

C



Voyager

PETROLEUMS LTD.



Annual Report 1975

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 10 1976
MCGILL UNIVERSITY

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 Wednesday the 14th day of April, 1976 at 10:00 A.M.

HIGHLIGHTS

Financial	12 Months Ended Dec. 31 1975	12 Months Ended Dec. 31 1974
Gross Income	\$ 7,472,560	\$ 3,231,477
Cash Flow from Operations	\$ 6,350,969	\$ 2,350,649
per share	\$1.63	60.5¢
Net Income	\$ 3,813,790	\$ 1,376,941
per share	98.0¢	35.4¢
Capital Expenditures	\$ 9,916,454	\$ 6,065,667
Working Capital — December 31	\$ 4,414,625	\$ 4,852,536
Shareholders' equity — December 31	\$17,868,393	\$14,391,261
Shares outstanding — December 31	3,891,500	3,890,200
Shares outstanding — weighted average	3,890,892	3,884,255
Number of registered shareholders — December 31	1,695	1,834

Operating

Natural gas sales — thousand cubic feet	12,530,934	9,843,414
daily average	34,332	26,968
Crude oil sales — barrels	13,986	22,847
daily average	39	63
Proven natural gas reserves — billion cubic feet	351.85	317.91
Proven oil and condensate reserves — barrels	442,451	394,200
Wells drilled	93	82
successfully completed	56	51
Land Holdings — December 31		
Working interest — gross acres	6,983,883	9,714,153
— net acres	3,108,017	4,009,243
Royalty interest — acres	1,042,223	129,871
Number of employees — December 31	36	36

PRESIDENT'S REPORT



To the Shareholders

In 1975, Voyager surpassed all previous years in production and financial performance and continued to increase its natural gas reserves. Our gas production reached an average of 34.3 million cubic feet per day and this, combined with the attainment of more realistic prices for this valuable commodity, resulted in cash flow equal to \$1.63 per share and operating income of 98 cents per share. The Company's excellent rate of growth is illustrated in the accompanying graphs.

During the year, there was a return, in some measure, to a more acceptable environment for our industry. While the basic jurisdictional problems between the Federal and Provincial Governments remain unresolved, some rapport appears to have developed between the two. The aura of confrontation which prevailed during the previous two years has, to some extent been dispelled and a more rational mood seems to exist. With this in mind we began late in 1974 to implement exploration plans which had effectively been held in abeyance for some time.

Further, as a result of our rapidly increasing cash flow and alterations in the tax structure in Canada, an important change in Voyager's operating philosophy has emerged. Historically the Company acquired petroleum and natural gas rights in a prospective area and often "farmed out" the prospect so that the drilling dollars were spent by others.

Last year it became increasingly apparent that there were considerable advantages to the Company following through with its own drilling programs on its own acreage and even extending this activity to earn interests in rights held by others. This new approach is best illustrated by a comparison of last year's winter drilling program with that of the current year. In the winter of 1974-75 Voyager participated in the drilling of 8 exploration wells, but in the cost of only one of them. This winter we will be involved in as many as 18 exploratory wells and will bear a share in the cost of each of them. Our expanding exploration effort will give us exposure to more higher risk, higher reward prospects than has generally been the case in the past.

While we are extending exploration to other parts of Alberta and to British Columbia, we continued to increase reserves and productivity with additional wells and related plant and production facilities on our major holdings in East-Central Alberta. It is anticipated that drilling activity in this area in 1976 will be maintained at about the same pace of 50 to 60 wells.

Currently, our interest in the United States centers on the deep test being drilled near Houston, Texas with drilling information being held confidential. This well was spudded in mid-October with drilling time estimated at six months to a projected depth of 18,000 to 22,000 feet. During 1976, we expect to participate in several additional wells in the U.S., principally in Texas, Colorado and Kansas.

Recognizing the stage of maturity which had been reached by Voyager, your Directors declared the Company's first dividend late in 1975. While, as a result of a ruling of the Anti-Inflation Board, the dividend was less than the Directors had originally proposed, it did mark the beginning of a new era for Voyager and its shareholders.

Barring unforeseen circumstances, there will be continued improvement in production and revenue during 1976 which should result in increases in cash flow and operating income of about 50% over 1975. There will also be an increasing emphasis on direct participation in an expanding exploration drilling program. Hopefully we will be able to report to you on the successful results of this exploration activity as the year progresses.

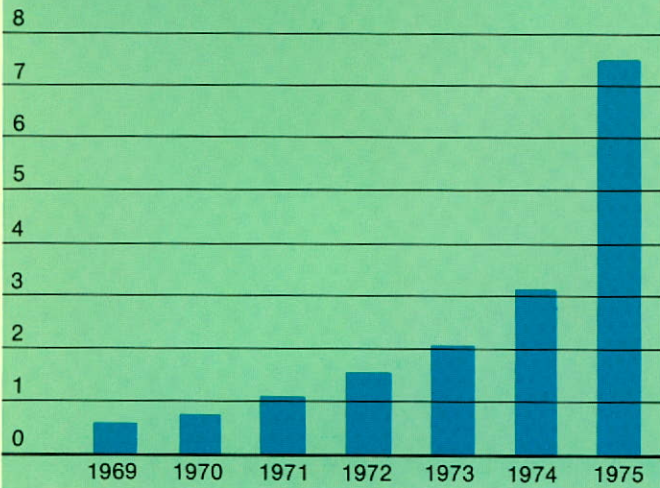
The Board of Directors and management of the Company appreciate the contributions to the successful performance of the Company in 1975 by the members of the staff and thank them for their loyalty and support.

