debenture interest amounted to \$20,000 (1982 — \$100,000). No fixed repayment terms have been determined.

b) During the year the company received proceeds of \$383,875 from the sale of property and equipment to companies whose directors are also directors of Temagami Oil & Gas Ltd.

## 10. Comparative figures

Certain comparative figures have been restated to conform with current year's presentation.

## 11. Segmented information

The company, which is engaged in only one industry, exploration for and development of oil and gas reserves, operates primarily in two geographic areas, Canada and the United States. The following is an analysis of certain financial information by geographic area:

	Canada	United States	Total
	1983		
Petroleum and natural gas sales. ....	\$ 1,350	\$ 2,435,474	\$ 2,436,824
Operating profit. ....	\$ 253	\$ 1,689,108	\$ 1,689,361
General and administrative expenses. ....			383,698
Interest. ....			930,992
Depletion. ....			758,800
Depreciation and amortization. ....			352,037
			2,425,527
Loss before income taxes. ....			\$ 736,166
Identifiable assets. ....	\$ 2,158,518	\$14,204,936	\$16,363,454
	Canada	United States	Total
	1982		
Petroleum and natural gas sales. ....	\$ 2,822	\$ 3,570,872	\$ 3,573,694
Operating profit. ....	\$ 15,038	\$ 2,199,150	\$ 2,214,188
General and administrative expenses. ....			737,800
Interest. ....			1,150,607
Depletion. ....			1,222,000
Depreciation and amortization. ....			215,000
			3,325,407
Loss before income taxes. ....			\$ 1,111,219
Identifiable assets. ....	\$ 2,944,307	\$15,662,340	\$18,606,647











