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1974 Annual Report



Voyager

PETROLEUMS LTD.

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Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held in the Auditorium, 3rd Floor, Bow Valley Square 2, 205 - Fifth Avenue South West, Calgary, Alberta, on Thursday the 17th day of April, 1975 at 10:00 A.M.

HIGHLIGHTS

Financial

	12 Months Ended Dec. 31 1974	12 Months Ended Dec. 31 1973 <small>(Restated and unaudited)</small>
Gross Income	\$ 3,231,477	\$ 2,002,739
Cash Flow from Operations	\$ 2,350,649	\$ 1,482,945
per share	60.5c	38.6c
Net Income	\$ 1,376,941	\$ 707,633
per share	35.4c	18.4c
Capital Expenditures	\$ 6,065,667	\$ 4,294,664
Working Capital — December 31	\$ 4,852,536	\$ 3,962,761
Shareholders' equity — December 31	\$14,391,261	\$12,817,670
Shares outstanding — December 31	3,890,200	3,855,200
Shares outstanding — weighted average	3,884,255	3,841,093
Number of registered shareholders — December 31	1,834	1,721

Operating

Natural gas sales — thousand cubic feet	9,843,414	8,299,044
daily average	26,968	22,737
Crude oil sales — barrels	22,847	32,631
daily average	63	89
Proven natural gas reserves — billion cubic feet	317.91	257.20
Proven oil and condensate reserves — barrels	394,200	633,400
Wells drilled	82	82
successfully completed	51	42
Land Holdings — December 31		
Working interest — gross acres	9,714,153	18,133,342
— net acres	4,009,243	6,260,485
Royalty interest — acres	129,871	206,419
Number of employees — December 31	36	22

PRESIDENT'S REPORT

To the Shareholders

During 1974 we continued to strengthen Voyager's position as a producer of natural gas through further development of our productive capability, while at the same time deferring some of our exploration plans because of the uncertainty created by the Federal-Provincial disputes over taxation.

The year's operations resulted in continued improvement in our financial position. Gross revenue for the year reached \$3,231,477, up 61.4% over 1973. Cash flow from operations increased by 58.5%, to \$2,350,649 and net income rose 94.6%, to \$1,376,941. These figures represent new highs for the Company and reflect a steady rise in our gas production and the effect of price increases which took place in November 1973.

An even greater improvement in our financial results can be expected in the current year. Substantially increased gas production as well as price redeterminations, which became effective last November, will be significant to our revenues. The average price which we will receive for our gas in the period January 1 to November 1, 1975 will be approximately 60 cents per thousand cubic feet. A further redetermination under all contracts will then take place.

Capital expenditures of over \$6,000,000 were substantially larger than in the previous period. This is attributable to additional land acquisition, new plant facilities, the expansion of existing plant facilities in Alberta, a larger number of well completions (due to a higher success ratio) and an unprecedented rise in the cost of services and materials.

Long range planning during the last two years has been exceedingly difficult because of the rapidly changing attitudes and practises of governments in relation to our industry. As a result, Voyager's activities in Canada during 1974 were again largely confined to Alberta where our efforts were primarily directed to developing our natural gas reserves and expanding our productive capacity. It is our opinion, at present, that the geological attraction of other parts of Canada is not sufficient to offset the effect of the more adverse political and economic influences existing in those regions. Favourable changes in conditions may alter our views and, in that event, we could redirect our efforts.

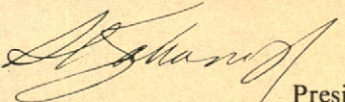
Voyager's activities in 1975 will extend beyond our major holdings in East-Central Alberta and greater involvement in exploration and drilling in other areas of the Province can be expected this year. It will continue to be our policy to concentrate our interest and activity in prospective exploration areas where we can best gauge the political and economic climates and their immediate and future impact on the Company.

Over the past year we further expanded our operations in the United States and we anticipate a continuing acceleration of these activities. Since the opening, fifteen months ago, of our principal U.S. office in Denver, we have succeeded in building a competent management and technical staff to administer and develop our American interests. A significant increase in net U.S. acreage holdings reflects the acquisition of several new prospects. While hampered by a shortage of drilling rigs and tubular goods, we participated in ten wells in the United States in 1974. We now have established gas production in the State of Kansas resulting in the first operating revenue to our subsidiary, Voyager Petroleum, Inc.

There has been evidence, in the last year, of some recognition and understanding by government, the media and the public of the difficulties facing the oil and gas industry and some appreciation of the industry's potential contribution to the nation. The growing awareness in these sectors, combined with Canada's need for future self sufficiency in oil and gas, leads us to hope that in the future we will have a more stable and healthy environment in which to continue our work.

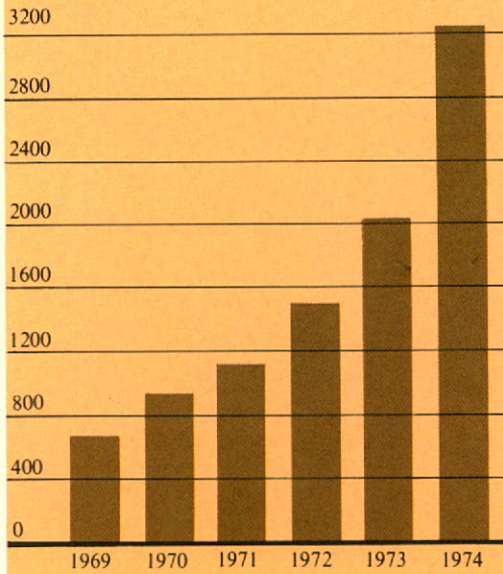
To the Directors, Officers and Employees, my sincere appreciation for their contribution and assistance.