Calgary, Alberta
March 10, 1976.

President

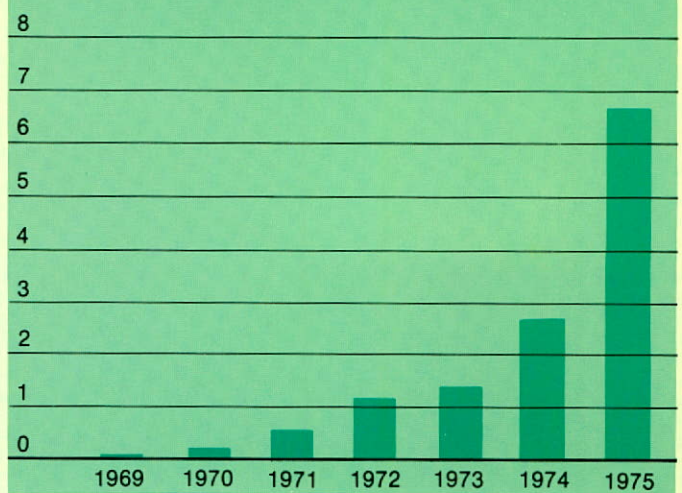
Gross Income

9 Millions of dollars



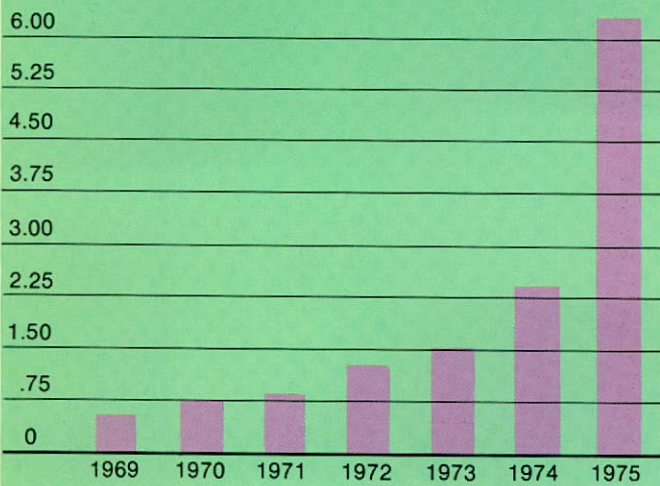
Production and Royalty Income

9 Millions of dollars Excluding sublease income



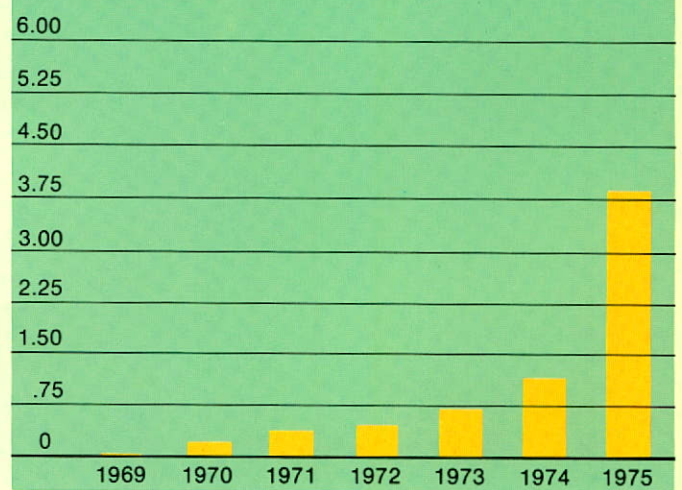
Cash Flow

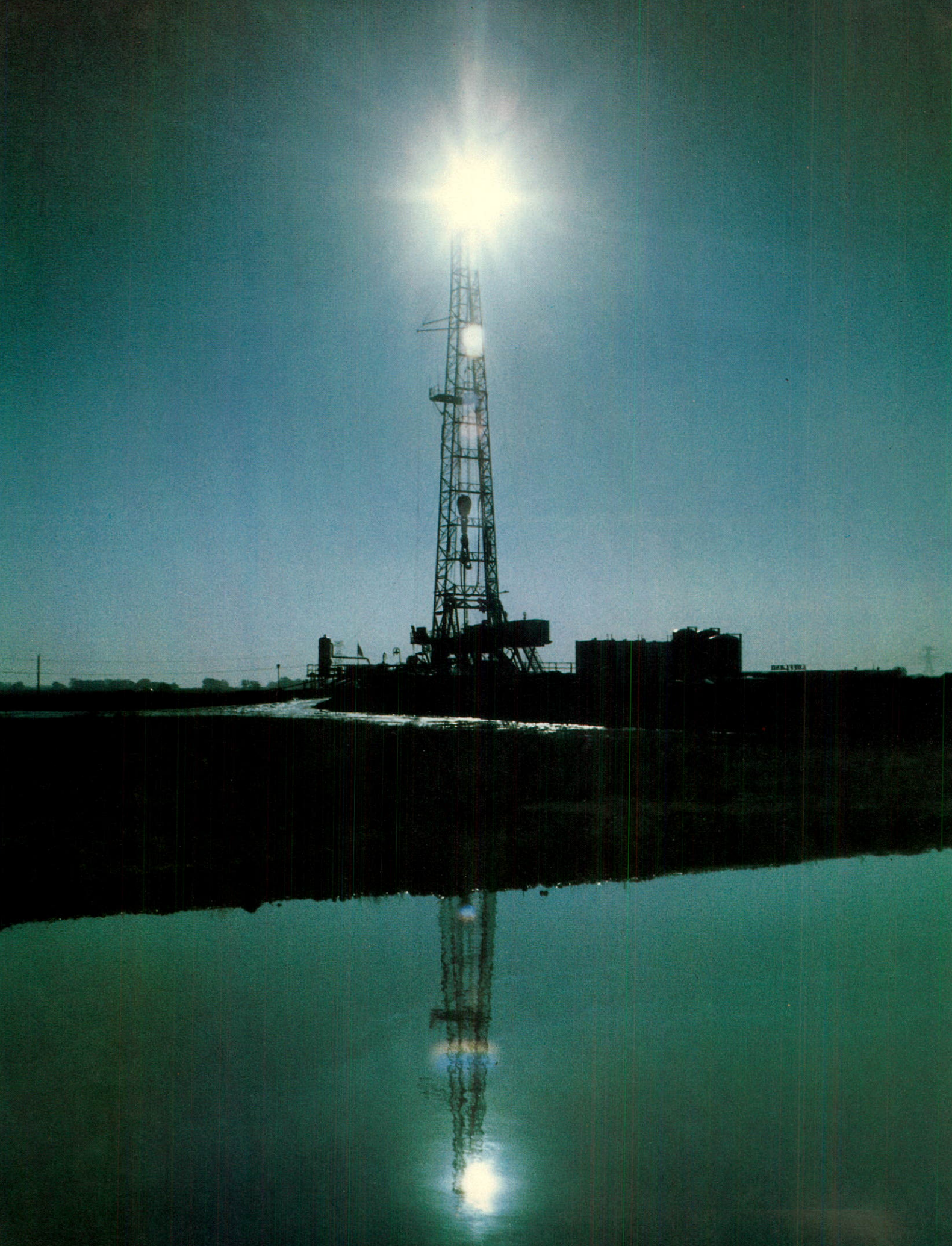
6.75 Millions of dollars



Operating Income

6.75 Millions of dollars After deferred income taxes





