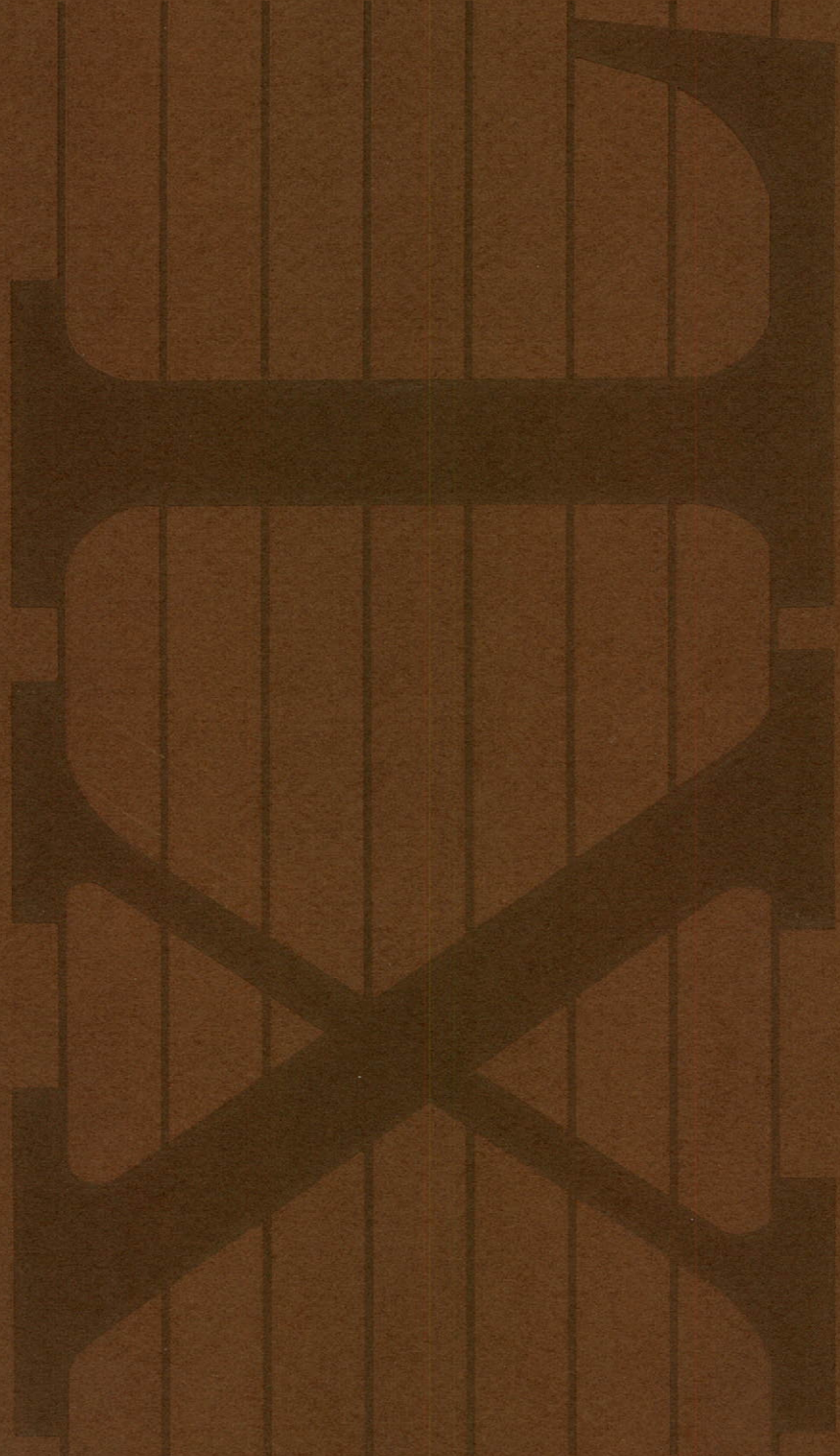


1984  
Annual Report  
L.K.  
Resources  
Ltd.



THE BRAND OF EXCELLENCE





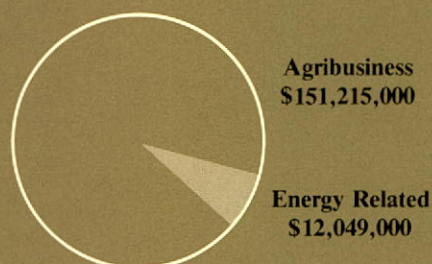


# Financial Highlights

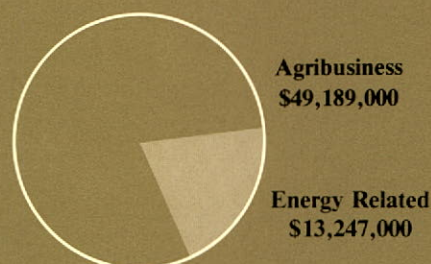
(In thousands except  
per share amounts)

	1983	1982	1981	1980
Gross Revenue .....	\$163,264	194,805	167,260	146,880
Total Assets .....	68,027	79,321	74,743	49,246
Net Income (loss) .....	(5,094)	(1,745)	2,229	2,610
Net Income (loss) per share* .....	(1.08)	(0.42)	0.42	0.54
Working Capital (deficiency) at year end .....	(3,286)	(210)	4,831	7,220
Capital expenditures .....	2,030	8,195	12,081	2,022
Common shareholders' equity .....	12,867	18,037	20,102	17,738
Common shareholders' equity per share* .....	2.57	3.63	4.05	3.59

