# TEMAGAMI Oil & Gas Ltd.

# Annual Report 1982

## OFFICERS AND DIRECTORS

Donald C. Campbell
President, Chief Executive Officer and Director

John S. Grant, Jr.
Director

Carl R. Jonsson
Secretary and Director

Robert J. Peers
Vice-President, Land

Frederick G. Roman
Vice-President and Director

Stephen G. Roman
Director

Andrew Sarlos
Chairman of the Board and Director

## 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 British Columbia

## 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:

In common with many small companies in North America, and, in particular, with small companies in the oil and gas business, your Company experienced a very difficult year. Oil prices fell over twenty percent, interest rates soared and high inflation caused operating costs to rise significantly. The Company was ill prepared to react to the broad range of problems originating from a declining economy.

Near the end of our fiscal year, the directors took a number of important decisions in an attempt to enable your Company to weather the economic recession and be positioned to take advantage of any pronounced turnaround in the economy. General and administrative costs were to be reduced drastically; exploration and development activities were to be concentrated solely on the three or four best areas, as measured by the size of the Company's interest combined with an evaluation of the upside potential; all other interests in wells or prospective areas were to be sold if a fair market price could be obtained.

It is not an easy task, in the current economic climate, to accomplish the goals set by the board of directors but considerable progress has been made, mostly since the end of fiscal year. We have been aided in this by some small improvements in the economy of the United States which has resulted in a decline in interest rates and financing crude oil prices. We have reduced our overhead cost drastically but still have further reductions which are required. These general and administrative costs are now running at about 60 percent of last year's rate while our target is 40 percent. We have identified three major areas of interest as our principal assets; the Hiland field in Wyoming where we have five wells currently in production, extensive acreage in Indiana where a farmee is currently proceeding with a U.S. $1.5 million exploration program to earn an interest, and a participation in an exploration program in the Rio Grande Embayment area of South Texas where considerable attention has been focused recently as a major gas area develops.

As buyers for oil and gas properties, at fair market value, are not very plentiful in this economy, we have not been too successful, to date, in our attempts to sell our other properties. Agreement has been reached on the sale of our working interest in one well in Wyoming and negotiations are underway in several other areas, however, we will not likely experience too much success in our efforts to sell these properties until a more pronounced turnaround occurs in the economy.

The Company's financial results were not satisfactory and a major effort is being directed toward improving this situation. A loss of $708,219 was reported for the year. Prior to this last fiscal year, all interest charges had been capitalized as part of our investments in property and equipment. Your Company now considers that, in light of its present stage of development, it is now more appropriate to expense the majority of these interest charges. This decision resulted in a charge against earnings in the year ended May 31, 1982 of $1.15 million. The Company currently has outstanding a U.S. $6.0 million bank loan with a floating interest rate so our financial results are very sensitive to interest rate changes.

Your Company believes that it will be successful in rationalizing its operations to become an efficient, low-cost, oil and gas company able to concentrate on its most promising properties. These properties have excellent up-side potential and there is every indication that your Company will be in a favourable position to take immediate advantage of an improving economy.

ON BEHALF OF THE BOARD

Donald C. Campbell
President & Chief Executive Officer
October 29, 1982

# EXPLORATION AND DEVELOPMENT

## WYOMING

A total of five Phosphoria oil wells drilled previously on the 1,000 acre Hiland lease in Wyoming are currently producing over 11,000 gross barrels of crude oil per month. Associated wet gas production, together with purchased gas from other operators in this area, is being processed in the gas plant which was completed during the year. A technical review is being completed on this property to determine the location and number of additional development wells which should be drilled. It is the Company's intention to farmout the first three wells in this development program if suitable terms can be negotiated.

The Company has varying interests in a number of other wells in Wyoming. Negotiations are underway to sell some of these interests and others are being plugged and abandoned as marginal producers so we can salvage the equipment and material. The remaining wells are producing relatively small amounts of oil and/or gas.

## TEXAS

The Company is participating in a five year exploration and development program call the "Rio Grande Embayment" covering all of Cameron, Hidalgo and Willacy Counties and part of Brooks County in South Texas. This area has recently attracted a lot of attention in the press as a result of a number of successful gas wells. To date, a number of targets have been identified and land acquisition is well advanced with the total acquired to date in the order of 11,000 acres. The first well on one of these prospects, an 8,000 foot test, will be spudded before the end of 1982. Tentative plans call for drilling of four to six more of the targets in 1983. Development drilling will depend on the success of the initial exploratory wells.

The Company has an interest in four producing wells in Burleson County, Texas with current production running around 2,200 gross barrels of crude oil per month plus associated gas. The Company is attempting to sell these four wells at a fair market price.

