Voyager Petroleums Ltd. Annual Report 1971

Year ended March 31, 1972

Highlights

	1972	1971
Financial		
Gross income	**$1,289,343**	$1,019,118
Cash flow	**$ 951,547**	$ 816,741
per share	**30.8c**	26.5c
Operating income	**$ 451,469**	$ 291,460
per share	**14.6c**	9.5c
Non-recurring gains	**$ —**	$ 6,394
per share	**—**	0.2c
Net income	**$ 451,469**	$ 297,854
per share	**14.6c**	9.7c
Capital expenditures	**$2,432,381**	$2,150,266
Working capital - March 31	**$1,918,950**	$2,602,447
Shareholders' equity - March 31	**$7,325,972**	$6,861,819
Shares outstanding - March 31	**3,090,200**	3,086,000
Shares outstanding 12-month weighted average	**3,087,367**	—
Number of registered shareholders - March 31	**1,656**	1,565
Operating		
Natural gas sales - mcf	**4,150,503**	732,185
daily average	**11,371**	5,966
Crude oil sales - barrels	**167,411**	231,960
daily average	**459**	636
Proven developed oil, condensate and natural gas reserves - net equivalent barrels	**9,476,000**	5,232,000
Exploratory wells drilled	**51**	17
successfully completed	**19**	8
Development wells drilled	**1**	10
successfully completed	**—**	5
Seismic survey miles completed	**2,430**	345
Land holdings - March 31		
gross acres	**11,874,277**	11,313,136
net acres	**4,514,661**	4,812,623
Number of employees - March 31	**19**	18

The Annual Meeting of Shareholders will be held in the Auditorium, 2nd Floor Aquitaine Tower, 540 Fifth Avenue South West, Calgary, Alberta, on Tuesday, August 22, 1972 at 2:30 p.m.

Cover

Artist's impression of semi-submersible rig to be used in future Company drilling operations in the Celtic Sea.

WATERCOLOR BY R. A. SAUNDERS.

The President's Report

TO THE SHAREHOLDERS

As the statistical summaries to the left indicate, Voyager Petroleums Ltd. again had a very good year. A 91% increase in gas production rate raised cash flow close to the $1,000,000 mark, for a 16% improvement; and net operating income rose 55%, to more than $450,000. Hydrocarbon reserves were up 81%, approaching a total of 9,500,000 equivalent barrels of oil, after allowance for production.

The 52 wells drilled during the year approximately equalled all previous drilling carried out by the Company, and the success ratio was better than one in three. Seismic survey line mileage completed during the 12-month period was up more than 600%. We uncovered an excellent new source of gas production at Holden, in east-central Alberta, where nine of the first twelve wells drilled were successful. Results in that program since the year-end have been even better.

Our gas was sold at higher prices than in the previous year, and the outlook is for further improvement, both near and long term. We started construction of two more gas plants, which are scheduled to be completed and on stream during August, to process newly developed production selling at 24% more than the average price we received in the 1970-71 fiscal year.

In 1971, Voyager extended its operations to include participation in oil and gas exploration on the continental shelf surrounding the United Kingdom, obtaining an interest in a production licence in the Celtic Sea, off Wales, and representation in ten others in the North Sea through ownership of 7.8% of the shares of Sea Search Limited, a British company active in operations in that theatre. Gas was recently discovered on one of those blocks.

Oil and gas discoveries by other companies on the northern Canadian mainland to the south of the Beaufort Sea, in the Canadian Arctic Islands and off Canada's east coast enhanced the prospective values of our holdings in those areas.

The current year's operations are expected to produce an improvement in Voyager's position and results at least equivalent to that accomplished during the past year, particularly in view of the fact that presently contracted gas reserves are more than triple what they were at March 31, 1971.

President

Calgary, Alberta
July 12, 1972

Review of Operations and Holdings

GENERAL

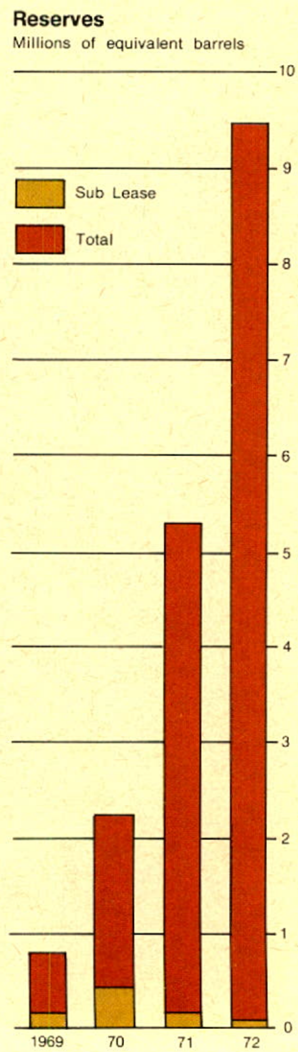
During the year ended March 31, 1972, Voyager's field operations were again directed mainly toward expansion of reserves in the gas producing area of east-central Alberta where the Company drilled or participated in the drilling of 46 wells in an overall program of 52 wells, only one less than the cumulative total of prior years. Aggregate drilled footage was 171,734 feet. Nineteen new gas wells were completed on lands owned or partially owned by Voyager, and interests in certain other wells were purchased during the year. At March 31, 1972, the Company owned working interests in 58 wells producing or capable of production. Expressed in net terms, our holdings at that date were 34.8 productive wells, exclusive of those on properties held under sublease. In addition, Voyager receives cash royalty payments based on production from several wells owned by other companies.

The year's operations increased Voyager's total hydrocarbon reserves by 81.1%, from 5,232,000 to 9,476,000 equivalent barrels of oil, after allowance for production during the period. In this engineering estimate, 15,000 cubic feet of natural gas are taken to be equivalent to one barrel of crude oil. Only proven, developed, recoverable reserves are included. Natural gas reserves at the year-end were 132.1 billion cubic feet, while oil reserves came to 644,500 barrels, including 21,400 under sublease.

The line mileage of seismic surveys conducted by or for Voyager, alone or in association with others, was up from 345 in the year ended March 31, 1971 to 2,430 in the year under review. This included work on the East Grand Banks and Flemish Cap off Newfoundland, in the Beaufort Sea north of the Mackenzie Delta, in the Celtic Sea on the western approaches to Britain, off Fiji in the South Pacific Ocean and in central and east-central Alberta. In addition, the Company participated in the purchase of records obtained from 578 line miles of geophysical work carried out by others.