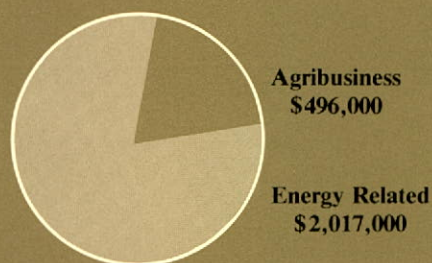
\*Including Class A and Class B shares



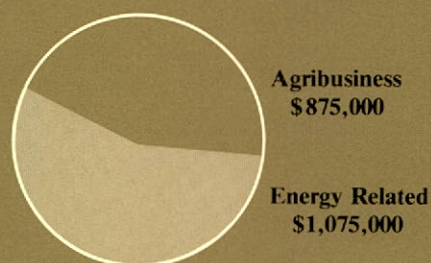
1983 Sales



1983 Book Assets



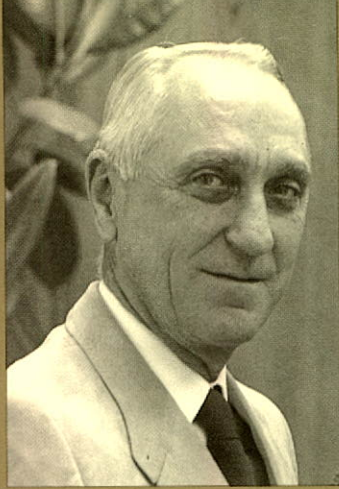
1983 Operating  
Cash Flow



1983 Capital  
Expenditures



Neil A. McKinnon  
Chairman of the Board



Gerald E. Kaumeyer  
Vice Chairman and  
Chief Executive Officer



## Report to Shareholders

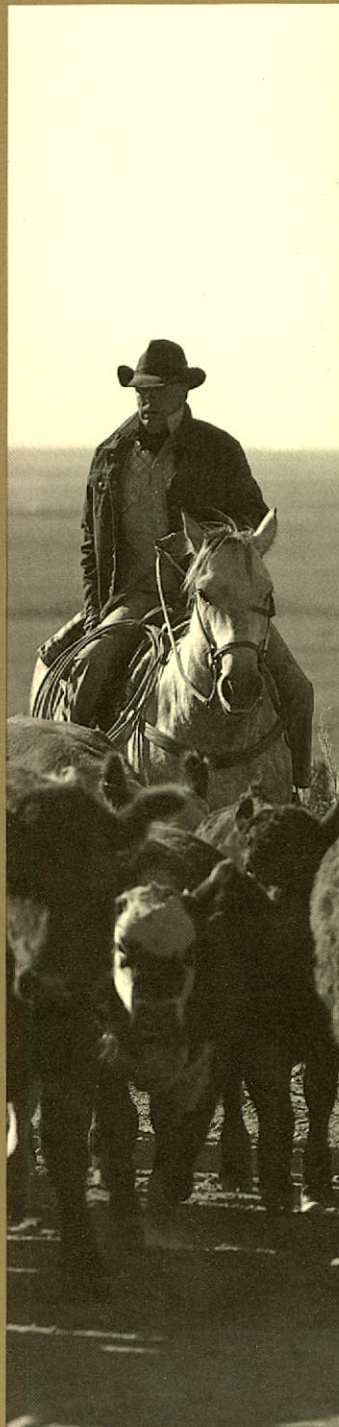
The 1983 fiscal year was one of challenge and reorganization for LK Resources. The complexity of problems resulting from the current economic environment affected all aspects of the Company's operations. However, recognizing these problems, management initiated a major restructuring of the Company. This process has already demonstrated the desired cost efficiencies and management is confident the effects will be more fully realized during the 1984 fiscal year.

The rationalization of the meat packing and processing industry continued throughout our current fiscal year with resultant negative margins. Continued high interest rates further deferred the hoped for recovery in residential construction, adversely affecting Cee-Der Log sales resulting in an unprofitable level of production. Cattle feeding remained a marginally profitable operation due to overall lack of demand and high input costs. Negative results in these areas were partially offset by the profitable operations of Beaver Geophysical which occurred in spite of intense competition within the seismic industry.

As a result, the Company incurred a net loss of \$5,094,000 or \$1.08 per common share on total sales of \$163,264,000.

Despite the loss, 1983 was a year of significant internal progress. A complete reassessment of the operating assets in the meat packing and processing operations was carried out together with a realignment of responsibilities. As a result, we are convinced our operations are highly efficient and the cost per unit of production is as low as any company in the industry. We are examining the possibility of additional restructuring of our meat packing/processing operations to take advantage of further efficiencies and specialization of production.

In addition, we established as a priority the objective of substantially reducing our long term debt. We have carefully examined all Company assets and have determined that the return from the Company's ranching operations are insufficient relative to the value of assets utilized. As a result, two major ranching properties are currently being offered for sale which could generate up to \$10 million net to the Company.





We have also determined that the Cee-Der Log division does not meet corporate objectives for the long term returns on capital employed. As a result, the Company is negotiating a sale of this division's assets to a group of Cee-Der Log management personnel. This sale should be completed early in 1984.

Other assets being offered for sale include the Lethbridge plant of Montagne Meats and some portion of our interest in LK Oil & Gas Ltd.

In addition to reducing long term debt through the proceeds of the sale of assets we have, with the cooperation of our major bankers, Canadian Commercial Bank, made application to Revenue Canada to create a \$17 million Income Debenture paying interest at 8 per cent. We anticipate approval of the debenture which would effectively reduce long term interest expense by at least \$800,000 annually.

The net effect of the steps undertaken to reduce long term debt will also simplify the Company's organization and substantially reduce administrative costs.

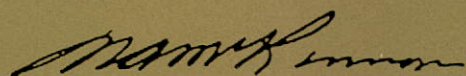
During the fiscal year LK Oil and Gas Ltd. (LKOG) experienced considerable expansion of its acquisitions resulting in a significant cash flow from operations. This source of cash flow not only provides that company with the opportunity to enhance its exploration activity but, for LK Resources it signifies that LKOG is now a financially independent operation. LKOG was successful in negotiating a joint venture agreement with Onexco Oil and Gas Ltd., a subsidiary of the Ontario Energy Corporation, for a major joint venture exploration program over the next three years. This program offers LKOG significant opportunities to further expand its activities and augment cash flow on a controlled investment basis.

While 1983 has been a year of progress as outlined, it has also been a year that has challenged management and all administrative staff. Without the dedication and loyalty of our employees in each operation of the Company, together with the support and cooperation of our major banker, the progress towards returning the Company to profitable operations would not have been possible.

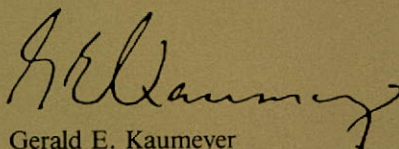
Thanks must also be paid to Mr. Eric Connelly who retired as a Director during the year so that he could devote time to personal affairs. During his years as a Director, Mr. Connelly's counsel and guidance were

of great support and value to management and the Company as a whole.

We look forward to the 1984 fiscal year with guarded optimism. We feel that many of the industries in which our divisions are operating have seen the worst of the recessionary business environment and have turned the corner towards profitable operations. We also feel that our improved operating efficiencies, reduced fixed costs and improved responsiveness to market conditions have laid a solid foundation for a sustained improvement in earnings and for future growth and prosperity.



Neil A. McKinnon  
Chairman of the Board



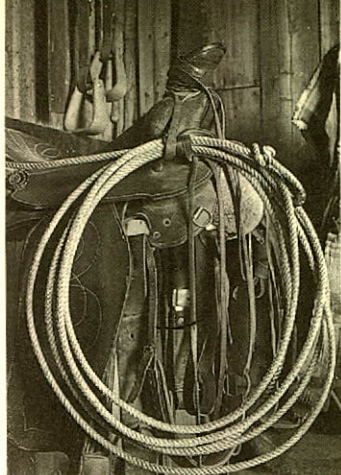
Gerald E. Kaumeyer  
Vice Chairman and Chief Executive Officer