REVIEW OF OPERATIONS AND HOLDINGS

General

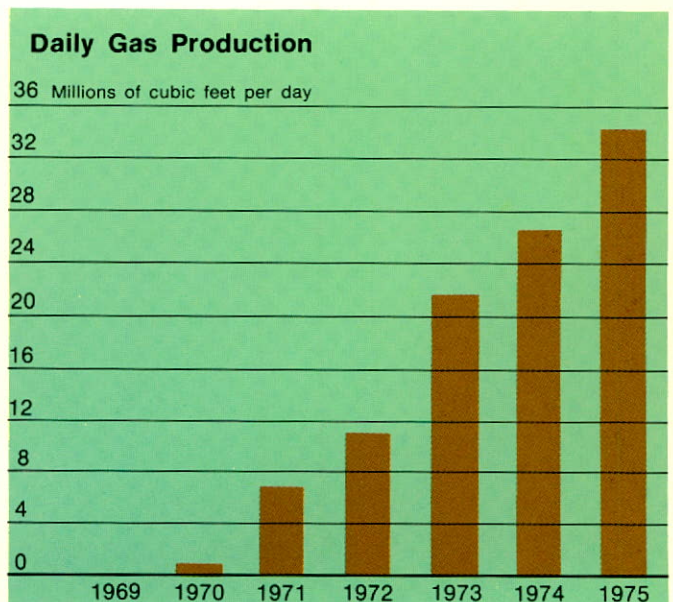
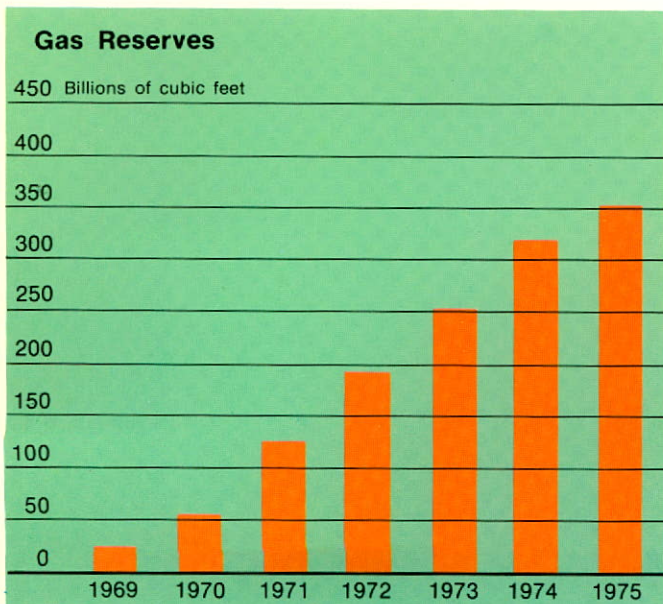
In 1975 your Company participated in the drilling of 93 gross wells, 11 more than in 1974. The aggregate footage drilled amounted to 317,281 compared to 268,093 in 1974. The program resulted in 56 gas completions which brings to 208 the number of gross productive wells in which the Company has a working or royalty interest.