The Company sold 4,150,503,000 cubic feet of natural gas during the 12-month period, most of it to TransCanada PipeLines Ltd., for an average of 11,371,000 cubic feet per day. Sales from our Plain and Warwick plants started late in the previous fiscal year, and the total to March 31, 1971 was 732,185,000 cubic feet, averaging 5,966,000 cubic feet daily for the period of approximately four months during which sales were made. The increase in the daily average from year to year was 90.6%. With the addition of higher-priced Holden and Wavy Lake gas to our sales volume in the last quarter, average wellhead price to Voyager was up 11%, from 14.5 cents to 16.1 cents per thousand cubic feet.

Crude oil sales, including 149,493 barrels of subleased production, were 167,411 barrels, averaging 459 barrels per day, as against a total of 231,960 barrels (including 205,742 under sublease) and a daily average of 636 barrels last year.



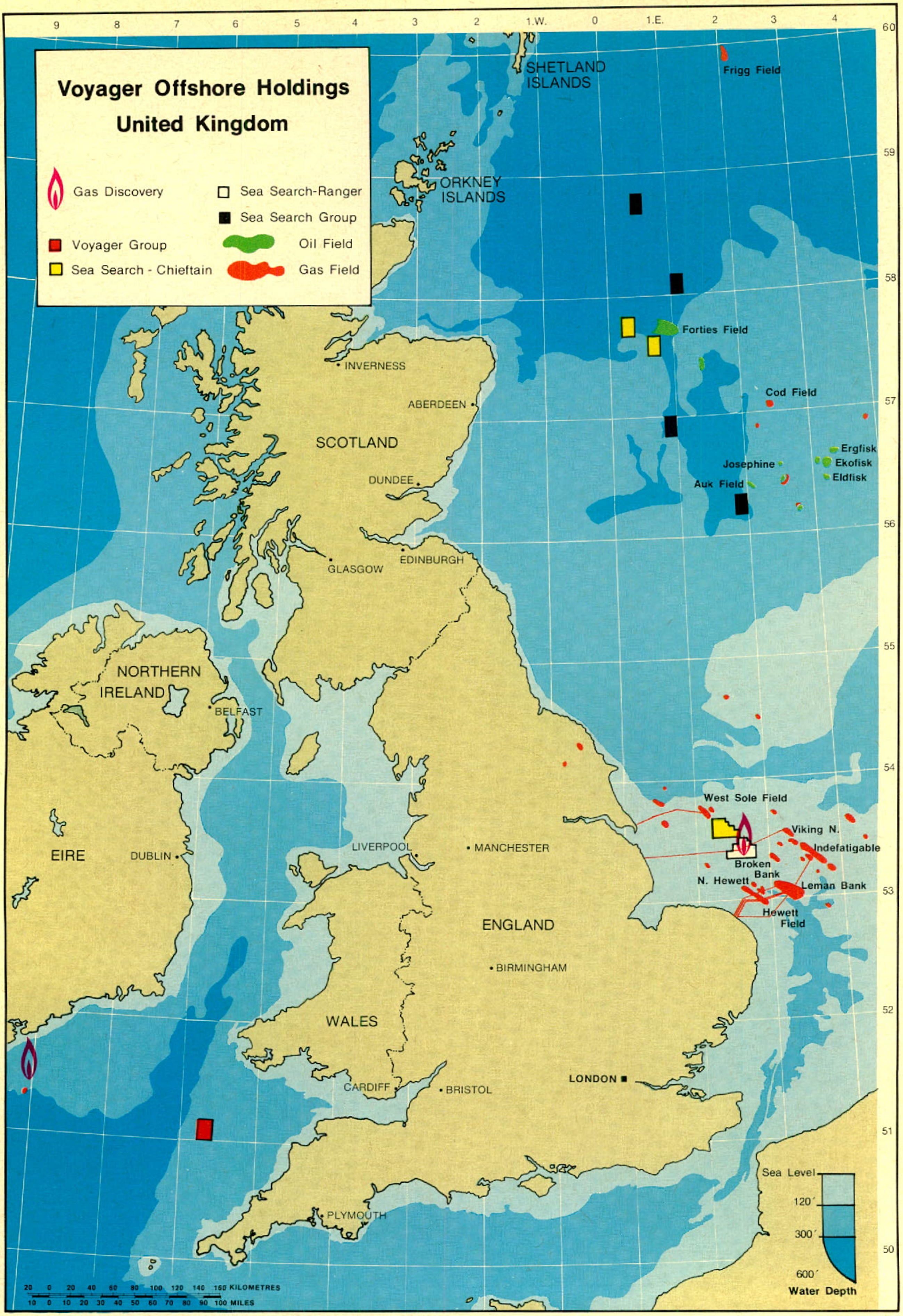
Acquisitions and dispositions altered Voyager's landspread considerably during the year, with the overall effect of increasing gross holdings from 11,313,136 to 11,874,277 acres and decreasing net acreage from 4,812,623 to 4,514,661. Sizeable additions were made in east-central and north-western Alberta, in the Celtic Sea and off Fiji, while the main reductions were in the Arctic Ocean to the northwest of Ellef Ringnes Island, in the Foxe Basin to the north of Hudson Bay and in the Gulf of St. Lawrence to the west of Newfoundland. Land holdings at March 31, 1972 and a year earlier are compared in the accompanying table.

Oil and Gas Rights Held / Acreage at March 31

	1972		1971	
	Gross	**Net**	Gross	Net
NORTHERN CANADA				
Arctic Islands - offshore	**3,500,947**	**620,560**	4,383,358	1,109,545
Baffin Island - offshore	**1,158,884**	**289,721**	1,158,884	289,721
Beaufort Sea - offshore	**1,151,487**	**463,511**	1,151,487	463,511
Foxe Basin - offshore	—	—	493,356	123,339
Hudson Bay - offshore	**394,596**	**98,649**	394,596	98,649
Northwest Territories	**153,361**	**14,065**	153,361	12,269
Yukon Territory	**173,707**	**14,951**	173,707	13,896
EASTERN CANADA				
Grand Banks/Flemish Cap - offshore	**2,707,931**	**2,399,270**	3,071,841	2,426,894
Ontario	**649**	**130**	—	—
WESTERN CANADA				
Alberta	**535,467**	**328,675**	241,518	230,492
British Columbia	**56,632**	**9,214**	32,632	8,973
Saskatchewan	**964**	**481**	1,682	897
UNITED STATES OF AMERICA				
Alaska	**6,160**	**308**	—	—
Wyoming	**49,278**	**24,639**	56,714	34,437
UNITED KINGDOM - offshore	**64,214** *	**10,488**	—	—
FIJI - offshore	**1,920,000**	**240,000**	—	—
TOTAL	**11,874,277**	**4,514,661**	11,313,136	4,812,623

* Does not include Voyager's indirect interest in 497,793 gross acres through ownership of 7.8% of the shares of Sea Search Limited.