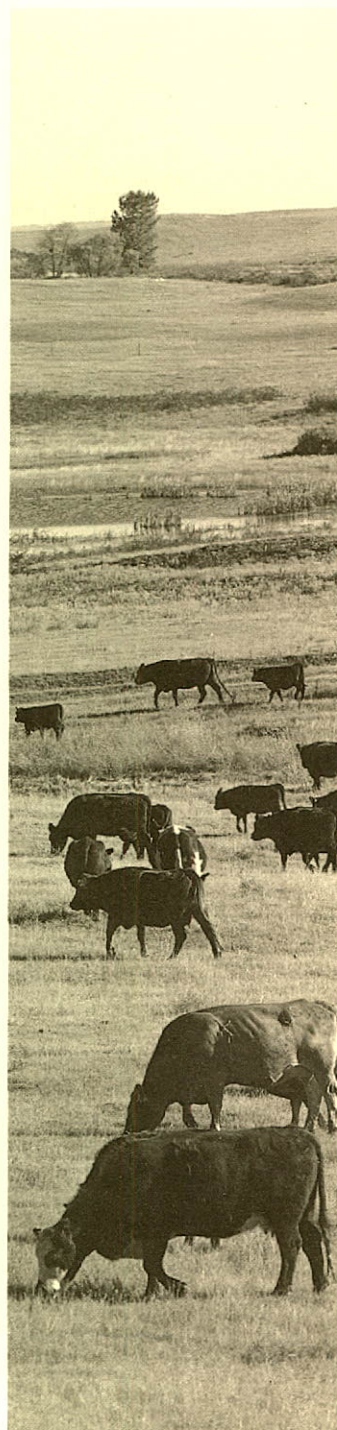
### Beef Slaughtering and Processing Activities

Fiscal 1983 was a very difficult and most disappointing year financially for our beef slaughtering and processing operations. Overall operating margins were adversely affected by the poor fundamentals which plagued the industry.

Specifically, weak demand at the consumer level caused an oversupply situation to develop within the slaughtering and processing industry. LKR's response was to implement an aggressive productivity improvement program throughout all our plant operations. This included a system of cost control and investment in new processes providing an immediate positive impact on a given operation's productivity. Overall, these programs have enabled LKR to remain a strong and effective competitor in an otherwise poor market environment.



## Agribusiness



During the fourth quarter of fiscal 1983, one of our Calgary slaughtering plants was converted to a cow boning plant. This changeover was motivated by a perceived opportunity which existed in boning cows in western Canada and was a response to the excess slaughtering capacity which was evident in the marketplace. This changeover has been operationally and financially effective and, while it was completed too late in the year to contribute profits to fiscal 1983, it is having a significant effect on profits in 1984.

The other significant operating change for 1983 was the transfer of our rough cut boning operations from our plant in Lethbridge to our main cutting and processing plant in Calgary. This move effectively brought the rough cut boning operation to the same plant location as its major source of rough cut supply. Having completed the transfer of the Lethbridge operations to Calgary, the Lethbridge plant has been offered for sale.



While it is not evident in bottomline results, XL Beef and Montagne Meats enjoy the benefits of a highly productive labour force. Wage rates in the Canadian meat packing industry are unrealistically high compared to U.S. rates but we are fortunate that these high rates are offset by the high level of production that we enjoy in our plants.

While 1983 was a year of significant disappointment financially, the operational and productivity improvements made will greatly enhance the Company's future profit potential. It is the strong feeling of management that, based on dramatic improvements already seen in the first quarter of 1984, the new fiscal year will show a significant turnaround in the profit performance of the beef slaughtering and processing operations.

#### **Ranching and Feedlot Activities**

LKR's ranching and feedlot activities also had an unsatisfactory profit performance during fiscal 1983. Poor profit performance in the slaughtering and processing business was passed down to the cattle producer and feeder which acted to generate losses in our ranching and feedlot activities.

1983 has been a transition year in the cattle business during which there has been a struggle within the industry to equate supply and demand. There has been a substantial liquidation of breeding herds in both Canada and the United States during the year. In addition many feedlots have gone out of business due to unprofitable conditions. There has also been the unsettling effect of many farm bankruptcies and reduced funds available for cattle feeding as the banking industry tightened up its lending practices.

On top of these general factors, the Alberta industry was further affected by the influence of subsidy programs in Saskatchewan under which cattle feeders were subsidized to the point that it became difficult to compete with them in buying feeder cattle.

Normal market conditions were further affected by a Quebec program providing subsidization with the long term goal of developing sufficient beef production and feeding to make that province self-sufficient in beef. On top of these matters was the disappointing finale to the long debate over the method of payment for the proposed changes to the Crow Freight Rate.

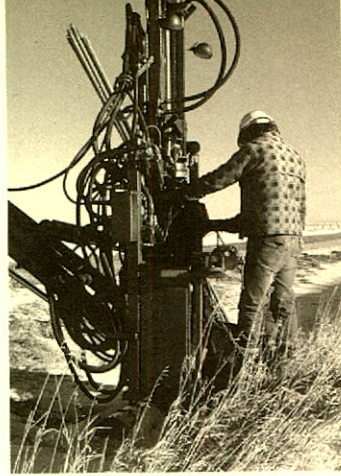
In view of these conditions during 1983 a number of significant decisions were made concerning LKR's ranching and feedlot activities. These decisions resulted from a total re-appraisal of our existing activities with the primary objective to critically evaluate the present and future profit potential of these activities.

Having completed this evaluation, the Company is making significant operational changes which we feel will greatly enhance the future profitability of the ranching and feedlot activities.

The size of our ranch lease will be significantly reduced. Part of the capital raised from these sales will be directed to the reduction of general corporate debt, while a good portion of this capital will be redeployed to increase LKR's backgrounding and feedlot activities. The redeployment of assets in this fashion will greatly increase LKR's thrust in the cattle feeding business where we feel that significant profit potential exists.

Coupled with this increased commitment to cattle feeding will be a significant improvement to LKR's agribusiness information system to better enable the Company to respond to the volatility and realities of the marketplace. To direct these changes and assist in the development of the improved information system, a new management was brought on board. Mr. Lloyd Quantz, formerly General Manager, Canadian Charolais Association, was appointed General Manager of LK Ranches and Mr. Dennis McGivern, formerly Market Analyst, Canadian Cattlemen's Association, was appointed Market Research Analyst for LK Resources Ltd.





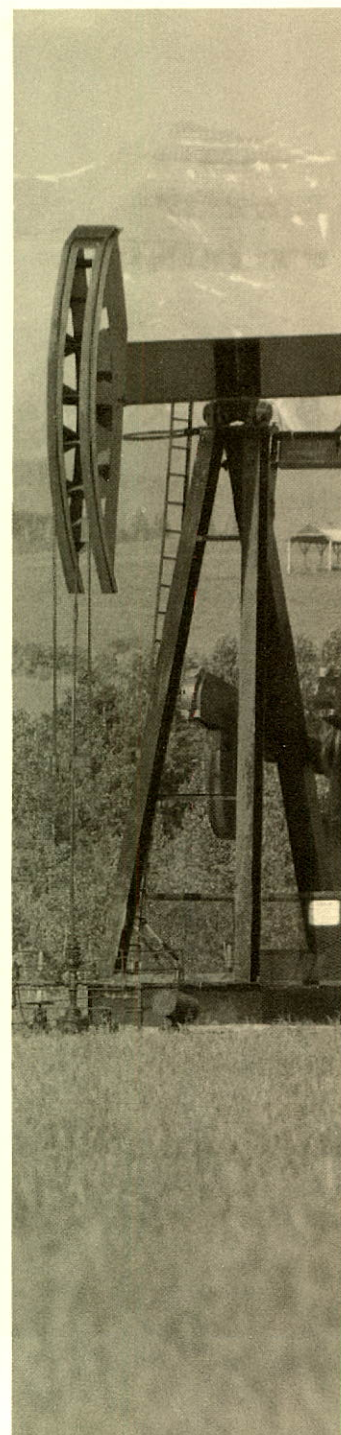
## Energy Related Operations

### Geophysical Activity

The geophysical industry in 1983 continued to struggle in an environment characterized by too little work and too many crews available other than during the winter months. As a result profit margins were severely reduced if not eliminated making it difficult to generate consistent profits.