Voyager was aggressive in acquisition of geophysical data, acquiring a total of 755 miles of seismic surveys. Our 1975 drilling success ratio of 60.2% is directly related to the use of the data obtained.

DeGolyer and MacNaughton estimated our remaining recoverable reserves as of July 1st, 1974 to be 316.85 billion cubic feet of natural gas and 399,800 barrels of oil.

Adjustments were made to account for additional development, production, and reservoir information, as well as acquisition of gas reserves since that date, and remaining recoverable reserves as of December 31, 1975 are estimated at 351.85 billion cubic feet of gas and 442,451 barrels of oil. Comparative figures for December 31st, 1974 are 317.91 billion cubic feet of gas and 394,200 barrels of oil.

Voyager sold 12.5 billion cubic feet of natural gas during 1975, a daily average of 34.3 million cubic feet, compared to 9.8 billion cubic feet and 26.9 million cubic feet, respectively, for the previous year. Crude oil sales amounted to 13,986 barrels as against 22,847 barrels in 1974.





Beaufort Sea

Baffin Bay

YUKON

NORTHWEST TERRITORIES

Hudson Bay

BRITISH COLUMBIA

ALBERTA

MANITOBA

SASK.

C

A

N

A

D

A

MONTANA

NORTH DAKOTA

Pacific Ocean

WYOMING

U.

S.

A.

Atlantic Ocean

COLORADO

KANSAS

TEXAS

Gulf of Mexico

NORTH AMERICA

● Voyager Properties

The Company's land inventory decreased during the year, largely as a result of selective reductions in frontier acreage. We believe that the limited success to date, increasingly high costs of exploration and the anticipation of negative aspects of the new Federal Land Regulations have led to a general reappraisal of acreage holdings in the Arctic and off the East Coast. While we are maintaining our position in the more attractive areas such as the Beaufort Sea, the above factors, in our opinion, justified reducing our

overall holdings in some areas. However, it should be pointed out that of the 1,280,000 acre reduction in our working interest holdings in the Arctic, Voyager has retained net profits and overriding royalty interests in approximately 853,000 acres.

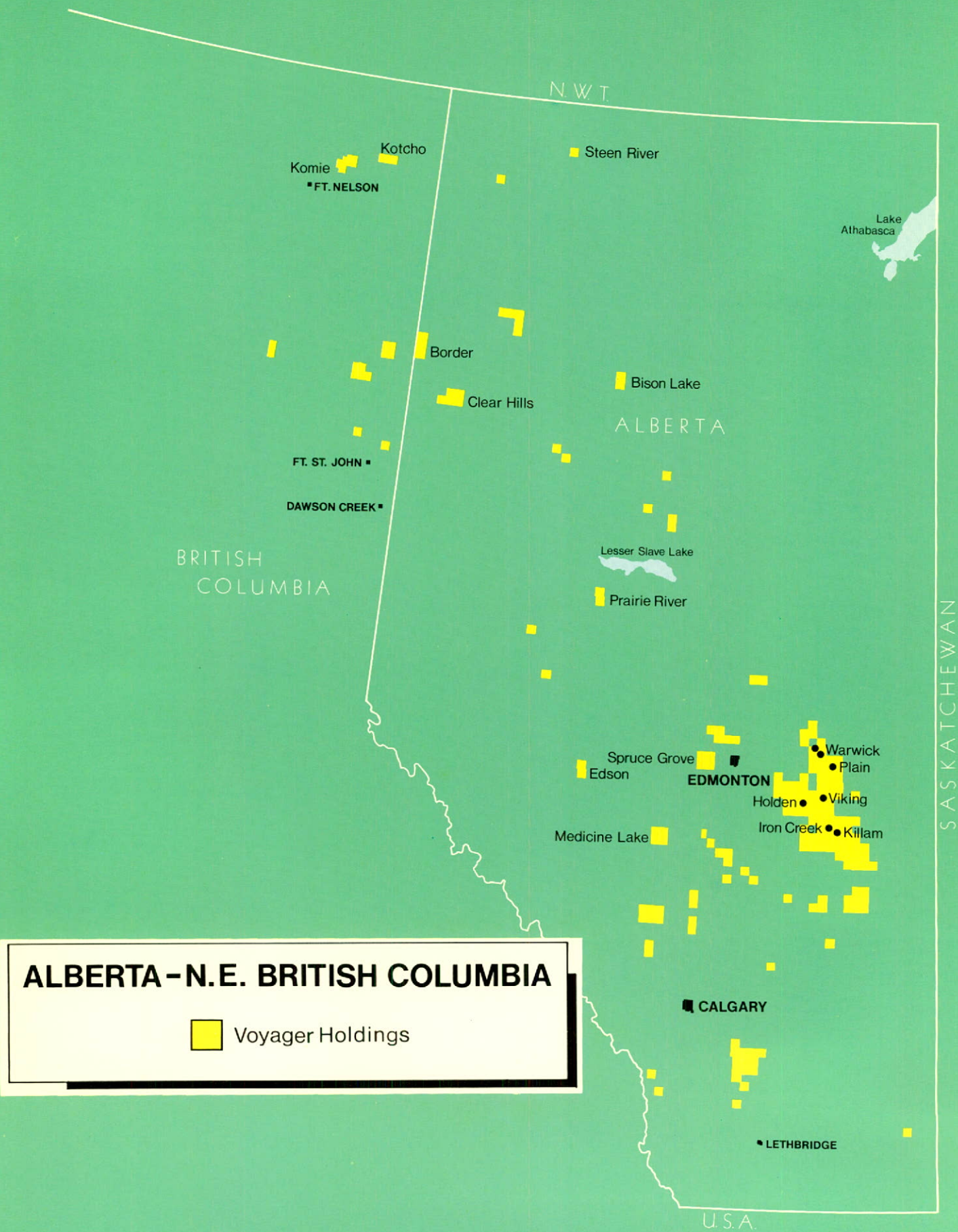
Voyager's land holdings at December 31, 1975 and 1974 are set out in the following table:

Oil and Gas Rights Held / Acreage at December 31

	1975		1974	
	Gross	Net	Gross	Net
NORTHERN CANADA				
Arctic Islands — Offshore	1,770,728	132,695	3,051,441	404,271
Baffin Island — Offshore	576,179	144,045	1,158,884	251,352
Beaufort Sea — Offshore	865,666	392,055	865,666	392,055
Hudson Bay — Offshore	394,596	137,966	394,596	83,852
Northwest Territories	70,749	6,010	70,749	6,010
Yukon Territory	173,707	14,951	173,707	14,951
EASTERN CANADA				
Grand Banks/Flemish Cap — Offshore	1,846,416	1,531,005	2,707,931	2,021,051
WESTERN CANADA				
Alberta	887,707	531,579	773,533	540,152
British Columbia	141,855	73,274	167,033	76,498
Saskatchewan	2,048	1,645	2,048	1,645
Manitoba	3,569	1,785	3,569	1,785
UNITED STATES OF AMERICA				
Colorado	72,377	69,973	67,919	67,919
Kansas	11,097	10,777	45,000	22,500
Montana	32,128	10,450	54,622	39,914
Nebraska			2,560	307
North Dakota	37,554	16,379	30,689	30,689
Texas	26,783	21,076	12,886	8,054
Wyoming	6,510	1,864	67,106	35,750
UNITED KINGDOM — Offshore	64,214	10,488	64,214	10,488
TOTAL	6,983,883	3,108,017	9,714,153	4,009,243

The foregoing does not include royalty interests in 121,076 acres in Alberta and British Columbia, net profits and royalty interests in 852,944 acres in the Arctic and royalty interests in 68,203 acres in the United States.

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.



ALBERTA - N.E. BRITISH COLUMBIA

 Voyager Holdings

Production

Holden

This 4,400 horsepower plant is owned 100% by Voyager and is connected to 52 wells by 70 miles of gathering line.

The plant processed 7.1 billion cubic feet during 1975 of which 6.5 billion were for your Company's account.

Development activity in this area during 1975 included 14 wells of which 11 were completed as gas wells. In addition we laid 4 miles of gathering line to tie in 5 wells. Activity during 1976 will exceed that of 1975.

Plain

Voyager's remaining recoverable reserves in the Plain area as of December 31, 1975 were 90.5 billion cubic feet. This represents a substantial increase over last year as a result of reserve revision, a 100% success ratio on the four wells in which your Company participated and acquisition of additional reserves. We now have an interest in 17 gas wells.

During the year Voyager produced 3.8 billion cubic feet of gas, a rate of 10.4 million cubic feet per day. Early in 1976 the new completions will be on stream which will increase Voyager's throughput to at least 15 million cubic feet per day.

Warwick

The construction of a second plant was commenced in the last quarter of 1975. The two plants will have a total of 1836 horsepower with a delivery capacity of 21.5 million cubic feet per day and Voyager's interest in these facilities will be 36.56%.

During 1975 your Company produced 1.5 billion cubic feet of gas or 4.2 million cubic feet per day from this field. Plans have been completed for additional development drilling to increase our gas throughput.

Killam

During the year your Company was very active in developing the 169,000 acres we hold in this area. We participated in the drilling of 32 wells of which 23 were completed as potential gas wells. We now have a working interest in 55 gross gas wells. A similar drilling program is anticipated in 1976. It is expected that additional plant capacity will be required as a result of the program in this area.

The Killam Plant produced 2.5 billion cubic feet during 1976 or 6.8 million cubic feet per day. Voyager's interest in this production was 42%.

Ten miles northwest of Killam we have commenced the construction of facilities to be known as the Iron Creek Plant. This 850 horsepower plant is a duplicate of the existing Killam Plant. Completion is scheduled before March 15, 1976, but sales will be delayed as Alberta Gas Trunkline is unable to tie into our facilities at this time.