The five well "Range" program was completed during the year with all wells plugged and abandoned. Two wells were drilled as part of a six well exploratory project in North Texas in which Temagami has a carried interest. One of these wells was completed as an oil well and the other was plugged and abandoned.

## MICHIGAN

The Company owns a 12½ percent interest in about 26,000 acres of leases in Southern Michigan. Attempts to farmout this acerage for dilling have been unsuccessful to date.

## INDIANA

The Company participated in a major farmout covering approximately 125,000 acres of oil and gas leases in Indiana in which the Company held a 42.1875 percent working interest. In consideration for net cash payments to Temagami of U.S. $1,055,000 plus a U.S. $1,500,000 work program, the Company's working interest has been reduced to 10.5 percent. The first well under this farmout has been drilled and abandoned. Additional drilling has been planned for 1983.

## CANADA

While the Company continues to hold interests in some acerage in Canada, no activity occurred during the past year and none is planned for this year.

# 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, 1982 and the consolidated statements of loss, 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, 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 3 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, 1982 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
August 12, 1982

COLLINS BARROW,
Chartered Accountants

TEMAGAMI OIL & GAS LTD.

(Incorporated under the laws of British Columbia)

# CONSOLIDATED BALANCE SHEET

MAY 31, 1982

## ASSETS

| | 1982 | 1981 |
|---|---|---|
| Current assets | | |
| Cash | **$ 8,792** | $ 1,312,938 |
| Accounts receivable | **1,984,715** | 2,634,406 |
| Prepaid expenses | **22,021** | 36,416 |
| Total current assets | **2,015,528** | 3,983,760 |
| Notes receivable (note 2) | **241,500** | 970,500 |
| Long-term accounts receivable (note 3) | **921,619** | — |
| Property and equipment (note 4) | **15,227,093** | 12,796,415 |
| Other assets (note 5) | **200,907** | 299,264 |
| | **$18,606,647** | $18,049,939 |

## LIABILITIES

| | 1982 | 1981 |
|---|---|---|
| Current liabilities | | |
| Accounts payable and accrued liabilities | **$ 2,495,100** | $ 3,252,125 |
| Dividends payable | **14,490** | 60,059 |
| Current portion of long-term debt | **41,119** | 31,000 |
| Total current liabilities | **2,550,709** | 3,343,184 |
| Long-term debt (note 6) | **7,488,466** | 9,284,574 |
| Deferred income taxes | **976,010** | 1,379,010 |

## SHAREHOLDERS' EQUITY

| | 1982 | 1981 |
|---|---|---|
| Share capital (note 7) | **6,913,000** | 1,997,000 |
| Contributed surplus (note 7) | **208,500** | 853,500 |
| Retained earnings | **469,962** | 1,192,671 |
| | **7,591,462** | 4,043,171 |
| | **$18,606,647** | $18,049,939 |

Approved on behalf of the Board,

__________________, Director

B. G. Roma __________________, Director

TEMAGAMI OIL & GAS LTD.

# CONSOLIDATED STATEMENT OF LOSS

YEAR ENDED MAY 31, 1982

| | 1982 | 1981 |
|---|---|---|
| Revenue | | |
| Oil and gas sales | $ 3,573,694 | $ 5,265,305 |
| Other | 14,490 | 92,435 |
| | 3,588,184 | 5,357,740 |
| Expenses | | |
| Production and production taxes | 1,373,996 | 1,002,715 |
| General and administrative | 737,800 | 596,184 |
| Interest on long-term debt | 1,150,607 | — |
| Mineral claims surrendered | — | 87,125 |
| Depletion | 1,222,000 | 1,460,000 |
| Depreciation and amortization | 215,000 | 244,305 |
| | 4,699,403 | 3,390,329 |
| Earnings (loss) before income taxes | (1,111,219) | 1,967,411 |
| Deferred income taxes (recovery) | (403,000) | 1,053,472 |
| Net earnings (loss) | $ (708,219) | $ 913,939 |
| Earnings (loss) per share | | |
| Basic | $ (0.075) | $ 0.127 |
| Fully diluted | $ — | $ 0.085 |
| Pro forma basic | $ — | $ 0.087 |

TEMAGAMI OIL & GAS LTD.

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED MAY 31, 1982

| | 1982 | 1981 |
|---|---|---|
| Retained earnings, beginning of year | $ 1,192,671 | $ 338,791 |
| Add: Net earnings (loss) | (708,219) | 913,939 |
| | 484,452 | 1,252,730 |
| Deduct: Dividends on Preferred Shares | | |
| Series A | 3,510 | 16,439 |
| Series B | 5,220 | 20,760 |
| Series C | 5,760 | 22,860 |
| | 14,490 | 60,059 |
| Retained earnings, end of year | $ 469,962 | $ 1,192,671 |

TEMAGAMI OIL & GAS LTD.