These conditions were particularly evident in the United States where Silver State Seismograph Services Inc. had a difficult year. That company's financial results were adversely affected by poor weather conditions which made it impossible to get the work done even when their crews were under contract. In western Canada business activity in the geophysical industry was somewhat healthier partially due to Alberta Government incentives to the oil industry to undertake seismic work.

Beaver Geophysical Services had a very active winter season of 1982-1983 with all crews under contract throughout the period. They also enjoyed a greater volume of work during the summer of 1983 due to increased exploration activity in Saskatchewan. While competition reduced profit margins, Beaver experienced a profitable year's operations.



In January of 1983 Beaver suffered the loss of its Vice-President, Dale G. D'Arcy. He had provided leadership and direction to Beaver for over 20 years and was well known throughout the industry. While his contributions to the operation have been missed, the remaining management has done an admirable job of operating this division.

The geophysical industry, like many others in today's business environment, is becoming increasingly "high tech" oriented. There are new energy sources being utilized other than dynamite and the demand for higher frequency recording equipment is increasing. In addition many contracts now require that data interpretation be provided by the contractor collecting the data. These trends will substantially change the nature of this business over the next few years and are not being overlooked by Beaver and Silver State.



## Oil and Gas

LK Oil & Gas Ltd. completed its second full year of operation in 1983 and continued its above average performance. Revenue from oil and gas sales, as well as royalty income increased to \$1,557,000 from \$595,000 the previous year. After providing for all overhead and other expenses the company showed a profit of \$60,800. These results underline LKOG's progress towards becoming financially self sufficient after only two years of operation.

LKOG's current emphasis is on drilling for NORP oil in western Canada, primarily areas of Alberta and Saskatchewan where drilling depths are generally less than 5,000 feet. The company believes the economics associated with these oil prospects are enhanced by the higher net backs on NORP oil, Alberta drilling grants and royalty rebates and other benefits such as the royalty free incentive periods under current Alberta and Saskatchewan regulations. LKOG has a Canadian Ownership Rating sufficient to entitle it to the highest level of Petroleum Incentive Payments which also contributes to the attractiveness of these Canadian prospects.

During fiscal 1983 LKOG participated in drilling 16 gross wells (4.5 net) resulting in six gross oil wells (2.2 net) all qualifying for the New Oil Reference Price. Crude oil production during the year increased from 85 barrels per day to 140 barrels per day net to LKOG. Oil reserves similarly increased to 1.2 million net barrels. Independent consultants have estimated these reserves have a present worth of \$13,800,000 discounted at 20 per cent, and in addition, estimate the value of the Company's undeveloped acreage at \$2,450,000.

The Glauconitic Channel Sand Play, sometimes referred to as the River Bed Sandstone Play of southern Alberta, is one of the prime exploration targets that LKOG is aggressively pursuing. Drilling costs are relatively low and reserves per acre are often higher due to the favourable reservoir characteristics of the sand and thick pay sections. The Grand Forks pool exhibits these characteristics as does the Taber North pool. LKOG holds 2,932 net acres on prospects in this area with drilling to be carried out in the winter of 1983-84.

For the past year the company has been participating in the acquisition of petroleum and natural gas rights on geologically defined prospects on the Mississippian play in southeastern Saskatchewan. Drilling has commenced on certain of these prospects.

The company has also participated in the acquisition of petroleum and natural gas rights on geophysically defined prospects in the Evi-Red Earth area of north central Alberta. The first well drilled on these lands in March 1983 resulted in an oil discovery which is presently being production tested by the operator. Detailed seismic work carried out this winter should lead to the drilling of one or more additional wells before spring. The company had 1,186 net acres at year end in this area.

LKOG has emphasized early cash flow opportunities through exploration drilling since its inception. It is the policy of LKOG to participate in costs between 25 per cent and 50 per cent dependent on estimated well costs and estimated risks. To pursue the corporate strategies described above, LKOG entered into an exploration joint venture agreement effective July 1, 1983 with Onexco Oil & Gas Ltd., a

subsidiary of the Ontario Energy Corporation. The Joint Venture Program is supervised by a management committee comprised of LKOG and Onexco personnel.

The agreement provides that Onexco will contribute a minimum \$3 million per year to the Joint Venture for each of three years to a total of \$9 million. LKOG contributes a minimum 20 per cent to a maximum 50 per cent of the total joint venture costs of acquiring oil and gas rights and the drilling costs of the initial well on Joint Venture prospects generated by LKOG. LKOG retains 36 per cent to 60 per cent of the net revenues depending upon its annual participation in the Joint Venture.

As a result of the Joint Venture Agreement LKOG is being exposed to many interesting exploration prospects generated by other companies. Management is confident that its current projections of success will be achieved.





## LK Resources Financial Review

The results for the fiscal year ending September 30, 1983 maintained the trend of the last quarter of fiscal 1982 with unsatisfactory profit performance. Gross revenues decreased 16 per cent to \$163,264,000 while funds applied to operations increased over 400 per cent to \$4,518,000.

The current economic conditions in Alberta affected all segments of the Company's operations negatively. While the high interest rates continued to affect the sales level of Cee-Der Log Buildings, the geophysical industry found itself with increased competition for very few jobs causing reduced profit margins. In addition, the Agribusiness segment suffered financially due to weak consumer demand and an oversupply in the slaughter and processing industry. The poor performance in this segment of the cattle industry also impacted on the cattle production and feeding business causing losses in these activities.

In order to improve its working capital position, the Company will continue to review overhead and operating costs and, in addition, has identified various corporate assets which are not considered necessary to the Company's long range plans and are being offered for sale.



The Company is also renegotiating a term bank loan and certain operating loans with its major banker whereby it has been proposed that approximately \$17 million would be converted to an income debenture. The creation of the income debenture will have the immediate effect of establishing a positive working capital position and in addition should improve overall 1984 operating results due to reduced interest rates by at least \$800,000 annually.

One of the Company's major objectives during 1984 will be to substantially reduce its long term debt obligations which will help to strengthen the overall financial position and improve operating results.