When the Iron Creek Plant comes on stream, the yearly throughput will be similar to that of Killam, but Voyager's interest in the gas will be approximately 66-2/3%.

Exploration

Canada

Recognizing the need for establishing additional long term reserves, the Company has significantly increased its exploration exposure by acquiring several large tracts of land in selected areas of Alberta. An interest in 182,000 gross acres has been added to the Company's inventory through this program, giving Voyager representation in eight widely separated prospects, which range in locale from Medicine Lake, southwest of Edmonton, to Steen River near the Alberta-Northwest Territories border. These land holdings were obtained by bonus bidding at Alberta Crown Sales and by farmin drilling deals.

Medicine Lake

Your Company is participating in a four well exploratory program in the Medicine Lake region of South-Central Alberta. This area, which is prospective for oil and gas accumulations in several horizons, is adjacent to several oil and gas fields which produce from a variety of formations. By paying 66-2/3% of the costs of this drilling program, Voyager will earn a 33-1/3% interest in most of the 54,240 acres and a 16-2/3% interest in the balance. Two of the wells have been drilled to date and production casing has been set in one of these. Production tests will be run to evaluate the potential of the cased well.

Edson

Voyager, as operator, is bearing 50% of the costs in the drilling of a 12,700 foot exploratory well in the Edson region of West-Central Alberta. This deep test will earn your Company a 25% interest in 4,640 acres and entry into a highly prolific gas area where significant gas reserves are known to exist in several horizons ranging in age from Cretaceous to Paleozoic. Information obtained from this test, which is currently drilling, is being held confidential as there are uncommitted lands in the immediate vicinity of the well location.

Clear Hills

Two exploratory wells will be drilled during the first quarter of 1976 on a 50,880 acre lease block in the Clear Hills region of Northwestern Alberta. Recent activity in this general area has resulted in several Cretaceous gas discoveries. Voyager owns a 25% interest in this acreage and will pay its proportionate share of the well costs.

Bison Lake

A 20% interest in two Petroleum and Natural Gas Reservations comprising 39,040 acres was acquired by your Company in 1975 in the Bison Lake area of North-Central Alberta. Voyager and its partners will drill at least two

exploratory wells early in 1976 to investigate the shallow gas potential of this area.

Other Areas

As well as geological and geophysical studies, several seismic surveys are being conducted on a number of your Company's exploratory land holdings. Included in the areas under active investigation are Steen River, Border, Prairie River, and Spruce Grove, Alberta, and Komie and Kotcho in British Columbia. It is anticipated that future exploratory drilling programs will result from this activity.

Beaufort Sea

The Company has interests in 865,666 acres in the Beaufort Sea. Voyager's acreage in relation to two well locations, which are to be drilled in the summer of 1976, are shown on the accompanying map.

This operation will involve the first use of drill ships in these waters and represents a major advance in the exploration of the offshore areas of the Beaufort Sea.

United States

Your Company will continue, through its wholly-owned subsidiary, Voyager Petroleum, Inc., to acquire and develop petroleum related assets in the United States. In 1975 we participated in the drilling of 18 wells and it is anticipated that we will participate in a like number during 1976.

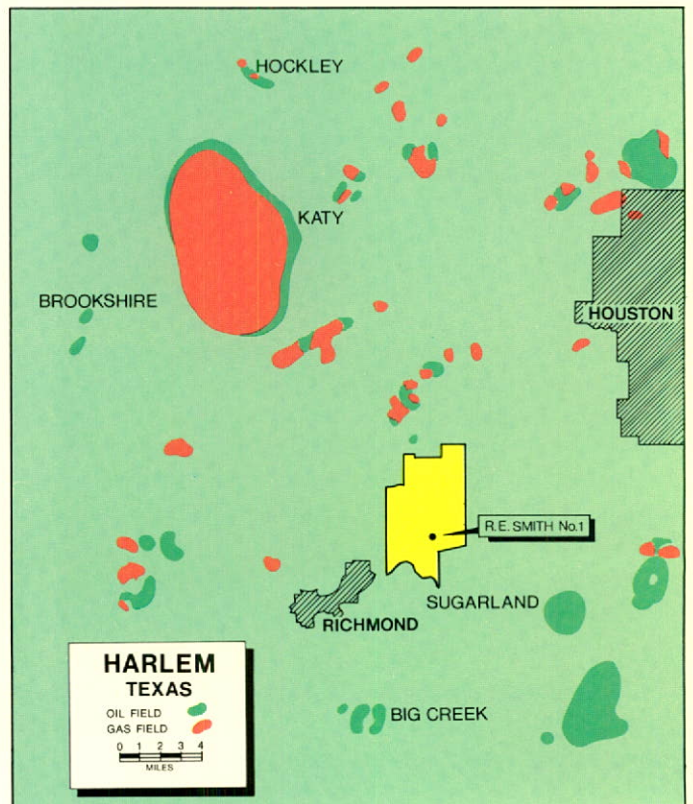
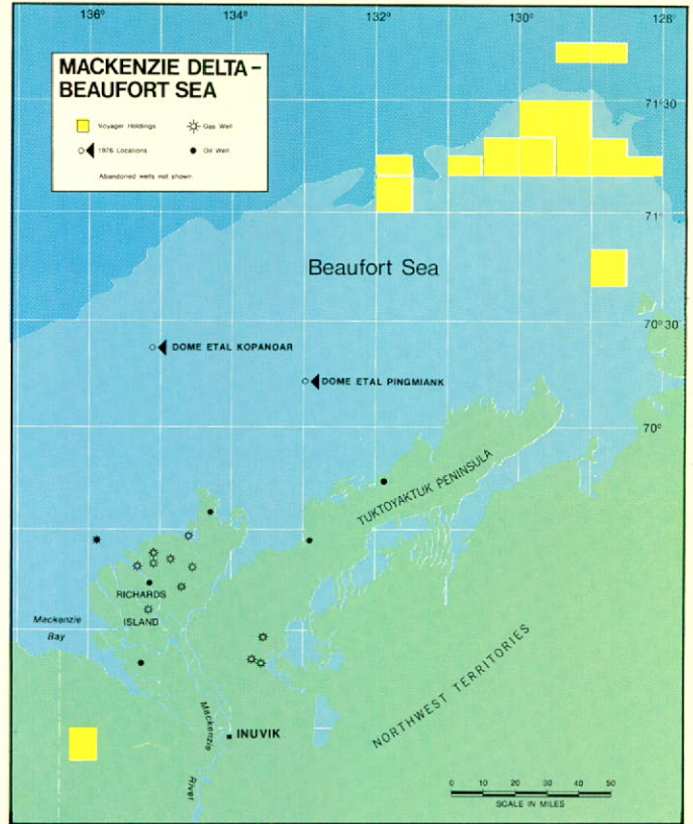
Texas