Excepting acreage held in Ontario, western Canada, the United States of America, the United Kingdom and Fiji, oil and gas rights are held by permits granted by the Crown acting in the right of Canada and confer upon the holder the right to lease petroleum and natural gas rights covering 50% of the permit area.



Voyager Offshore Holdings
United Kingdom
Gas Discovery
Sea Search-Ranger
Sea Search Group
Voyager Group
Oil Field
Sea Search - Chieftain
Gas Field
SHETLAND ISLANDS
ORKNEY ISLANDS
Frigg Field
Forties Field
Cod Field
Ergfisk
Ekofisk
Eldfisk
Josephine
Auk Field
INVERNESS
ABERDEEN
SCOTLAND
DUNDEE
EDINBURGH
GLASGOW
NORTHERN IRELAND
BELFAST
EIRE
DUBLIN
LIVERPOOL
MANCHESTER
West Sole Field
Viking N.
Indefatigable
Broken Bank
N. Hewett
Leman Bank
Hewett Field
ENGLAND
BIRMINGHAM
WALES
CARDIFF
BRISTOL
LONDON
PLYMOUTH
Sea Level
120′
300′
600′
Water Depth
20 0 20 40 60 80 100 120 140 160 KILOMETRES
10 0 10 20 30 40 50 60 70 80 90 100 MILES
9 8 7 6 5 4 3 2 1.W. 0 1.E. 2 3 4
60 59 58 57 56 55 54 53 52 51 50

UNITED KINGDOM

Celtic Sea

In the fourth round of licensing by the British Government, completed in March, 1972, a consortium headed up by Voyager was granted a production license on Celtic Sea Block 103/27. Your Company has a 16.3% interest in this 64,000-acre property located approximately 110 miles west-southwest of Cardiff, Wales. Geophysical work carried out before the acquisition showed an excellent anomaly on the licensed area which is now being further defined by a detailed seismic program. It is anticipated that a well will be drilled on the block at some time during the six-year term of the license. Only three wells have been drilled in the Celtic Basin. The nearest of these to Block 103/27, drilled by Marathon Oil Company in Irish waters 100 miles to the northwest, flowed natural gas at 27,000,000 cubic feet per day late last year.

North Sea

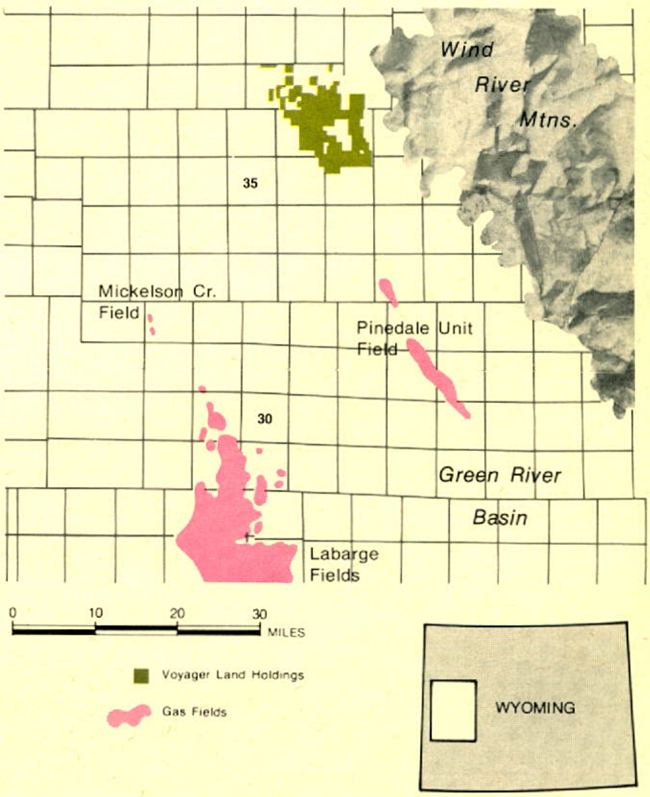
In 1971, with a view to obtaining representation in North Sea oil and gas exploration on as broad a basis as possible, Voyager subscribed for shares in a British public company newly formed to participate as a member of a group applying for production licenses in the fourth round. The share issue of Sea Search Limited, as yet unlisted on any stock exchange, was oversubscribed, but your Company's application for a sizeable block was accepted, and we now own 7.8% of the issued stock.

The Sea Search group, in which Sea Search Limited participates to the extent of 23%, was successful in its applications for licenses, receiving four well-located North Sea blocks, two of which are close to established production in the Forties and Auk oilfields. Earlier, the consortium had obtained a 50% interest in two blocks to the west and southwest of the Forties field purchased by Chieftain Development Co. Ltd. at government auction, one of which is under drilling option to British Petroleum, and two others, bought by Chieftain at the same sale, which are located immediately to the north of a gas discovery made recently by Ranger Oils Limited in the southern sector of the North Sea. Outside the group, Sea Search Limited has a 19.2% share of the block on which the Ranger well was drilled and another one adjoining it. Sea Search and associates plan extensive exploration operations on the North Sea holdings of nearly 500,000 acres in the coming months.