The preliminary 1984 first quarter operating results indicate a loss before income taxes and extraordinary items of \$707,000 compared to a loss before income taxes and extraordinary items of \$3,048,000 for the first quarter of 1983. Management believes that this trend for improvement in operating results will continue throughout fiscal 1984 causing a sustained turnaround from 1983.



Notwithstanding the current years operating losses the Company continues to possess a solid asset base with estimated market values of land, oil and gas reserves, and other assets exceeding their net book values by more than \$20 million.

During 1983 the Company incurred significant consolidated accounting losses which have, for income tax purposes, been accumulated in the form of timing differences. Management believes there is a reasonable assurance that sufficient accounting income will be generated in the 1984 fiscal year and accordingly the Company has recorded a \$3,321,000 recovery of deferred income taxes for the 1983 fiscal year.

The Company's working capital position continued to deteriorate during 1983 resulting in a working capital deficiency of \$3,286,000 by the end of the year. Capital expenditures for the year amounted to \$2,030,000 compared to \$8,195,000 from the previous year and although there was a substantial reduction in capital expenditures, the combination of increased consolidated operating losses and decreased borrowing of long term debt more than offset the cash flow benefits generated from this reduction.

Comparative Results by Operating Divisions (Thousands of dollars)						
	Gross Revenue		Operating Cash Flow		Operating Profit	
	1983	1982	1983	1982	1983	1982
Natural Resource Services	\$ 10,492	10,032	1,263	1,836	607	1,146
Oil and Gas	1,557	595	754	358	412	149
Agribusiness Beef Production	151,215	184,178	496	4,500	(1,100)	3,186
	<u>\$163,264</u>	<u>194,805</u>	<u>2,513</u>	<u>6,694</u>	<u>(81)</u>	<u>4,481</u>
Interest expense					5,542	5,853
General corporate expense					732	679
Amortization					159	123
Income Taxes					(3,321)	(1,557)
Minority interest					17	(61)
Extraordinary items					927	—
Discontinued Operations					957	1,189
					<u>5,013</u>	<u>6,226</u>
Net Loss					<u>\$5,094</u>	<u>1,745</u>

For further details of results of operations by divisions please refer to Note 8 in the financial statements.

Direct expenses decreased in 1983 by 15 per cent to \$160,751,000; however, direct expense as a percentage of sales actually increased during the year to 98.5 per cent compared to 96.5 per cent for the previous year, yielding further evidence of pressure on profit margins throughout the Company. Interest expense in 1983 decreased five per cent to \$5,542,000 mainly due to an easing of

the high rates of interest experienced during 1982. The Company continued to carry a heavy debt load during the year which was substantially unchanged from 1982.

Depreciation, depletion and amortization increased in 1983 by 18 per cent to \$2,753,000 principally as a result of the increased depletion provisions on the higher commercial production of the oil and gas division.

The loss from discontinued operations of \$957,000 in the current fiscal year is the result of the Consumer Services operations comprised of the Cee-Der Log and Lathom Concrete businesses. The Company has determined that these businesses will not meet long term corporate goals and has accordingly entered into negotiations to sell the Cee-Der Log assets and substantially curtail the Lathom operation.



L.K. RESOURCES LTD.

# Consolidated Balance Sheet

September 30, 1983

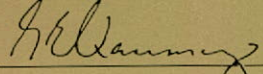
## Assets

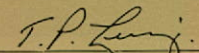
	1983	1982
Current assets:		
Accounts receivable .....	\$10,983,000	15,111,000
Due from Receiver General .....	—	131,000
Inventories, at lower of cost and net realizable value .....	7,905,000	11,897,000
Prepaid expenses .....	164,000	214,000
	<u>19,052,000</u>	<u>27,353,000</u>
Assets held for resale (Note 2) .....	1,757,000	3,599,000
Fixed assets, less accumulated depreciation, depletion, and amortization (Note 3) .....	39,254,000	39,934,000
Other assets (Note 4) .....	7,964,000	8,435,000
	<u>\$68,027,000</u>	<u>79,321,000</u>

## Liabilities

	1983	1982
Current liabilities:		
Due to bank (Note 5):		
Bank overdraft .....	\$ 1,779,000	2,894,000
Bank loans .....	12,901,000	15,627,000
Accounts payable and accrued liabilities .....	5,663,000	7,401,000
Current portion of long-term debt .....	1,995,000	1,641,000
	<u>22,338,000</u>	<u>27,563,000</u>
Long-term debt, net of current portion (Note 5) .....	29,295,000	26,806,000
Deferred income taxes .....	331,000	3,326,000
Minority interest .....	17,000	—
Shareholders' equity:		
Share capital (Note 6) .....	7,543,000	7,869,000
Contributed surplus .....	352,000	352,000
Appraisal surplus .....	12,675,000	12,675,000
Retained earnings (deficit) .....	(4,062,000)	1,192,000
	<u>16,508,000</u>	<u>22,088,000</u>
Less: Shares held for employee stock purchase plan .....	(462,000)	(462,000)
	<u>16,046,000</u>	<u>21,626,000</u>
Contingency (Note 5)		
	<u>\$68,027,000</u>	<u>79,321,000</u>

On behalf of the Board:

, Director

, Director

See accompanying notes.



L.K. RESOURCES LTD.

# Consolidated Statement of Income and Deficit

Year ended September 30, 1983

	1983	1982
Sales .....	\$163,264,000	194,805,000
Expenses:		
Direct .....	160,751,000	188,111,000
General and administrative .....	732,000	679,000
Interest — long-term .....	3,902,000	3,544,000
— other .....	1,640,000	2,309,000
Depreciation, depletion, and amortization .....	2,753,000	2,336,000
	<u>169,778,000</u>	<u>196,979,000</u>
Loss from continuing operations .....	6,514,000	2,174,000
Loss from discontinued operations (Note 8) .....	<u>957,000</u>	<u>1,189,000</u>
Loss before income taxes, minority interest, and extraordinary items .....	7,471,000	3,363,000
Income taxes:		
Current .....	—	116,000
Deferred (recovered) .....	<u>(3,321,000)</u>	<u>(1,673,000)</u>
	<u>(3,321,000)</u>	<u>(1,557,000)</u>
Loss before minority interest and extraordinary items .....	4,150,000	1,806,000
Minority interest .....	<u>17,000</u>	<u>(61,000)</u>
Loss before extraordinary items .....	4,167,000	1,745,000
Extraordinary items (Note 10) .....	<u>927,000</u>	<u>—</u>
Net loss .....	5,094,000	1,745,000
Retained earnings, beginning of year .....	1,192,000	3,257,000
Preferred share dividends .....	<u>(160,000)</u>	<u>(320,000)</u>
Retained earnings (deficit), end of year .....	<u>\$ (4,062,000)</u>	<u>1,192,000</u>
Loss per share:		
Before extraordinary items .....	\$ (.90)	(0.42)
Extraordinary items .....	<u>(.18)</u>	<u>—</u>
Net loss .....	<u><u>\$(1.08)</u></u>	<u><u>(0.42)</u></u>

See accompanying notes.