Calgary, Alberta
March 3, 1975.


President

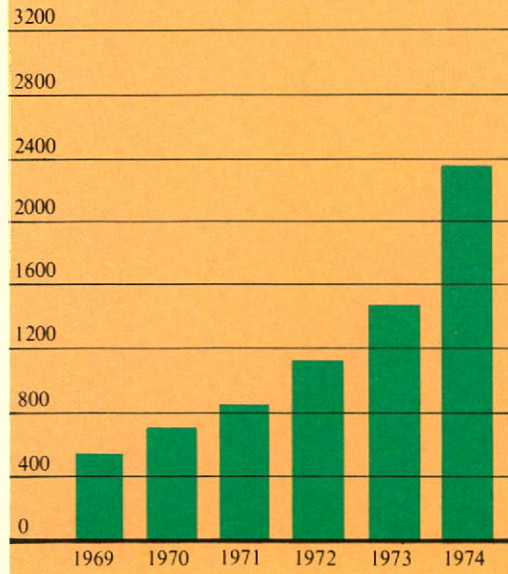
GROSS INCOME

Thousands of dollars



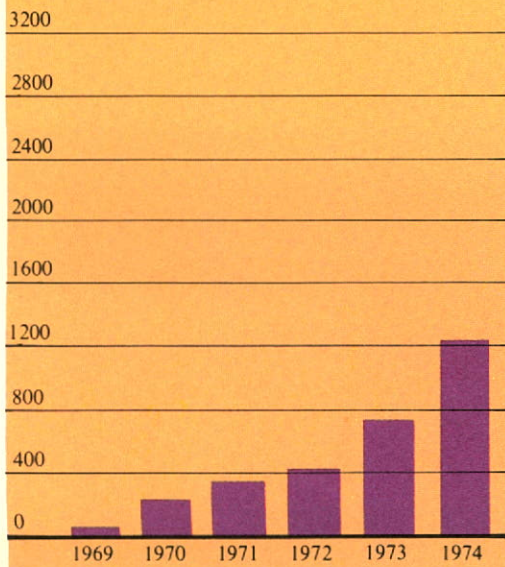
CASH FLOW

Thousands of dollars



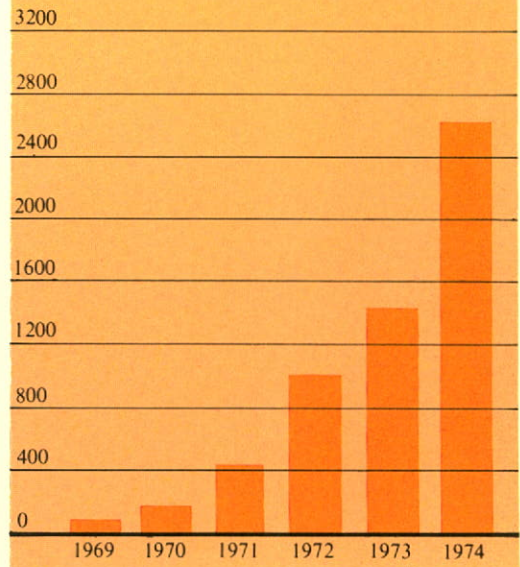
OPERATING INCOME

Thousands of dollars
After deferred income taxes



PRODUCTION AND ROYALTY

Thousands of dollars
Excluding sublease income



REVIEW OF OPERATIONS AND HOLDINGS

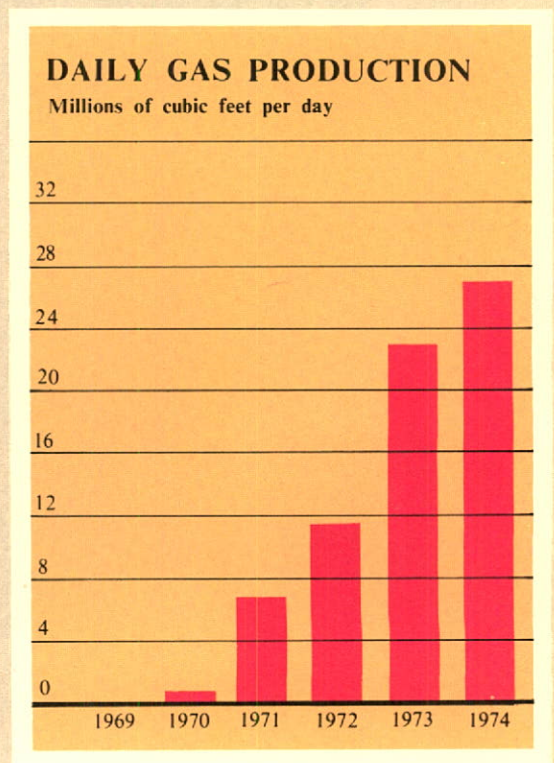
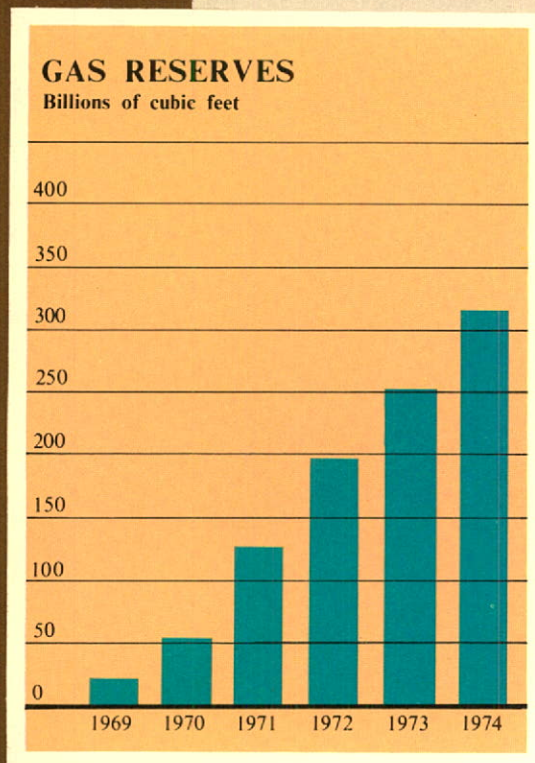
General

Your Company participated in the drilling of 82 gross wells in the past year, the same number as in 1973. The aggregate footage drilled during the year was 268,093, compared to 278,653 in 1973. The program resulted in 51 gas completions, which brings to 164 the number of gross productive wells in which the Company has a working interest. At year end, Voyager owned 100.70 net wells compared to 69.85 net wells a year earlier.

During the year geophysical programs totalling 160 miles of seismic and one gravity crew month were conducted over Voyager lands. Most of these programs were carried out by other companies.

DeGolyer and MacNaughton have estimated our proven reserves as of July 1, 1974 to be 316.85 billion cubic feet of natural gas and 399,800 barrels of oil. To arrive at the proved remaining reserves, at December 31, 1974, adjustments were made to account for additional development and production since July 1. Our estimate, as of December 31, 1974, is 317.91 billion cubic feet of gas and 394,200 barrels of oil. Comparative figures for 1973 were 257.20 billion cubic feet of gas and 633,400 barrels of oil. Our estimate of gas reserves was increased and oil reserves reduced to conform with the DeGolyer and MacNaughton report.

During 1974 Voyager produced 9.8 billion cubic feet of natural gas or a daily average of 27.0 million cubic feet, compared to 8.3 billion cubic feet and 22.75 million cubic feet per day, respectively, for the previous year. Crude oil production amounted to 22,847 barrels against 32,631 barrels in 1973.