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MAY 31, 1982

| | 1982 | 1981 |
|---|---|---|
| Working capital was provided from | | |
| Operations | **$ 424,138** | $ 3,864,735 |
| Increase in long-term debt | **7,248,020** | 4,075,596 |
| Issue of common shares | **5,000,000** | — |
| Decrease in notes receivable | **729,000** | 67,500 |
| Other | **—** | 178,821 |
| | **13,401,158** | 8,186,652 |
| Working capital was used for | | |
| Acquisition of property and equipment | **3,867,678** | 7,884,531 |
| Reduction of long-term debt | **9,044,128** | — |
| Long-term accounts receivable | **921,619** | — |
| Redemption of preferred shares | **729,000** | — |
| Preferred share dividends | **14,490** | 60,059 |
| | **14,576,915** | 7,944,590 |
| Increase (decrease) in working capital | **(1,175,757)** | 242,062 |
| Working capital, beginning of year | **640,576** | 398,514 |
| Working capital (deficiency), end of year | **$ (535,181)** | $ 640,576 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1982

## 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 August 12, 1982. 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. The gas plant will be depreciated on the declining balance method over its estimated useful life, when it commences commercial production.

### (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. Conversion of the preferred shares would not be dilutive.

### (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. Note Receivable

A note receivable in the amount of $241,500 bearing interest at a rate of 6% per annum is due from an employee of the company. This loan was made to enable the employee to purchase preferred shares of the company.

## 3. 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 $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 cannot be reasonably estimated at this time.

## 4. Property and equipment

Property and equipment consists of the following:

| | 1982 | | | 1981 |
|---|---|---|---|---|
| | Cost | Accumulated Depletion and Depreciation | Net | Net |
| Oil and gas properties including exploration and development costs thereon | $14,954,038 | $ 2,821,799 | $12,132,239 | $10,706,722 |
| Production Equipment | 1,702,533 | 358,775 | 1,343,758 | 1,182,349 |
| Gas plant | 1,442,120 | — | 1,442,120 | 498,586 |
| Other | 484,663 | 175,687 | 308,976 | 408,758 |
| | $18,583,354 | $ 3,356,261 | $15,227,093 | $12,796,415 |

## 5. Other assets

Other assets consist of the following:

| | 1982 | 1981 |
|---|---|---|
| Unamortized deferred finance charges in connection with the issue of a convertible debenture | $ 160,154 | $ 249,503 |
| Unamortized deferred finance charges in connection with the issue of Common Shares | 39,145 | 48,153 |
| Organization costs | 1,608 | 1,608 |
| | $ 200,907 | $ 299,264 |

## 6. Long-term debt

Long-term debt consists of the following:

| | 1982 | 1981 |
|---|---|---|
| Bank loan | $ 7,248,020 | $ 4,000,000 |
| Obligations under capital leases — Net of current portion | 240,446 | 284,574 |
| Convertible debenture | — | 5,000,000 |
| | $ 7,488,466 | $ 9,284,574 |

a) The bank loan is secured by certain petroleum and natural gas properties. The loan bears interest at ⅝% over an American bank's prime lending rate and is repayable in U.S. Dollars. In accordance with the loan agreement no principal repayments are required on the bank loan until January 1983, at which time the bank will review the company's engineering evaluation to ensure that it meets their minimum requirements. If the minimum requirements are met the bank has agreed not to require any principal repayment of the loan during the year ended May 31, 1983. Management is of the opinion that the company's oil and gas reserves are sufficient to satisfy the bank's requirements.

b) Obligations under capital leases

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

| | |
|---|---|
| Year ending May 31, 1983 | $ 84,588 |
| 1984 | 84,588 |
| 1985 | 84,588 |
| 1986 | 75,730 |
| 1987 | 82,500 |
| Total minimum lease payments | 411,994 |
| Less: Amount representing interest at rates varying from 13 - 20% | 130,429 |
| Balance of obligations before current portion | 281,565 |
| Current portion | 41,119 |
| Balance of obligations | $240,446 |