The R. E. Smith No. 1 well was spudded in October to evaluate our Harlem Prospect on a 12,500 acre block near Houston. Scheduled to reach the projected depth of 18,000 to 22,000 feet about six months after spud date, the test is being drilled by a group for whom Hunt Oil Company of Dallas is the operator. Voyager is not required to participate in the drilling costs but will retain a 12½% working interest in the well after payout and will receive an overriding royalty during the payout period. Information from the well is currently being held confidential.

Kansas

After completing 2 wells as gas producers, out of a sixteen well program, your Company assigned its 50% interest in 67,230 acres in Pawnee and Edwards Counties to the other working interest owners, retaining an overriding royalty interest.

Voyager has acquired 10,617 acres in Edwards, Kiowa, Comanche and Kingman Counties on which 9 prospects have been developed. We expect that several of these prospects will be tested in 1976.



FINANCIAL REVIEW

Voyager's gross revenue for the year ended December 31, 1975 was \$7,472,560, a 131% increase over the gross revenue of \$3,231,477 for the previous year. Production revenues reached \$6,672,844, higher by \$4,062,228, or 156%, than in 1974. The additional revenues were principally due to greater volumes of gas sales and to increased gas prices, which averaged 70.0 cents per thousand cubic feet for 1975, up from 32.1 cents the year before.

Income from other sources was \$799,716 in 1975 compared with \$620,861 during 1974. The increase was due primarily to additional processing and supervision fees and gains on exchange.

Operating costs were \$568,135 in 1975, an increase of \$147,600 over 1974 reflecting a greater rate of production and the continuing inflationary pressures of the economy. General and administrative expenses were \$197,856 during the year versus \$163,170 for the previous year. Interest expense was \$355,600 compared to \$297,123 in 1974.

Cash flow from operations was \$6,350,969 or \$1.63 per share, on a weighted average of 3,890,892 shares during the year, a gain of 170% from \$2,350,649, or 60.5 cents per share, on an average of 3,884,255 shares for 1974.

Operating income rose to \$3,813,790 for the year or 98 cents per share compared to \$1,257,314 or 32.4 cents per share for the prior year.

Voyager's net income for 1975 was \$3,813,790 or 98.0 cents per share. The corresponding figure for the previous year was \$1,376,941 or 35.4 cents per share, which included a \$119,627 extraordinary gain from the sale of investments.

Capital expenditures for the two years ending December 31, 1975 and 1974 are compared in the following table:

	1975	1974
Land Acquisition and Retention	\$5,204,587	\$2,156,535
Geological and Geophysical	371,975	592,255
Drilling	2,811,368	1,501,454
Production Facilities and Equipment	1,528,524	1,815,423
	<u>\$9,916,454</u>	<u>\$6,065,667</u>

An increase in the property and equipment account to \$26,460,556 from \$17,559,889 between December 31, 1974 and December 31, 1975 was caused by expenditures on lands, exploration and development.

Working capital at December 31, 1975 was \$4,414,625 as against \$4,852,536 at the end of 1974.

With the increased cash flow expected this year and the presently established bank credit of \$15,000,000, the Company has sufficient funds to finance its 1976 programs.