L.K. RESOURCES LTD.

# Consolidated Statement of Changes in Financial Position

Year ended September 30, 1983

	<u>1983</u>	<u>1982</u>
Funds provided:		
Proceeds on disposal of fixed assets .....	\$ 1,657,000	1,259,000
Proceeds on issue of long-term debt .....	4,200,000	9,056,000
Proceeds on issue of share capital .....	84,000	—
Decrease in other assets .....	181,000	263,000
Total funds provided .....	<u>6,122,000</u>	<u>10,578,000</u>
Funds applied:		
Loss from operations .....	4,167,000	1,745,000
Add (deduct) non-fund items .....	351,000	(856,000)
Funds applied to operations .....	<u>4,518,000</u>	<u>889,000</u>
Purchase of fixed assets .....	2,030,000	8,195,000
Reduction of long-term debt .....	1,711,000	5,546,000
Preferred share redemption .....	410,000	—
Increase in other assets .....	369,000	669,000
Preferred share dividends .....	160,000	320,000
Total funds applied .....	<u>9,198,000</u>	<u>15,619,000</u>
Decrease in working capital .....	<u>3,076,000</u>	<u>5,041,000</u>
Working capital (deficiency), beginning of year .....	<u>(210,000)</u>	<u>4,831,000</u>
Working capital (deficiency), end of year .....	<u>\$ (3,286,000)</u>	<u>(210,000)</u>

See accompanying notes.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of L.K. Resources Ltd. as at September 30, 1983 and the consolidated statements of income and 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1983 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, Canada  
January 20, 1984

Peat, Marwick, Mitchell & Co.  
Chartered Accountants



# Notes to the Consolidated Financial Statements

September 30, 1983

## 1. Significant accounting policies:

### (a) Principles of consolidation

The consolidated financial statements include the accounts of L.K. Resources Ltd., its subsidiaries, and the Company's proportionate share of the accounts of a 50% owned corporate joint venture.

### (b) Depreciation and amortization

Depreciation is provided on the straight-line method using the following rates which are designed to depreciate or amortize the assets over their estimated useful lives:

<u>Assets</u>	<u>Rate</u>
Buildings	2½ - 10%
Vehicles and moveable equipment	10 - 30%
Machinery, equipment, furniture, and fixtures	10 - 20%
Fences, wells, and dugouts	5 - 10%

Financing costs are being amortized on the straight-line method over a five-year period which commenced in 1980.

### (c) Foreign exchange

Accounts of the United States subsidiaries have been translated to Canadian funds on the following basis:

Current assets and current liabilities at the exchange rate on September 30, 1983.

Other assets and liabilities at the rate of exchange prevailing when acquired or incurred.

Revenue and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets) at the average rate of exchange for the year. Translation gains and losses are included in the consolidated statement of income.

### (d) Goodwill

Goodwill is being amortized on a straight-line basis over thirty years.

### (e) Appraisal surplus

In 1979, a predecessor company obtained a \$10,000,000 loan secured by lands. Certain of the lands securing this loan had an appraised value of \$17,634,000. Accordingly, the Board of Directors approved the recording of the excess of the appraisal value over the previous carrying value which amounted to \$16,575,000 on which a provision for income taxes of \$3,900,000 has been provided and credited to deferred income taxes. The appraisal value of the lands was determined by Floen Appraisals Ltd., as of March 5, 1979; all other lands are carried at cost.

### (f) Oil and gas properties

In 1982 the oil and gas segment of the Company commenced production on a commercial basis and followed the full cost method of accounting for oil and gas properties whereby all costs related to the exploration for and development of oil and gas reserves were capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-productive properties, cost of drilling both productive and unproductive wells and all technical and administrative overhead related with exploration and development. Proceeds received from disposal of properties are normally credited against such costs. Depletion is provided for by the unit of production method based on total estimated proven reserves on a North American cost centre basis.

### (g) Continuation

During 1983, the Company has continued under the Alberta Business Corporations Act.



# Notes to the Consolidated Financial Statements

September 30, 1983

## 1. Significant accounting policies: (continued)

## (h) Comparative figures

Certain comparative figures for 1982 have been reclassified to conform with 1983 presentation.

## (i) Loss per share

Net loss per common share is based on the monthly weighted average number of common shares outstanding and earnings after deduction of preferred share dividends.

## 2. Assets held for resale:

	1983	1982
	(at net realizable value)	(at cost less accumulated depreciation)
Land .....	\$ 433,000	1,123,000
Buildings .....	1,055,000	1,944,000
Other .....	269,000	532,000
	<u>\$1,757,000</u>	<u>3,599,000</u>

## 3. Fixed assets, at cost, except land:

	1983	1982
Land .....	\$18,812,000	18,823,000
Buildings .....	7,481,000	7,692,000
Vehicles .....	1,541,000	1,409,000
Moveable equipment .....	4,066,000	3,914,000
Machinery and equipment .....	7,905,000	7,535,000
Furniture and fixtures .....	422,000	422,000
Land improvements .....	385,000	408,000
Fences, wells, and dugouts .....	707,000	640,000
Oil and gas properties including equipment thereon .....	6,869,000	5,998,000
	<u>48,188,000</u>	<u>46,841,000</u>
Accumulated depreciation, depletion, and amortization .....	<u>8,934,000</u>	<u>6,907,000</u>
	<u>\$39,254,000</u>	<u>39,934,000</u>

## 4. Other assets:

	1983	1982
Notes receivable, net of current portion .....	\$ 315,000	404,000
Goodwill, at cost less accumulated amortization of \$658,000 (1982 - \$410,000) .....	6,793,000	7,041,000
Financing costs, less accumulated amortization of \$383,000 (1982 - \$249,000) .....	295,000	270,000
Other, at cost .....	561,000	720,000
	<u>\$7,964,000</u>	<u>8,435,000</u>



5. Long-term debt:

	1983	1982
11½% first mortgage, payable in monthly instalments including interest of \$105,000, secured by certain lands and premises situated in Alberta, due June 30, 1984 .....	\$ 9,244,000	9,451,000
Term bank loan (see below) .....	10,837,000	7,710,000
Term bank production loan, interest at prime plus 1½% payable from production proceeds and secured by pledges on certain oil and gas properties .....	2,615,000	2,215,000
Term bank loan, interest at prime plus 1½% payable in monthly instalments including interest of \$80,000, secured by mortgage on certain lands, buildings and equipment .....	6,757,000	6,291,000
Term bank loan, interest at prime plus 2%, payable in monthly principal instalments of \$16,000 (U.S. funds), secured by a specific charge on equipment and a floating charge debenture of United States subsidiary .....	757,000	993,000
Agreements for sale, due in three annual instalments commencing September, 1982, interest at 15%, secured by real estate .....	—	544,000
Term bank loan, interest at prime plus 2%, payable over 5 years .....	82,000	119,000
Capital loan, interest at prime plus 1¼%, payable in quarterly instalments of \$16,000 secured by a mortgage on fixed assets and a floating charge on other assets .....	46,000	128,000
Obligations under capital leases .....	552,000	569,000
Other .....	400,000	427,000
	<u>31,290,000</u>	<u>28,447,000</u>
Deduct current portion .....	<u>1,995,000</u>	<u>1,641,000</u>
	<u>\$29,295,000</u>	<u>26,806,000</u>



# Notes to the Consolidated Financial Statements

September 30, 1983

## 5. Long-term debt: (continued)

Over the last two years, the Company has incurred significant net losses and has utilized \$5.5 million in operations. At September 30, 1983 there was a working capital deficiency of \$3,286,000 and the Company was in default under covenants of certain loan agreements.