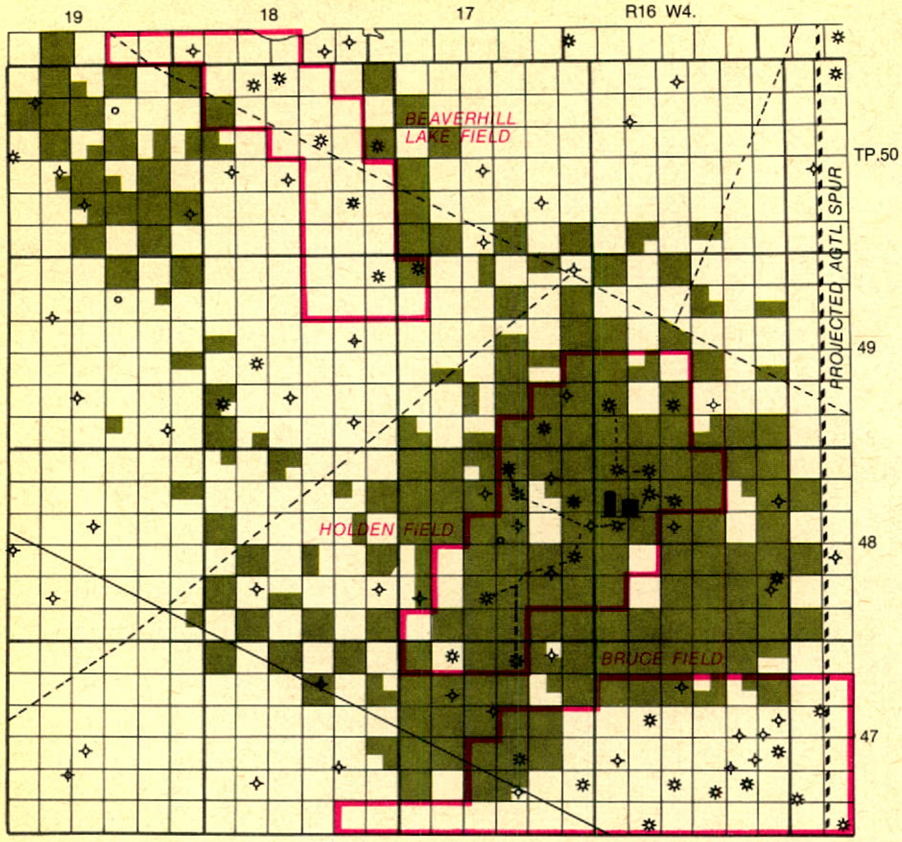
UNITED STATES OF AMERICA

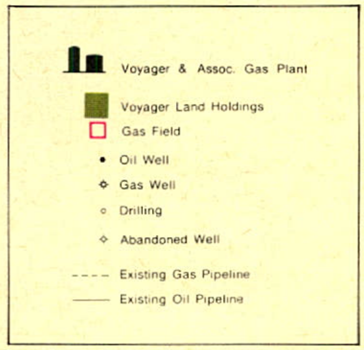
Wyoming

Our wholly-owned United States subsidiary, Voyager Petroleums, Inc., and Continental Oil Company are the owners, in equal shares, of 49,000 acres of oil and gas leases in the Green River Basin of southwestern Wyoming. Conoco, the operator of these properties which are located approximately 15 miles north of the Pinedale gas field, has conducted a series of seismic programs over the lands. Negotiations with a third party, which are expected to result in the drilling of a 12,500-foot test, are now in their final stage, and Voyager shareholders will be given more detailed information about this project in the near future.

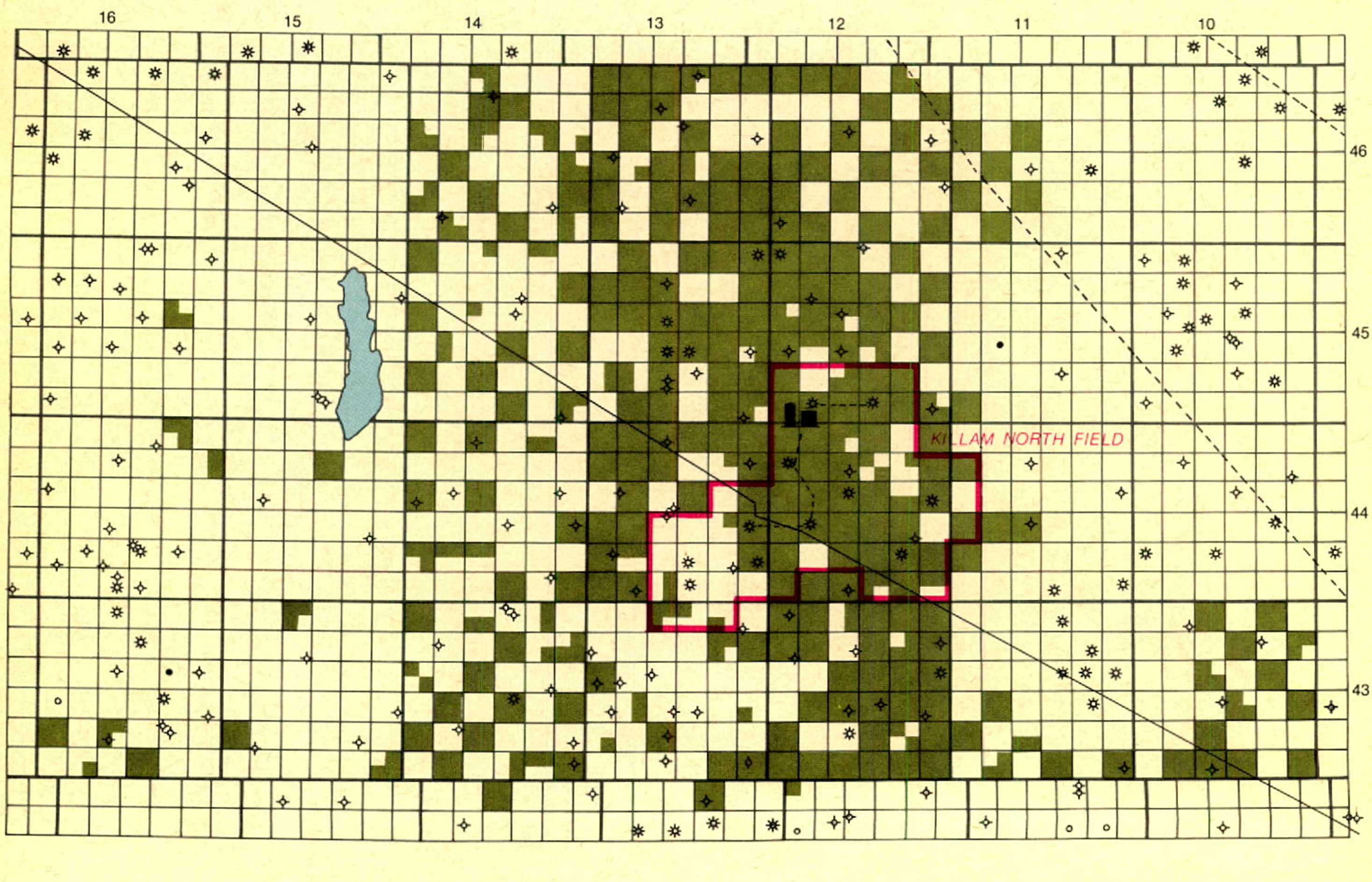


Holden Area - East Central Alberta





Wavy Lake - Killam North, Alberta



WESTERN CANADA

Alberta

In the autumn of 1971, the Company carried out a 12-well exploratory drilling program on a heavy concentration of wholly-owned acreage which it had assembled in an area of approximately nine townships located near Holden, in east-central Alberta, 25 miles to the southwest of the Voyager gas producing properties at Plain. The success ratio in these operations was three out of four, and the nine gas wells completed at that time increased our reserves substantially. In the winter, we acquired additional lands in the centre of our block on which three gas wells had been drilled and planned a seismic program to provide further information to assist in the selection of locations for 1972 drilling. The seismic work has now been done and drilling operations are under way again. Six more gas wells have been completed on our lands since the end of the fiscal year.