Voyager now has interests in 5 gas plants with a total of 11,300 installed horsepower and a capability to deliver 100 million cubic feet per day. Voyager's aggregate share is 6,550 horsepower and 60 million cubic feet per day. In addition, your Company has substantial interests in 134 miles of gathering line, which connect our producing gas wells to the various plants.

The Company's land inventory was significantly decreased as a result of the relinquishment of the Ethiopian Concession and, to a lesser degree, by selective reduction in other areas. Somewhat offsetting the overall reduction were additional acquisitions in the United States and Canada.

The Company's land holdings at December 31, 1974 are compared with those of a year earlier in the following table:

Oil and Gas Rights Held / Acreage at December 31

	1974		1973	
	Gross	Net	Gross	Net
NORTHERN CANADA				
Arctic Islands — Offshore	3,051,441	404,271	3,051,441	435,475
Baffin Island — Offshore	1,158,884	251,352	1,158,884	289,721
Beaufort Sea — Offshore	865,666	392,055	865,666	392,055
Hudson Bay — Offshore	394,596	83,852	394,596	98,649
Northwest Territories	70,749	6,010	97,029	9,164
Yukon Territory	173,707	14,951	173,707	14,951
EASTERN CANADA				
Grand Banks/Flemish Cap — Offshore	2,707,931	2,021,051	2,707,931	2,167,777
WESTERN CANADA*				
Alberta	773,533	540,152	805,169	548,571
British Columbia	167,033	76,498	78,072	48,405
Saskatchewan	2,048	1,645	1,124	722
Manitoba	3,569	1,785	1,827	1,827
UNITED STATES OF AMERICA				
Colorado	67,919	67,919	—	—
Kansas	45,000	22,500	—	—
Montana	54,622	39,914	69,669	41,269
Nebraska	2,560	307	65,000	7,800
North Dakota	30,689	30,689	37,674	30,709
Texas	12,886	8,054	6,912	4,320
Wyoming	67,106	35,750	58,121	34,506
UNITED KINGDOM — Offshore	64,214	10,488	64,214	10,488
ETHIOPIA	—	—	8,496,306	2,124,076
TOTAL	9,714,153	4,009,243	18,133,342	6,260,485

* Does not include varying royalty interests in 129,871 acres held by Voyager in Alberta, British Columbia and Saskatchewan. Excepting acreage held in Western Canada, the United States of America and the United Kingdom, 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.