**7. Share capital and contributed surplus**

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

| | | **1982** | 1981 |
|---|---|---|---|
| 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 $1 each | | |
| 15,000,000 | Common Shares without par value | | |
| Issued | | | |
| 9,000 | Convertible Preferred Shares Series A (1981 - 29,000 Shares) | **$ 9,000** | $ 29,000 |
| 12,000 | Convertible Preferred Shares Series B (1981 - 44,000 Shares) | **12,000** | 44,000 |
| 12,000 | Convertible Preferred Shares Series C (1981 - 44,000 Shares) | **12,000** | 44,000 |
| 10,470,000 | Common Shares (1981 - 6,720,000 Shares) | **6,880,000** | 1,880,000 |
| | | **$ 6,913,000** | $ 1,997,000 |

b) During the year, 3,750,000 Common Shares were issued upon conversion of $5,000,000 in convertible debenture.

c) The Preferred Shares Series A, B and C issued are in respect of a key employee share purchase plan and are all convertible into Common Shares on a three-for-one basis. A loan in the amount of $241,500 has been made to a key employee to enable him to purchase the shares (see note 2). The shares are held in trust pending repayment of the loan by the employee. The shares pay dividends equal to the income earned by the company on the note due from the employee.

During the year the following Preferred Shares were redeemed from two employees upon their termination of employment with the company. The related notes receivables were also cancelled.

| | **Number of Shares** | **Par Value** |
|---|---|---|
| Series A | **20,000** | **$ 20,000** |
| Series B | **32,000** | **32,000** |
| Series C | **32,000** | **32,000** |
| | **84,000** | **$ 84,000** |

Excess of redemption proceeds over par value of shares redeemed in the amount of $645,000.00 has been charged to the contributed surplus account.

d) Contributed surplus represents the excess of cash received on the issue of Preferred Shares over their par value.

8. **Remuneration of directors and officers**

The total remuneration paid to directors and officers of the company amounted to $369,568 (1981 - $374,250).

9. **Lease Commitment**

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

10. **Related party transactions**

Included in accounts payable is $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. No fixed repayment terms have been determined.

11. **Segmented information**

The company, which is engaged in only one industry, exploration for and development of oil and gas properties, 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 |
|---|---|---|---|
| | | **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 | |
| | | **1981** | |
| Petroleum and natural gas sales | $ 4,663 | $ 5,260,642 | $ 5,265,305 |
| Operating profit | $ 94,591 | $ 4,260,434 | $ 4,355,025 |
| General and administrative expenses | | | 596,184 |
| Mineral claims surrendered | | | 87,125 |
| Depletion | | | 1,460,000 |
| Depreciation and amortization | | | 244,305 |
| | | | 2,387,614 |
| Earnings before income taxes | | | $ 1,967,411 |
| Identifiable assets | $ 5,471,922 | $12,578,017 | |

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# TEMAGAMI OIL & GAS LTD.

## THIRD QUARTER REPORT

## FOR THE NINE MONTHS ENDED

## FEBRUARY 28, 1983

| Consolidated Statement of Earnings (Loss) - Unaudited | Nine Months Ended February 28 | |
|---|---|---|
| | 1983 | 1982 |
| Revenue | | |
| Oil & gas sales | $ 1,860,266 | $ 2,952,162 |
| Other | 43,187 | - |
| | 1,903,453 | 2,952,162 |
| Expenses | | |
| Production and production taxes | 797,668 | 1,102,391 |
| General and administrative | 437,496 | 573,550 |
| Interest on long-term debt | 689,326 | - |
| Depletion, depreciation and amortization | 776,407 | 1,131,910 |
| | 2,700,897 | 2,807,851 |
| Earnings (loss) before income tax | ( 797,444) | 144,311 |
| Deferred income taxes (recovery) | ( 257,000) | 120,000 |
| Net earnings (loss) | ( 540,444) | 24,311 |
| Retained earnings, beginning of period | 469,962 | 1,192,671 |
| Retained earnings, end of period | $( 70,482) | $ 1,216,982 |

| Consolidated Statement of Changes in Financial Position (Unaudited) | | |
|---|---|---|
| Working capital was provided from | | |
| Operations | $( 43,640) | $ 1,276,222 |
| Increase in long-term debt | - | 2,900,000 |
| Issue of common shares | - | 5,000,000 |
| Sale of interests in oil and gas properties | 873,809 | - |
| | 830,169 | 9,176,222 |
| Working capital was used for | | |
| Acquisition of property and equipment | 731,535 | 4,509,628 |
| Reduction of long-term debt | 108,477 | - |
| Long-term accounts receivable | 81,325 | 700,141 |
| Retirement of convertible debenture | - | 5,000,000 |
| Obligations under capital leases | - | 25,381 |
| | 921,337 | 10,235,150 |
| Increase (decrease) in working capital | ( 91,168) | ( 1,058,928) |
| Working capital (deficiency), beginning of year | ( 535,181) | 640,576 |
| Working capital (deficiency), end of year | $( 626,349) | $( 418,352) |

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