Under farmout from Voyager, an extensive 1971 drilling program was carried out by Zoller and Danneberg Exploration, Ltd. and TransCanada GasProducts Ltd. in the Wavy Lake area to the southeast of Holden. Your Company paid no part of the drilling costs incurred in the first 26 tests, but retained a 50% interest in the lands involved in the venture. While the work was not as successful as our activity at Holden, it did add significantly to our gas reserves.

Plant and gathering facilities at both Holden and Wavy Lake are under construction, and deliveries of gas to TransCanada PipeLines Ltd. are slated to commence in August. We have been receiving advance payments for these sales since January, 1972. The Holden plant, capable of processing 15,500,000 cubic feet of gas per day, is wholly-owned by Voyager, while the Wavy Lake plant, in which your Company has a 50% interest, can handle 11,000,000 cubic feet daily. The price paid to Voyager for this gas is 18 cents per thousand cubic feet. The contract provides for regular price escalation and contains several other provisions which would benefit the Company should anticipated general increases in wellhead prices be realized.

EASTERN CANADA

Grand Banks — Flemish Cap

A start was made during the year on exploration of Voyager's Grand Banks and Flemish Cap permits east of Newfoundland. A 1.2 million-acre portion of the holdings on the Grand Banks, in which your Company owns a 75% interest, was farmed out to Canadian Superior Oil Ltd. in 1970 for a cash payment and a work commitment; and, in 1971, Gulf Oil Canada Limited undertook a work obligation with respect to our wholly-owned 1.4 million acres on the Flemish Cap. Canadian Superior has now completed a seismic survey of 1,000 line miles, and a portion of the extensive seismic reconnaissance to which Gulf is committed has been carried out. Each company will earn a 25% interest in the permits on which it is working and may increase its participation by carrying out further exploratory operations. It is anticipated that this activity will maintain in good standing until 1980 those of the permits from which the participants may wish to select leases. Voyager has no obligation to make any expenditure in order to retain its interests in the permits in these circumstances.

A number of major oil companies have been active in drilling operations off Canada's east coast over the past year. Shell Canada Limited has announced an oil discovery in its Primrose well off Nova Scotia and the team of Mobil Oil Canada Ltd. and Texas Eastern Canada Ltd. has obtained gas, condensate and oil production from two wells drilled on Sable Island.