North America

Western Canada

ALBERTA

Holden

The Company participated in the drilling of 25 wells in the Holden area which resulted in 20 gas completions, one service well and 4 dry holes. Voyager now has a working interest in 67 productive wells or 57.33 net productive wells in this area.

Modifications were made to our wholly-owned plant to accommodate the addition of two 1100 horsepower compressors. This brings the plant installed horsepower to 4400 which will enable us to deliver in excess of 40 million cubic feet per day. Twenty-five miles of gas gathering lines were installed during the year to tie in 21 additional wells. We now have 43 wells producing to the plant. Voyager's contracted gas reserves in this field are 165 billion cubic feet.

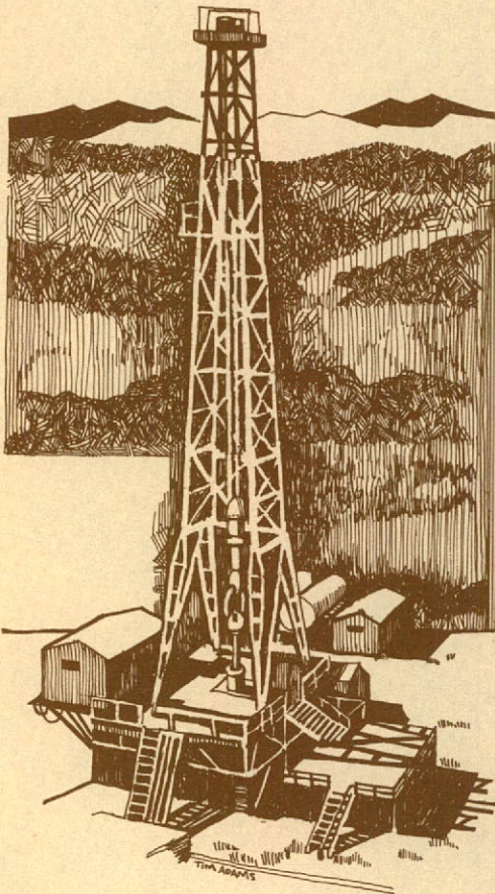
Plain

Voyager participated in the drilling of three wells in the area during 1974 all of which were cased as potential gas wells. We now have a working interest in 14 gas wells or 11.55 net productive wells. This development drilling, coupled with a reserve redetermination, has increased Voyager's contracted natural gas reserves at Plain from 55 billion cubic feet to 70 billion cubic feet.

Expansion of the plant to 4200 compressor horsepower, from 2200 compressor horsepower, is well advanced with completion anticipated by the end of February 1975. Voyager will now have a 29.42% interest in the overall facilities which will have a capacity to deliver 36 million cubic feet per day. Your Company's capacity to deliver gas has been increased to 10.6 million cubic feet per day from 6.0 million cubic feet per day.

Viking

Voyager participated in the drilling of three wells in this area, two of which were cased as potential gas producers. The developed acreage is being unitized and Voyager will have approximately a 9.2% working interest in the unit which has total reserves, contracted to TransCanada PipeLines, of 33.6 billion cubic feet. In addition to its working interest, the Company has a substantial overriding royalty interest in this project, part of which may be converted to a working interest on payout. Additional wells will be drilled following analysis of data from a 65 mile seismic program which will commence in the first quarter of 1975.



Killam

Your Company participated in the drilling of 26 wells in the Killam area of which 17 were cased as potential gas wells. Voyager's interest in these successes aggregates 8 net wells. A continuing program is anticipated in 1975 to further evaluate this 169,000 acre spread.

Seven new wells will be tied into the plant by February 1, 1975 with 12 miles of gathering line and production will increase to approximately 7 million cubic feet per day from 2.8 million cubic feet. Voyager's average interest in this production is approximately 38%. Additional wells will be tied in later this year and plans are being made to double plant capacity to 1600 compressor horsepower.

Chinchaga

This 28,160 acre block was farmed out with Voyager retaining an overriding royalty. Five wells were drilled and production casing was set in all of these wells which will be evaluated upon completion.

Clear Hills

The seismic program on this 103,680 block has been completed but the optionee has elected not to exercise the drilling option. Voyager and its associates are considering their own evaluation in this area.

BRITISH COLUMBIA

Kotcho

A \$75,000 seismic program has been completed by a group of companies who have until August, 1975 to elect to drill a well to earn an interest in this wholly owned Voyager block.

Komie

In early 1974, Voyager acquired varying interests in two petroleum and natural gas permits in this area totalling 56,857 gross acres. Preliminary seismic studies are now underway.

Eastern Canada

Baffin Bay

Following the evaluation of an 800 mile seismic program, Gulf has elected to maintain its interest in approximately 50% of the Voyager acreage. Further seismic surveys are scheduled for 1975.

Grand Banks and Flemish Cap

Gulf Oil has elected to maintain approximately 70% of the 1,473,288 acres, covered by our agreement, in good standing for at least another year. Voyager's interest in this acreage is 75%.

Canadian Superior, with whom we also have an agreement relating to 1,234,643 acres in the East Grand Banks offshore area, has elected to relinquish its 25% interest in 343,716 acres. The remaining acreage, in which our interest is 56.25%, is being maintained at no cost to Voyager.