The ability of the Company to continue as a going concern is dependent on a return to profitable operations and the cooperation of the lenders in restructuring long-term debt. Over the last several months, management has taken a number of steps to improve operating results and is in negotiations with the lenders with a view to restructuring long-term debt. Management is of the opinion that these actions, together with the disposition of certain fixed assets surplus to the Company's requirements, will enable the Company to meet its obligations as they fall due. Accordingly, the financial statements have been prepared using accounting principles appropriate for a going concern.

Subsequent to September 30, 1983, a term bank loan and certain operating loans are being renegotiated with the lenders whereby it has been proposed that \$17,000,000 of these loans, of which approximately \$4,000,000 are operating loans and \$2,000,000 are related to the redemption of preferred shares referred to in Note 6, would be converted to an income debenture due in January, 1989. The debenture would bear interest at 50% of the bank prime rate plus 2½%. Principal repayment would be made by annual instalments equal to 60% of the parent Company's net cash flow as defined in the debenture agreement.

The Company has arranged that the \$9,244,000 mortgage due in 1984 will be refinanced with long-term debt in the usual course of business.

Principal repayments of the Company's long-term debt in each of the next five years, excluding the term bank production loan, have been calculated based on current required obligations and on anticipated obligations under the successful renegotiations of long-term debt as follows:

	Current Obligations	Anticipated Obligations
1984 .....	\$1,995,000	1,011,000
1985 .....	4,842,000	1,308,000
1986 .....	1,722,000	1,678,000
1987 .....	1,517,000	2,910,000
1988 .....	1,442,000	2,725,000

All bank indebtedness is secured by general assignments of book debts and a pledge of inventories. In addition, fixed and floating charge debentures, aggregating \$43,100,000, have been issued as additional security of which \$26,100,000 is secured by a second specific charge against certain lands, buildings, and equipment, subject to permitted encumbrances. The Company's present revolving lines of credit aggregate \$14,800,000.

## 6. Share capital:

	1983	1982
First Preferred Shares without nominal or par value. Authorized 200,000 shares; issued:		
16,414 (1982 - 20,517) 8.75% Cumulative Redeemable Preferred Shares Series "A" .....	\$1,641,000	2,051,000
20,000 7% Cumulative Redeemable Convertible First Preferred Shares Series "B" .....	2,000,000	2,000,000
Class "A" Special Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,471,172 shares .....	1,850,000	1,850,000
Class "B" Common Shares without nominal or par value. Authorized 10,000,000 shares; issued 2,542,672 shares (1982 - 2,496,172) .....	2,052,000	1,968,000
	<u>\$7,543,000</u>	<u>7,869,000</u>



6. Share capital: (continued)

The 8.75% Series "A" Preferred Shares are redeemable at a minimum of \$410,000 annually. Any redemption in excess of this minimum can be done at any time at the option of the Company. The 7% Series "B" Preferred Shares are redeemable on October 1, 1986 and are convertible at any time prior to September 30, 1986 into an equal number of Class "A" Special Shares and Class "B" Common Shares at a conversion price of \$4.50 per Class "A" Special and \$4.50 per Class "B" Common Share. The preferred share dividends, due April 1, 1983 and October 1, 1983, aggregating \$284,000 have not yet been paid.

The Series "A" and "B" Preferred Shares and the rights and conditions thereunder are secured by the issue of a \$2,000,000 bank letter of credit. The letter of credit firstly secures the redemption of the Series "A" Preferred Shares and so long as the Series "B" Preferred Shares have not been converted or redeemed, the letter of credit shall be continued from year to year until the Series "B" Preferred Shares have been converted.

Subsequent to September 30, 1983 the holders of the Series "A" and "B" Preferred Shares called the letter of credit referred to above. Consequently \$1,641,000 of Series "B" preferred shares due October 1, 1986 remain outstanding.

The Class "B" Common Shares are non-voting, except in special circumstances, but in all other aspects rank *pari passu* with the Class "A" Special Shares.

During the year, the Company issued 46,500 Class "B" Common Shares at \$1.81 per share in partial consideration of the payment of certain obligations under agreements for sale.

Under the Employee Stock Purchase Plan the Company has authorized 75,000 Class "A" Special Shares and 175,000 Class "B" Common Shares. Total shares issued and outstanding under the purchase plan aggregate 66,000 Class "A" Special Shares and 91,000 Class "B" Common Shares at September 30, 1983.

Under the Employee Stock Option Plan the Company has authorized 75,000 Class "A" Special Shares and 175,000 Class "B" Common Shares. Options on 2,000 Class "A" Special Shares and 2,000 Class "B" Common Shares were cancelled during the year. The options are exercisable at 20% per year on a cumulative basis and are for a term of six years. Total shares reserved under the option plan aggregate 49,250 Class "A" Special Shares and 91,250 Class "B" Common Shares at September 30, 1983.

The Company has also reserved 222,222 Class "A" Special Shares and 222,222 Class "B" Common Shares for conversion of the 7% First Preferred Convertible Shares.

7. Income taxes:

Income taxes recovered differ from the amount that would have been expected if the reported pre-tax loss was subject to the combined Federal and Provincial tax rates for the year. The principal reasons for the difference between such "expected" income tax recovery and the amount actually recovered are as follows:

Computed "expected" income tax recovery .....	\$(3,646,000)
Add (deduct):	
Amortization of goodwill .....	122,000
Inventory allowance .....	(67,000)
Non-deductible depreciation .....	42,000
Provincial royalties and taxes .....	51,000
Resource allowance .....	(108,000)
Manufacturing and processing credit .....	269,000
Other .....	16,000
	<u>\$(3,321,000)</u>



L.K. RESOURCES LTD.

# Notes to the Consolidated Financial Statements

September 30, 1983

## 8. Segmented information:

The Company has operated primarily in four industries: agribusiness beef production, comprised of the integrated operation of raising, feeding, and slaughtering cattle along with feed and grain production; natural resource services, comprised of field seismic service to the petroleum industry; oil and gas exploration and production; and consumer services comprised of the pre-fabrication and manufacturing of cedar log structures and distribution of gravel aggregates.

Subsequent to September 30, 1983, the Company has accepted an offer to sell the assets of the cedar log manufacturing division to key employees of that division. The sale will be completed when satisfactory financial arrangements have been made. In addition, during the year, the gravel aggregate distribution operation was substantially curtailed. The Company will therefore continue to operate primarily in three industries.