NORTHERN CANADA

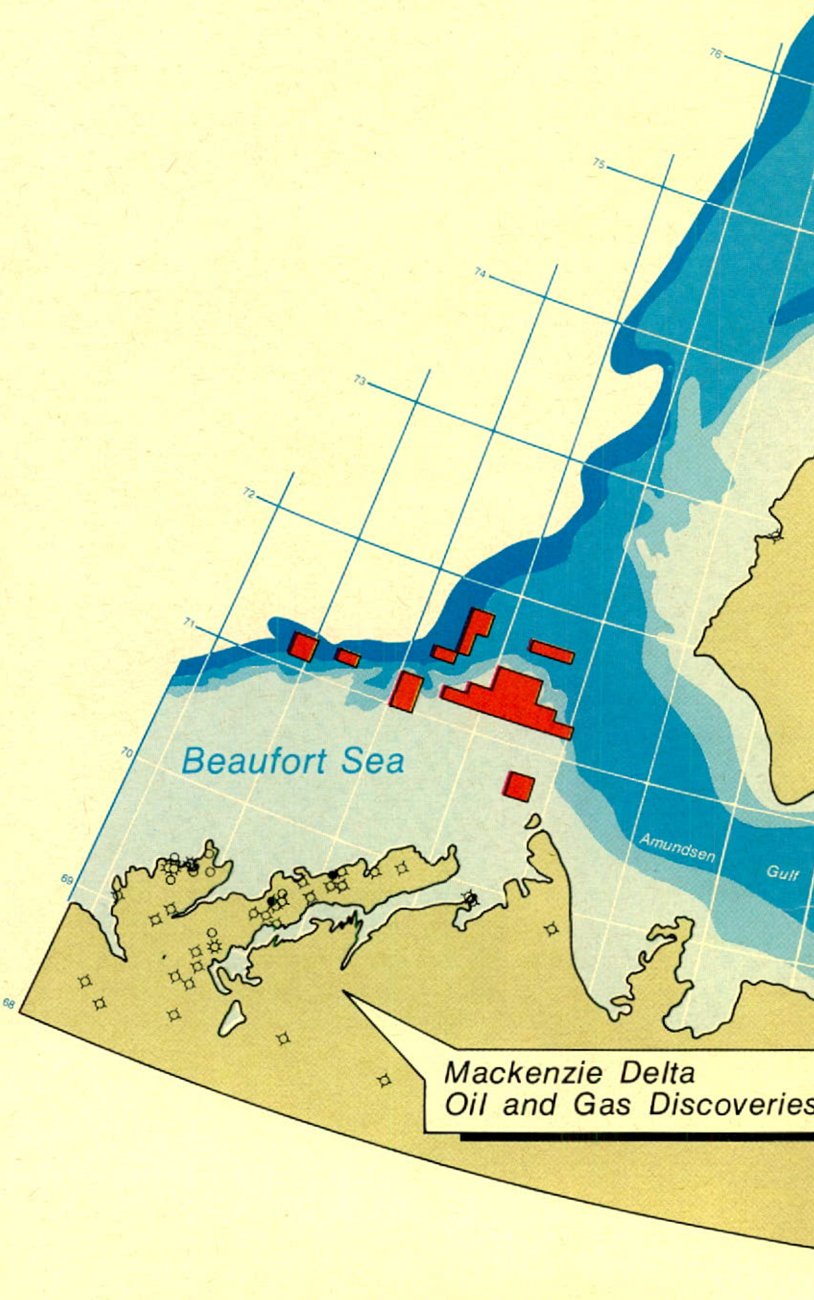
Mackenzie Delta — Beaufort Sea

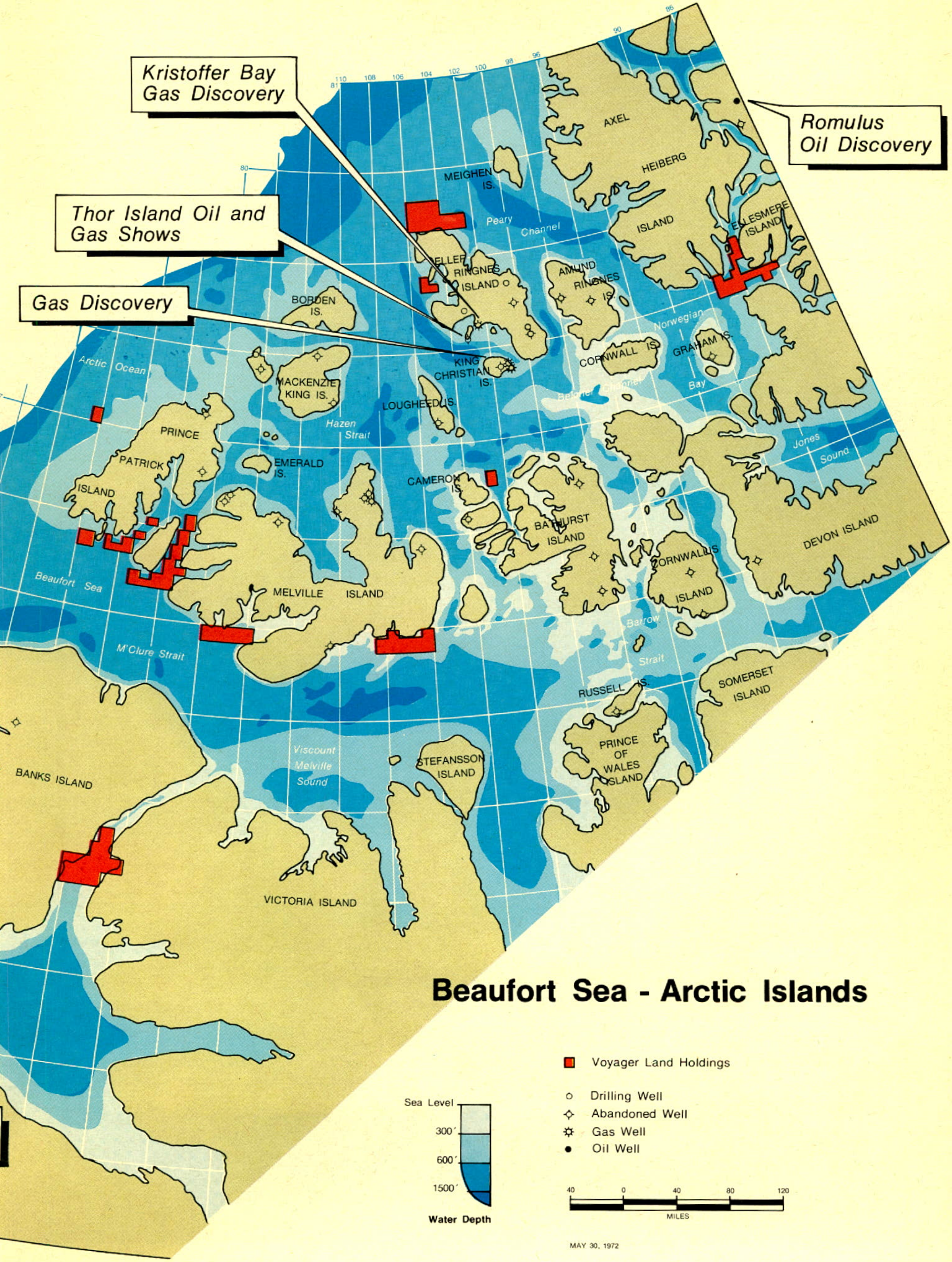
Some seismic work was carried out by Aquitaine Company of Canada Limited on our Beaufort Sea properties during the 12-month period, but it was only a small part of the planned program. It is anticipated that the balance will be completed this summer. No drilling has yet been done in the Beaufort Sea but onshore, to the south, the Mackenzie Delta area of the Beaufort basin has been the scene of a number of very encouraging new developments, including the large gas-condensate discoveries by Imperial Oil Limited at Taglu and Mallik and the Gulf-Mobil gas find nearby.

Arctic Islands

Voyager and associates have made an arrangement with Panarctic Oils Ltd. under which that company, by far the most active explorer in the Canadian Arctic Islands, will replace several of our performance deposit promissory notes of substantial face value with Panarctic notes and apply a large dollar amount of work credits to our Ellef Ringnes, Melville and Banks - Victoria Islands permits. In return, Panarctic will receive certain interests in some of the permits. Under this agreement, the permits will be maintained in good standing for various periods at no cost to Voyager, and we will receive information obtained from any exploratory work carried out by Panarctic on the properties.

Panarctic's operations in the Arctic Islands during the past year have yielded two important discoveries. One is a very large gas find at Kristoffer Bay, on Ellef Ringnes Island, about 50 miles southeast of a 75,000-acre block included among the permits affected by the agreement mentioned in the preceding paragraph. The other is the Romulus oil strike, on Ellesmere Island in the eastern Arctic, approximately 130 miles to the northeast of the Norwegian Bay permit covering 536,000 acres in which Voyager owns a 7.5% interest.





Beaufort Sea - Arctic Islands

Financial Review

Production revenue of $987,242 for the 12 months ended March 31, 1972 was up $284,306, or 40.4%, from the previous year's $702,936. Gas sales from Voyager's properties at Plain and Warwick were responsible for the largest part of this increase, while fourth quarter advance payments for gas to be delivered from Holden and Wavy Lake, commencing this summer, made up most of the balance. The portion of this income attributable to subleased production payments was down considerably, both in percentage and dollar amount; and it is estimated that income from that source will cease in mid-summer. Departing from its practice in previous years of treating royalty payments as operating expense, the Company now deducts them from gross production income. The figures published last year have been adjusted in the accompanying income statement to reflect the change and permit proper comparison.

Income from sources other than production amounted to $302,101, as against $316,182 in the fiscal year ended March 31, 1971. The 4.5% decrease is due to a reduction of Voyager's investment in marketable securities to free funds for development of new productive capacity providing a larger rate of return.

The $270,225 increase in total revenue, from $1,019,118 to $1,289,343, represents a 26.5% improvement.

Gas producing operations at Plain and Warwick, which contributed so much to the year's revenue, added considerably to the Company's operating expense which, at $214,651, was slightly more than double the $106,032 incurred in the 12 months ended March 31, 1971. In that year, however, wells in the two fields were on stream for only a few months, while they produced throughout the year under review. Another factor involved in the rise in operating costs is the inclusion in the total of the assumed or projected expenditures related to revenue from advance payments for Holden and Wavy Lake gas.

General and administrative expense was up $26,800, or 27.8%, largely because of salary costs. Voyager's staff was increased 50% by appointments made at various times in the fiscal year ended March 31, 1971, but the full effect of this growth on payroll was not felt until the 1971-72 period.