Hudson Bay

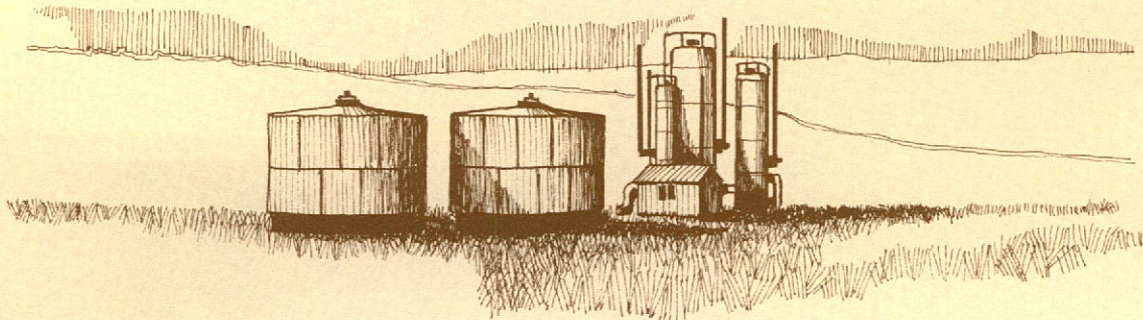
Through agreements with others we have been successful in maintaining our gross acreage position at no cost to the Company. Our net interest in this 394,596 acre block has been reduced from 98,649 to 83,852 acres.

Northern Canada

The industry has continued exploration in the Northern areas resulting in some significant discoveries in the Delta as well as extensions to the gas fields around Melville Island in the Arctic. In the Beaufort Sea, extensive sea ice cover throughout the summer months prevented Aquitaine and Voyager from carrying out the programs which had been planned on our permits.

Northwest Territories

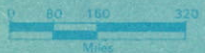
Voyager holds an 8% interest in a permit in the La Biche area of the Territories. A geophysical program has been carried out on this permit and further seismic will be done during the current winter season.





NORTH AMERICA

- *Voyager Oil and Gas Properties*
- *Voyager Coal Properties*





United States

Through its wholly owned subsidiary, Voyager Petroleum, Inc., the Company participated in the drilling of 10 wells in the United States during 1974 of which 2 were completed as gas wells. One of these wells is on stream and the other will be producing early in 1975. Voyager's interest in these wells is 50%.

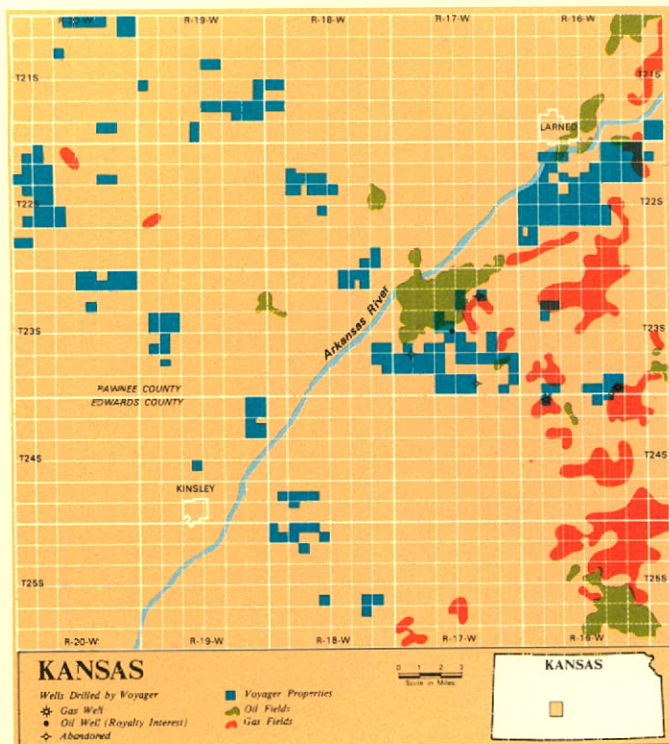
Gross holdings in the United States were increased during the past year to 280,782 acres from 237,376 acres and net holdings to 205,133 acres from 118,614 acres. We are currently conducting geological and geophysical studies in 8 States.

Colorado

Voyager has acquired a 40,000 acre block located on the platform area of the Piceance Basin in Colorado. This area is prospective for shallow gas and considerable drilling activity is taking place on surrounding lands.

Kansas

We are currently participating to the extent of 50% in a 16-well drilling program in this state. Approximately 45,000 acres of leases have been acquired and 6 tests have been drilled of which 2 are gas wells.



Montana

During 1974, Voyager, together with another company, acquired 12,000 acres of leases situated in the north-east part of the Big Horn Basin. Geological and geophysical work has now been completed on these lands.

Texas

We succeeded, during the year, in acquiring nearly 6,000 gross acres, bringing our holdings to approximately 12,500 gross acres, over the deep prospect near Houston in the Gulf Coast Region of Texas. This prospect is noteworthy because of its very large reserve potential. While acquisition of the necessary casing for a well on this block had not been concluded at year-end, there was evidence of some easing of the critical shortage of tubular goods, leading us to anticipate that the well can be started in 1975.