The Company carries on operations in the United States in natural resource service and oil and gas exploration and production; however, this geographic segment is not significant to the Company's total operations.

	1983			
	Natural Resource Services	Oil & Gas	Agribusiness Beef Production	Consolidated
Sales .....	<u>10,492,000</u>	<u>1,557,000</u>	<u>151,215,000</u>	<u>163,264,000</u>
Operating profits .....	<u>607,000</u>	<u>412,000</u>	<u>(1,100,000)</u>	<u>(81,000)</u>
Direct corporate expenses:				
Interest expense:				
Long-term .....				3,902,000
Other .....				1,640,000
General corporate expense .....				732,000
Amortization .....				159,000
				<u>6,433,000</u>
Loss from continuing operations ...				<u>6,514,000</u>
Identifiable assets .....	<u>5,167,000</u>	<u>8,080,000</u>	<u>49,189,000</u>	<u>62,436,000</u>
Corporate assets .....				<u>5,591,000</u>
Total assets .....				<u>68,027,000</u>
Capital expenditures .....	<u>270,000</u>	<u>805,000</u>	<u>875,000</u>	<u>1,950,000</u>
Corporate capital expenditures .....				<u>80,000</u>
Total capital expenditures .....				<u>2,030,000</u>
Depreciation and depletion .....	<u>656,000</u>	<u>342,000</u>	<u>1,372,000</u>	<u>2,370,000</u>
Amortization .....			<u>224,000</u>	<u>383,000</u>
Total depreciation, depletion, and amortization .....				<u>2,753,000</u>



8. Segmented information: (continued)

	1982			
	Natural Resource Services	Oil & Gas	Agribusiness Beef Production	Consolidated
Sales .....	10,032,000	595,000	184,178,000	194,805,000
Operating profits .....	1,146,000	149,000	3,186,000	4,481,000
Direct corporate expenses:				
Interest expense:				
Long-term .....				3,544,000
Other .....				2,309,000
General corporate expense .....				679,000
Amortization .....				123,000
				6,655,000
Loss from continuing operations ...				2,174,000
Identifiable assets .....	5,507,000	7,392,000	57,509,000	70,408,000
Corporate assets .....				8,913,000
Total assets .....				79,321,000
Capital expenditures .....	361,000	2,843,000	4,595,000	7,799,000
Corporate capital expenditures .....				396,000
Total capital expenditures .....				8,195,000
Depreciation and depletion .....	690,000	209,000	1,089,000	1,988,000
Amortization .....			225,000	348,000
Total depreciation, depletion, and amortization .....				2,336,000

9. Remuneration of directors and officers:

The aggregate direct remuneration paid to directors and senior officers during the year was \$426,000 (1982 - \$523,000).

10. Extraordinary items:

Gain on sale of ranch lands (net of deferred income taxes of \$247,000) .....	\$1,103,000
Provision for write-down of fixed assets held for resale .....	(1,650,000)
Provision for write-down of other assets .....	(300,000)
Deferred income tax provision on loss of tax benefit of loss carry forward .....	(80,000)
	<u>\$ (927,000)</u>

11. Subsidization plan:

During 1982, the Government of the Province of Alberta announced a livestock subsidization plan for cattle producers which was based upon cattle marketings during 1980 and 1981. Based upon the guidelines as set forth by the Government, the Company received \$920,000 in the 1982 year and recorded that amount in Sales.



## Corporate Information

### Officers

Neil A. McKinnon  
Chairman of the Board  
Gerald E. Kaumeyer  
Vice Chairman and Chief  
Executive Officer

Donald J. Douglas  
President and Chief  
Operating Officer

T. Peter Luzi  
Senior Vice-President

G. David Michaels  
Secretary/Treasurer

Issie Elman  
Controller

### Directors

John K. Church  
Balzac, Alberta  
Farmer

Donald J. Douglas  
Calgary, Alberta  
President and Chief  
Operating Officer  
LK Resources Ltd.

Gerald E. Kaumeyer  
Calgary, Alberta  
Vice Chairman and Chief  
Executive Officer  
LK Resources Ltd.

T. Peter Luzi  
Calgary, Alberta  
Senior Vice-President  
LK Resources Ltd.

Neil A. McKinnon  
Bassano, Alberta  
Chairman of the Board

Russell L. McKinnon  
Calgary, Alberta  
Barrister & Solicitor  
MacKimmie Matthews

Purvis J. Paulgaard  
Provost, Alberta  
Rancher & Farmer

V. Kenneth Travis  
Calgary, Alberta  
President, Liberty  
Holdings & Industries Ltd.

### Head Office

L.K. Resources Ltd.  
#790 - 10655 Southport  
Rd. S.W.  
Calgary, Alberta T2W 4Y1  
(403) 278-9972

### Auditors

Peat, Marwick, Mitchell  
& Co.  
#2500, 700 - 2 Street S.W.  
Calgary, Alberta

### Solicitors

McLaws & Company  
6th Floor,  
407 - 8 Avenue S.W.  
Calgary, Alberta

Stephen W. Shambaugh  
#600,  
1325 South Colorado Blvd.  
Denver, Colorado

### Banks

Canadian Commercial Bank  
Calgary, Alberta  
First Interstate Bank of  
Denver N.A.  
Denver, Colorado

### Registrars & Transfer Agents

The Canada Trust Company  
505 - 3 Street S.W.  
Calgary, Alberta T2P 3E6  
The Canada Trust Company  
110 Yonge Street  
Toronto, Ontario M5C 1T4

### Stock Exchanges

Alberta Stock Exchange  
Calgary, Alberta  
(LKR)  
Toronto Stock Exchange  
Toronto, Ontario  
(LKR)

### Subsidiaries and Divisions

BEAVER GEOPHYSICAL  
SERVICES  
4520 - 12 Street N.E.  
Calgary, Alberta T2E 4R2  
(403) 276-8195

CEE-DER LOG  
BUILDINGS  
4100 - 6a Street N.E.  
Calgary, Alberta T2E 4B1  
(403) 277-8501

L.K. OIL & GAS LTD.  
#770 - 10655 Southport  
Rd. S.W.  
Calgary, Alberta T2W 4Y1  
(403) 278-9421

LK RANCHES  
Bassano, Alberta T0J 0B0  
(403) 641-3500

MONTAGNE MEATS  
4240 - 75 Avenue S.E.  
Calgary, Alberta T2C 2H8  
(403) 236-2424

SILVER STATE  
SEISMOGRAPH  
SERVICES INC.  
Suite 5N, 7100 Broadway  
Denver, Colorado 80221  
(303) 428-1660

XL BEEF  
5101 - 11 Street S.E.  
Calgary, Alberta T2H 1M7  
(403) 243-6280  
2825 Bonnybrook Rd.  
Calgary, Alberta T2G 4N1  
(403) 294-1300

XL FEEDS LTD.  
Bassano, Alberta T0J 0B0  
(403) 472-3500









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