The Company's operations generated cash flow of $951,547, or 30.8 cents per share, on a weighted average of 3,087,367 shares outstanding during the 12 months. This is a 16.5% gain from the $816,741, or 26.5 cents per share, recorded last year, with 3,086,000 shares outstanding throughout the period.

Voyager provides for both depletion and depreciation by the unit of production method. Our unit costs of finding and developing new hydrocarbon reserves were lower in the fiscal year ended March 31, 1972 than the average for previous years, and this, coupled with a reduction in subleased oil payments, brought the depletion provision down $56,572, from $508,637 to $452,065, notwithstanding increased gas production. Gas sales growth raised the allowance for depreciation by $31,369, from $16,644 to $48,013, bringing the total non-cash write-off to $500,078, as against last year's $525,281.

Operating income, net of all charges for operations, administration, depletion and depreciation, reached $451,469 (14.6 cents per share), advancing $160,009, or 54.9%, from the $291,460 (9.5 cents per share) recorded in 1970-71. No extraordinary income was received during the year. Accordingly, net income was the same as operating income, exceeding by 51.6% the $297,854 net income realized in the 12-month period ended March 31, 1971, which included an unusual item of $6,394. Net income per share was 14.6 cents for the period under review, in comparison with 9.7 cents last year.

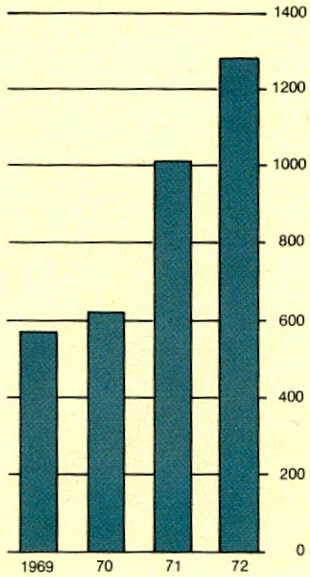
The following table compares Voyager's capital expenditures during the past two years on lands and in exploratory and development operations, showing an increase of $282,115, or 13.1%, for the 1971-72 period.

	1972	1971
Land Acquisition and Retention	**$1,280,359**	$ 809,597
Geological and Geophysical	**285,633**	281,194
Drilling	**693,281**	530,009
Production Facilities and Equipment	**173,108**	529,466
	$2,432,381	$2,150,266

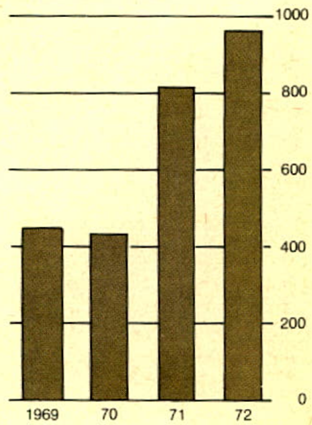
Approximately one-half of the tabulated outlay in the year ended March 31, 1972 was financed by the Company's cash flow and funds received from turnkey contracts under which other parties acquired interests in certain of Voyager's properties. The remainder was paid for out of working capital and drawings on a bank production loan arranged during the year. This line of credit makes more than $3.8 million available to Voyager on favorable terms.

At year-end, working capital totalled $1,918,950, as against $2,602,447 at March 31, 1971. Expenditures on lands, exploration and development increased the property and equipment account during the year from $4,222,530 to $5,893,886. The investment account grew from $174,592 to $363,886, mainly because of the Company's purchase of shares of Sea Search Limited, a presently unlisted British public oil exploration company active in North Sea operations.

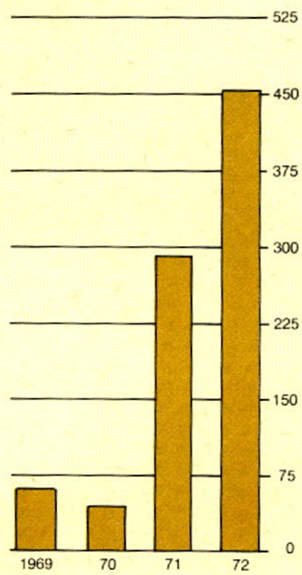
Gross Income
Thousands of dollars



Cash Flow
Thousands of dollars



Operating Income
Thousands of dollars



Voyager Petroleums Ltd.

Consolidated Balance Sheet at March 31, 1972 and 1971

Assets	**1972**	1971
CURRENT		
Cash and short-term deposit	**$ 8,025**	$ 155,856
Marketable securities, at cost (approximate market value 1972 - $2,499,000; 1971 - $2,807,000)	**2,457,375**	2,757,675
Loan receivable	—	500,000
Accounts receivable	**681,052**	505,785
Prepaid expenses	**8,837**	2,176
	3,155,289	3,921,492
INVESTMENTS AND OTHER ASSETS, at cost		
Investment in shares of and advances to affiliated companies	**35,044**	34,052
Other investments		
- shares (approximate market value 1972 - $182,300; 1971 - $182,300)	**38,618**	38,618
- shares and debenture (no quoted market value)	**261,259**	18,700
Refundable deposits (approximate market value 1972 - $24,607; 1971 - $62,800)	**28,965**	83,222
	363,886	174,592
PROPERTY AND EQUIPMENT, at cost (Notes 2 & 3)		
Petroleum and natural gas properties, less accumulated depletion of $1,738,937 (1971 - $1,286,872)	**5,182,377**	3,636,116
Equipment, less accumulated depreciation of $92,161 (1971 - $49,487)	**711,509**	586,414
	5,893,886	4,222,530
	$9,413,061	$8,318,614

Liabilities

	1972	1971
CURRENT		
Bank loan, secured (Note 4)	**$ 439,667**	$ 725,000
Accounts payable and accrued	**641,872**	594,045
Current portion of long-term debt	**154,800**	—
	1,236,339	1,319,045
PREPAID GAS REVENUE	**108,750**	137,750
LONG-TERM DEBT (Note 4)		
Production loan, secured, less current portion	**742,000**	—
	2,087,089	1,456,795

Shareholders' Equity

SHARE CAPITAL (Note 6)		
Authorized		
7,000,000 shares without nominal or par value		
Issued		
3,090,200 shares (1971 - 3,086,000 shares)	**4,486,658**	4,473,974
RETAINED EARNINGS	**2,839,314**	2,387,845
	7,325,972	6,861,819
	$9,413,061	$8,318,614

Signed on behalf of the Board

Director

GeoE Longphee Director

Consolidated Statements of Income and Retained Earnings

For the years ended March 31, 1972 and 1971

	1972	1971
Income		
Production (Note 2)	$ 987,242	$ 702,936
Interest and other	302,101	316,182
	1,289,343	1,019,118
Expenses		
Operating (Note 2)	214,651	106,032
General and administrative	123,145	96,345
	337,796	202,377
Net cash from operations	951,547	816,741
Non-cash expense provisions		
Depletion	452,065	508,637
Depreciation	48,013	16,644
	500,078	525,281
Operating income	451,469	291,460
Extraordinary gain on sale of investment in affiliate	—	6,394
Net Income for the Year	$ 451,469	$ 297,854

Retained Earnings		
Balance at beginning of year	$2,387,845	$2,089,991
Balance at end of year	$2,839,314	$2,387,845

Earnings per share		
Operating income	14.6c	9.5c
Extraordinary gain	—	.2
Net income for the year	14.6c	9.7c

Voyager Petroleums Ltd.