Leases have also been acquired on two interesting smaller prospects in Texas.

Overseas

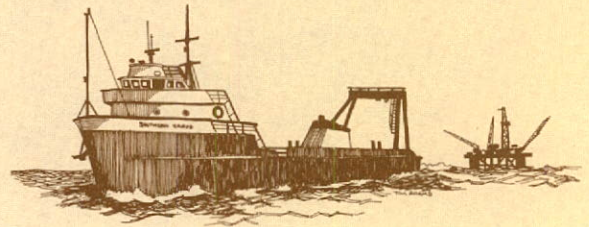
United Kingdom

Several encouraging wells have now been drilled by other companies in the Celtic Sea. However, the number of wells drilled in 1974 was substantially less than had been anticipated. The reduced activity resulted in large part from damage, sustained during the winter of 1973-74, in the North Sea, by drilling equipment which had been scheduled for the Celtic Sea last summer.

There have been no new licenses offered on the United Kingdom Continental Shelf and we are awaiting developments in this area.

Ethiopia

Following the completion of Stage 1 of the Exploration Program, the Company and its associates have decided to surrender their Concession in Ethiopia.



FINANCIAL REVIEW

Voyager's gross revenue of \$3,231,477 for the year ended December 31, 1974 represented an increase of \$1,228,738 or 61.4% over the previous year's revenue of \$2,002,739. Production revenues reached \$2,610,616 for the year, an increase of 85.3% from \$1,409,004 the year before. This was due primarily to larger gas sales volumes and to an increase in the average price of our gas to 32.1 cents per thousand cubic feet for 1974 from 16.9 cents per thousand cubic feet for the year previous.

Operating costs were \$123,070 higher in 1974 than in 1973 due to a higher rate of production and to inflationary pressures on all general operating costs.

Interest expense reached \$297,123, up from \$64,117 in the previous year. This reflects the increase in our production loan to finance the \$6,065,667 capital program during 1974.

Cash flow from operations for 1974 rose to \$2,350,649 from \$1,482,945, a gain of \$867,704 or 58.5%. This represented 60.5 cents per share, on a weighted average of 3,884,255 shares during the year, compared with 38.6 cents per share on 3,841,093 shares for the comparable twelve months in 1973.

Voyager's net income for the year was up 94.6% to \$1,376,941, or 35.4 cents per share, compared to \$707,633, or 18.4 cents per share, for the previous year. Net income for 1974 includes a net extraordinary gain of \$119,627. Net income for 1973 has been restated to provide for deferred income tax.

Capital expenditures for the two twelve-month periods ending December 31, 1974 and 1973 are compared in the following table:

	<u>1974</u>	<u>1973</u>
Land Acquisition and Retention	\$2,156,535	\$1,721,003
Geological and Geophysical	592,255	652,433
Drilling	1,501,454	836,297
Production Facilities and Equipment	<u>\$1,815,423</u>	<u>1,084,931</u>
	<u>\$6,065,667</u>	<u>\$4,294,664</u>

Expenditures on lands, exploration and development caused an increase in the property and equipment account, after depletion and depreciation, to \$17,559,889 from \$12,016,516 between December 31, 1973 and December 31, 1974.

Working capital was \$4,852,536 at December 31, 1974, in comparison with \$3,962,761 a year earlier. The reduction in marketable securities resulted from the sale, during the year, of shares of Berry Wiggins & Company Limited (formerly Sea Search Limited).

Consolidated Balance Sheet as at December 31, 1974

ASSETS

	<u>1974</u>	<u>1973</u> (Restated)
Current		
Cash and short term deposits	\$ 3,255,404	\$ 2,263,410
Marketable securities, at cost (approximate market value 1974 — \$1,009,305; 1973 — \$1,950,958)	1,161,649	1,660,698
Notes receivable from shareholders (Note 3)	18,938	15,008
Accounts receivable	2,547,730	1,052,613
Materials and supplies, at cost	106,887	—
Prepaid expenses	10,755	—
	7,101,363	4,991,729
Notes Receivable from Shareholders (Note 3)	898,096	720,384
Investments and Other Assets, at cost		
Investment in shares of and advances to affiliated companies	—	29,785
Other investments		
Shares (approximate market value		
1974 — \$78,000; 1973 — \$48,880)	41,454	41,454
Shares and debenture (no quoted market value)	18,081	18,081
Refundable deposits	37,719	41,777
	97,254	131,097
Property and Equipment, at cost (Note 2)		
Petroleum and natural gas properties less accumulated depletion of \$2,639,325 (1973 — \$2,286,615)	13,423,255	9,526,532
Equipment, less accumulated depreciation of \$398,407 (1973 — \$254,623)	4,136,634	2,489,984
	17,559,889	12,016,516
	\$25,656,602	\$17,859,726

Voyager

PETROLEUMS LTD.


LIABILITIES

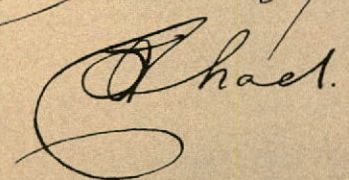
	<u>1974</u>	<u>1973</u> (Restated)
Current		
Accounts payable and accrued	\$ 2,248,827	\$ 1,028,968
Prepaid Gas Revenue	29,000	58,000
Long Term Debt (Note 4)		
Production loan, secured	6,843,321	2,550,000
Deferred Income Taxes (Note 5)	2,144,193	1,405,088
	<u>11,265,341</u>	<u>5,042,056</u>

SHAREHOLDERS' EQUITY

Share Capital (Note 6)		
Authorized — 7,000,000 shares without nominal or par value		
Issued — 3,890,200 shares (1973 — 3,855,200)	9,989,070	9,792,420
Retained Earnings	4,402,191	3,025,250
	<u>14,391,261</u>	<u>12,817,670</u>

Signed on behalf of the Board





Director

Director

\$25,656,602

\$17,859,726

Consolidated Statement of Income and Retained Earnings

For the Year Ended December 31, 1974

	<u>1974</u>	<u>1973</u> (Restated and unaudited)
Income		
Production, net of royalties and mineral tax (1974 — \$727,908; 1973 — \$255,801)	\$2,610,616	\$1,409,004
Interest and other	<u>620,861</u>	<u>593,735</u>
	3,231,477	2,002,739
Expenses		
Operating	420,535	297,465
General and administrative	163,170	158,212
Interest on long term debt (Note 4)	<u>297,123</u>	<u>64,117</u>
	880,828	519,794
Net cash from operations	<u>2,350,649</u>	<u>1,482,945</u>
Non-cash provisions		
Depletion	336,579	302,711
Depreciation	<u>146,773</u>	<u>114,662</u>
	483,352	417,373
Income before deferred income taxes and extraordinary item	1,867,297	1,065,572
Deferred income taxes (Note 5)	<u>609,983</u>	<u>357,939</u>
Income before extraordinary item	1,257,314	707,633
Gain on sale of investments (less deferred income taxes of \$47,422)	<u>119,627</u>	<u>—</u>
Net Income for the Year	<u>1,376,941</u>	<u>707,633</u>
Retained earnings at beginning of year		
As previously reported	4,430,338	3,364,766
Adjustment of prior year's deferred income taxes (Note 5)	<u>(1,405,088)</u>	<u>(1,047,149)</u>
As restated	3,025,250	2,317,617
Retained earnings at end of year	<u>\$4,402,191</u>	<u>\$3,025,250</u>
Earnings per share (based on the average number of shares outstanding during the year)		
Before extraordinary item	32.4c	18.4c
Extraordinary item	<u>3.0</u>	<u>—</u>
Net income	<u>35.4c</u>	<u>18.4c</u>

Auditors' Report

The Shareholders, Voyager Petroleum Ltd.

We have examined the consolidated balance sheet of Voyager Petroleum Ltd. and its subsidiaries as at December 31, 1974 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 December 31, 1974 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, after giving retroactive effect to the change in the method of income tax allocation referred to in Note 5 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
February 26, 1975.

Louche Ross + Co.
Chartered Accountants.

Voyager

PETROLEUMS LTD.

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1974

	<u>1974</u>	<u>1973</u> (Restated and unaudited)
Source of Funds		
From operations		
Income before extraordinary item	\$ 1,257,314	\$ 707,633
Add items not requiring an outlay of funds		
Depreciation and depletion	483,352	417,373
Deferred income taxes	609,983	357,939
	<hr/>	<hr/>
Gain on sale of investments	2,350,649	1,482,945
Alberta Government royalty tax rebate	186,758	—
Share capital issued	81,700	—
Increase in production loan	196,650	49,546
Reduction in investments and other assets	7,542,583	1,270,000
Reduction in loans to shareholders	4,058	558,630
Disposal of petroleum properties	18,938	15,008
Disposal of equipment	—	140,000
	49,018	—
	<hr/>	<hr/>
	10,430,354	3,516,129
Application of Funds		
Petroleum and natural gas properties	4,250,244	3,209,733
Equipment	1,815,423	1,084,931
Investments and other assets	—	327,596
Reduction in prepaid gas revenue	29,000	29,000
Loans to shareholders	196,650	—
Decrease in production loan	3,249,262	1,398,977
	<hr/>	<hr/>
	9,540,579	6,050,237
Increase (decrease) in working capital	889,775	(2,534,108)
Working capital at beginning of year	3,962,761	6,496,869
Working capital at end of year	<u>\$ 4,852,536</u>	<u>\$3,962,761</u>
Changes in Working Capital		
Increase (decrease) in		
Cash and short term deposits	\$ 991,994	\$2,243,848
Marketable securities	(499,049)	(5,295,677)
Notes receivable from shareholders	3,930	—
Accounts receivable	1,495,117	473,525
Materials and supplies	106,887	(47,849)
Prepaid expenses	10,755	(23,241)
Decrease (increase) in		
Accounts payable	(1,219,859)	(504,714)
Bank loan	—	620,000
Increase (decrease) in working capital	<u>\$ 889,775</u>	<u>\$(2,534,108)</u>

Notes to Consolidated Financial Statements

December 31, 1974

1. Principles of Consolidation

The consolidated financial statements include the accounts of the company and all of its wholly-owned subsidiaries. The figures for 1973 have been restated where necessary to conform with the presentation adopted for 1974.