Consolidated Statement of Changes in Financial Position

For the years ended March 31, 1972 and 1971

	1972	1971
Source of Funds		
Net income for the year	$ 451,469	$ 297,854
Add depletion and depreciation	500,078	525,281
	951,547	823,135
Disposal of petroleum properties	260,947	98,462
Prepaid gas revenue	—	45,750
Share capital issued	12,684	—
Production loan	742,000	—
	1,967,178	967,347
Application of Funds		
Petroleum properties	2,259,273	1,620,800
Equipment	173,108	529,466
Investments and other assets	189,294	34,378
Reduction in prepaid gas revenue	29,000	—
	2,650,675	2,184,644
Decrease in financial position	(683,497)	(1,217,297)
Working capital at beginning of year	2,602,447	3,819,744
Working capital at end of year	$1,918,950	$2,602,447

Auditors' Report

The Shareholders,
Voyager Petroleums Ltd.

We have examined the consolidated balance sheet of Voyager Petroleums Ltd. and its subsidiaries as at March 31, 1972 and the consolidated statements of income and retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972 and the results of their operations and their changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 19, 1972

Touche Ross & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

March 31, 1972

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and all its subsidiaries.

2. ACCOUNTING POLICY

The company follows the full cost method of accounting for petroleum and natural gas properties. Under this concept, all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized, including applicable administrative expenses. Proceeds from disposals of properties and equipment are normally applied as a reduction of the cost of the remaining assets. Depletion of such costs is provided for by the unit of production method based on the estimated recoverable reserves of oil and gas. Depreciation of plant and production equipment is provided for by the unit of production method.

For 1972 the company has netted royalty payments against production income whereas in previous years they have been charged to operating expenses. The 1971 figures have been reclassified for comparative purposes.

3. PETROLEUM AND NATURAL GAS PROPERTIES

On February 1, 1970, the company purchased the right, title and interest to the production and related reserves of certain producing oil lands for $900,000 cash. When the company has recovered out of and from the net proceeds of production its investment plus an agreed upon rate of return, then the company's interest in these oil properties will revert to the original owners. Based on current production income, the company computes that this will occur by July 31, 1972.

4. BANK LOAN

The company has obtained a $3,842,300 line of credit on favourable terms, secured under Section 82 of the Bank Act and by a temporary hypothecation of certain marketable securities.

5. INCOME TAXES

Under Canadian income tax law, the company is entitled for tax purposes to deduct intangible development costs such as lease acquisition, exploration and drilling costs whch have been capitalized for accounting purposes. As a result, no income taxes are payable by the company for the year ended March 31, 1972 and deductions of $2,158,149 were available at March 31, 1972 to be carried forward against future taxable income.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in timing of deductions for tax and accounting purposes. Management is of the opinion that tax allocation with respect to intangibles is not appropriate and has made no provision therefor. This view of management conforms with general practice in the oil and gas industry in Canada and the United States and is accepted by the American Institute of Certified Public Accountants. If deferred tax accounting had been followed for all timing differences between taxable income and reported income, deferred income taxes of $154,350 ($52,210 in 1971) would have been provided, and net earnings for the year would have been reduced accordingly. The accumulated deferred income tax provisions covering the current and prior years would have amounted to $880,449 at March 31, 1972.

6. SHARE CAPITAL

Details of incentive share options granted to officers and key employees of the company are as follows:

	Option price	Number of shares
Outstanding March 31, 1971		107,500
Additional options granted	$3.78	8,000
Exercised	3.02	(4,200)
Surrendered	3.02	(16,500)
Outstanding March 31, 1972		94,800

The outstanding options are exercisable in installments on a cumulative basis, on various dates to 1981, having commenced September 1, 1971.

7. EXECUTIVE REMUNERATION

(a) Five persons served as directors for which no directors' fees were paid.

(b) Four persons served as officers receiving as officers aggregate remuneration of $102,003.

(c) One person who served as an officer also served as a director.

(d) Legal and other fees paid to directors of the company amounted to $4,684.

8. SUBSEQUENT EVENT

On May 16, 1972 the company and W. R. Grace & Co., New York, signed a letter of intent providing for the purchase by Grace of 600,000 treasury shares of the company at $7.50 per share. The letter of intent also provides that Grace will purchase 300,000 presently issued Voyager shares from a major shareholder at $5.00 per share. The terms of the letter are subject to formal documentation and approval by all regulatory bodies, both Boards of Directors and the Voyager shareholders.

Voyager Petroleums Ltd.

Incorporated September 30, 1966
Under the Laws of Alberta

Head Office — Suite 510, Aquitaine Tower
540 - Fifth Avenue South West
Calgary, Alberta T2P 0M2
Telephone (403) 265-3155

Directors
Olin E. Buker
Fern Kahanoff
Sydney Kahanoff
George E. Longphee
Campbell M. MacInnes
Morris T. Riback — all of Calgary, Alberta

Officers
Sydney Kahanoff, President
Campbell M. MacInnes, Vice-President and Secretary
Stanley J. Chad, Vice-President
Thomas H. P. Livingston, Treasurer and Assistant-Secretary

Share Listings
Canadian Stock Exchange
Toronto Stock Exchange — ticker abbreviation VPT

Registrar and Transfer Agent
Montreal Trust Company, Calgary, Alberta; Montreal, Quebec; Toronto, Ontario, and Vancouver, British Columbia

Subsidiary Companies
Vista Consulting Ltd.
Voyager Petroleums (U.K.) Limited
Voyager Petroleums, Inc., a Colorado Corporation
Panwest Pty. Limited, incorporated under the laws of New South Wales, Australia

Canadian Bankers
Canadian Imperial Bank of Commerce, Calgary, Alberta
Bank of Montreal, Calgary, Alberta

United States Banker
Denver United States National Bank, Denver, Colorado

Counsel
Fern Kahanoff, Calgary, Alberta

Auditors
Touche Ross & Co., Calgary, Alberta

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