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 the applicable portion of administrative expenses and interest on bank loans. 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 as determined by the company and as substantiated by independent professional engineers. Depreciation of plant and production equipment is provided for by the unit of production method.

3. Notes Receivable

Loans in the amount of \$917,034 (1973 — \$735,392) have been advanced to five senior officers to enable these individuals to purchase a total of 175,000 (1973 — 140,000) shares of the company. Ten year non-interest bearing promissory notes have been signed by these individuals in favour of the company. Repayment arrangements call for increasing annual instalments, with approximately 75% becoming payable in the tenth year.

4. Bank Loan

The company has a \$9,500,000 line of credit on favourable terms, secured by Section 82 of the Bank Act. Since the company does not anticipate drawing-down the maximum loan authorized, no repayments of it are required during 1975.

In accordance with its full cost accounting policy (Note 2), interest expense of \$170,970 in 1974 has been capitalized (\$192,350 in 1973).

5. Deferred Income Taxes

Under Canadian income tax law most exploration and development expenditures, including resource property acquisition costs, are deductible on various bases which generally have the effect of permitting such deductions to be made for tax purposes in advance of their being charged off in the books. Capital cost allowances for depreciable assets are also deductible in advance of depreciation charged in the accounts. As a result, no income taxes were actually payable for the 1974 fiscal year although provision has been made in the accounts for the taxes deferred as a result of such deductions exceeding expenses charged in the income statement. At December 31, 1974 the company had approximately \$5,090,000 of unclaimed drilling and exploration expenditures and approximately \$3,122,800 of undepreciated capital costs available for tax purposes in future years.

In response to a ruling of the Canadian Provincial Securities Administrators in March 1974, the company retroactively adopted the allocation method of accounting for income taxes as required by the Canadian Institute of Chartered Accountants. As a result of this change a deferred income tax provision of \$657,405 has been made in 1974 resulting in a corresponding reduction in net income (16.9c per share). Net income for 1973 has been restated by a similar charge in the amount of \$357,939 (9.3c per share).

On November 18, 1974 the Canadian Government introduced budgetary proposals to amend the Income Tax Act. These included a number of changes (several having retroactive effect to an earlier budget proposal date of May 6, 1974) that will substantially increase the income taxes of the resource industries. The proposals, among other measures, deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and depletion allowances. They are accompanied by some reduction in the rate of income tax applicable to resource production profits. Responding to this action, some provinces are proposing to make rebates or grants in order to provide some measure of relief to resource companies from the additional Federal tax levies. Although the legislative amendments have not yet been enacted (and indeed some of the proposals have not yet been set out in sufficient detail to remove doubt as to their ultimate effect) the 1974 income tax provision in the accompanying financial statements has been computed on the basis of taking them into account based upon the best information currently available. This has had the effect of decreasing the 1974 provision by approximately \$119,305 for that portion of the fiscal period to which the proposed changes are applicable.

6. Share Capital

Under the arrangements explained in Note 3, 35,000 shares were issued during the year.

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

	Option price	Number of shares
Outstanding December 31, 1973		22,100
Additional options granted	\$ 4.73	5,000
	3.23	5,000
Surrendered	(5.31)	(3,000)
Outstanding December 31, 1974		<u>29,100</u>

The outstanding options are exercisable in instalments on a cumulative basis, on various dates to 1984, at an average option price of \$3.92.

7. Executive Remuneration

- Nine persons served as directors for which no directors' fees were paid.
- Five persons served as officers receiving as officers aggregate remuneration of \$187,640.
- Two persons who served as officers also served as directors.
- Legal fees paid to a director of the company amounted to \$2,085.

8. Contingent Liabilities and Commitments

- The company has issued non-interest bearing promissory notes totalling \$142,475 in favour of various government authorities. These notes are lodged as security for commitments on exploratory leases. In addition the company has issued other notes and guarantees to the extent of \$84,797.
- The company has entered into a ten year lease agreement covering office premises for an annual rental of \$65,000.
- Under the terms of a joint venture agreement dated December 1, 1974, the company is committed to contribute \$1,000,000 in each of 1975 and 1976 as its share of an exploratory program.

Voyager

PETROLEUMS LTD.

Incorporated under the laws of Alberta, September 30, 1966.

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Telephone (403) 265-3155

Directors

Olin E. Buker — *Calgary*
Stanley J. Chad — *Calgary*
Donald E. Grimm — *New York*
Fern Kahanoff — *Calgary*
Sydney Kahanoff — *Calgary*
Harold R. Logan — *New York*
George E. Longphee — *Sidney, B.C.*
Campbell M. MacInnes — *Calgary*
Morris T. Riback — *Calgary*

Officers

Sydney Kahanoff, *President*
A. Barry Beaven, *Vice President and Secretary*
Stanley J. Chad, *Vice President*
Theo A. Pezarro, *Vice President, Exploration*
George H. Plewes, *Vice President, Finance and Treasurer*

Share Listings

Montreal 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 Petroleum (U.K.) Limited
Voyager Petroleum, 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 Bankers

United Bank of Denver, *Denver, Colorado*
Texas Commerce Bank National Association, *Houston, Texas*

Auditors

Touche Ross & Co., *Calgary, Alberta*