Consolidated Balance Sheet as at December 31, 1975

ASSETS

	<u>1975</u>	<u>1974</u>
Current		
Cash and short term deposits	\$ 3,042,538	\$ 3,255,404
Marketable securities, at cost (approximate market value 1975 — \$1,103,165; 1974 — \$1,009,305)	1,262,494	1,161,649
Accounts receivable	3,459,588	2,547,730
Notes receivable from shareholders (Note 2)	26,442	18,938
Materials and supplies, at cost	979,062	106,887
Prepaid expenses	28,238	10,755
	<u>8,798,362</u>	<u>7,101,363</u>
Investments and Other Assets, at cost		
Notes receivable from shareholders (Note 2)	866,291	898,096
Investment in shares and debentures (approximate market value 1975 — \$106,300; 1974 — \$96,100)	63,259	59,535
Refundable deposits	34,509	37,719
	<u>964,059</u>	<u>995,350</u>
Property and Equipment, at cost		
Petroleum and natural gas properties, less accumulated depletion of \$3,436,233 (1974 — \$2,639,325)	21,030,055	13,423,255
Equipment, less accumulated depreciation of \$596,128 (1974 — \$398,407)	5,430,501	4,136,634
	<u>26,460,556</u>	<u>17,559,889</u>
	<u>\$36,222,977</u>	<u>\$25,656,602</u>


LIABILITIES

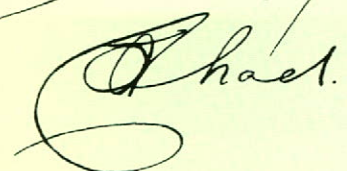
	<u>1975</u>	<u>1974</u>
Current		
Accounts payable and accrued	\$ 3,558,447	\$ 2,248,827
Dividend payable	342,452	—
Current portion of long-term debt	482,838	—
	<u>4,383,737</u>	<u>2,248,827</u>
Prepaid Gas Revenue	—	29,000
Long-Term Debt (Note 3)		
Production loan, secured	8,464,381	6,843,321
Agreement payable, less current portion	1,448,514	—
	<u>9,912,895</u>	<u>6,843,321</u>
 Deferred Income Taxes	 <u>4,057,952</u>	 <u>2,144,193</u>
	<u>18,354,584</u>	<u>11,265,341</u>

SHAREHOLDERS' EQUITY

Share Capital (Note 4)		
Authorized — 7,000,000 shares without nominal or par value		
Issued — 3,891,500 shares (1974 — 3,890,200)	9,994,864	9,989,070
Retained Earnings (Note 6)	7,873,529	4,402,191
	<u>17,868,393</u>	<u>14,391,261</u>
	<u>\$36,222,977</u>	<u>\$25,656,602</u>

Signed on behalf of the Board

 Director

 Director

Consolidated Statement of Income and Retained Earnings

For the Year Ended December 31, 1975

	1975	1974
Income		
Production, net of royalties and mineral tax (1975 — \$2,259,607; 1974 — \$727,908)	\$6,672,844	\$2,610,616
Interest and other	799,716	620,861
	<u>7,472,560</u>	<u>3,231,477</u>
Expenses		
Operating	568,135	420,535
General and administrative	197,856	163,170
Interest on long term debt (Note 3)	355,600	297,123
	<u>1,121,591</u>	<u>880,828</u>
Net cash from operations	<u>6,350,969</u>	<u>2,350,649</u>
Non-cash provisions (Note 1(d))		
Depletion	781,131	336,579
Depreciation	214,301	146,773
	<u>995,432</u>	<u>483,352</u>
Income before deferred income taxes and extraordinary item	5,355,537	1,867,297
Deferred income taxes (Note 1(e))	1,541,747	609,983
Income before extraordinary item	3,813,790	1,257,314
Gain on sale of investments (less deferred income taxes of \$47,422)	—	119,627
Net Income for the Year	<u>3,813,790</u>	<u>1,376,941</u>
Retained earnings at beginning of year	4,402,191	3,025,250
Dividend (Note 6)	342,452	—
Retained earnings at end of year	<u>\$7,873,529</u>	<u>\$4,402,191</u>
Earnings per share (based on the average number of shares outstanding during the year)		
Before extraordinary item	98.0¢	32.4¢
Extraordinary item	—	3.0
Net income	<u>98.0¢</u>	<u>35.4¢</u>

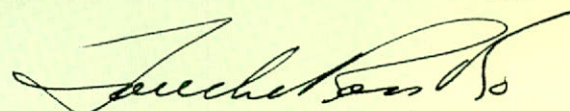
Auditors' Report

The Shareholders, Voyager Petroleum Ltd.

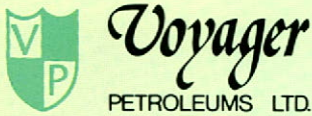
We have examined the consolidated balance sheet of Voyager Petroleum Ltd. and its subsidiaries as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting 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, 1975 and the results of their operations and the changes in their 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
February 25, 1976



Chartered Accountants



Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1975

	1975	1974
Source of Funds		
From operations		
Income before extraordinary item	\$ 3,813,790	\$ 1,257,314
Add items not requiring an outlay of funds		
Depreciation and depletion	995,432	483,352
Deferred income taxes	1,541,747	609,983
	<u>6,350,969</u>	<u>2,350,649</u>
Increase in long-term debt	4,283,198	4,293,321
Royalty tax rebate	372,012	81,700
Reduction in loans to shareholders	31,805	18,938
Disposal of equipment	20,355	49,018
Shares issued	5,794	196,650
Reduction in investments and deposits	(514)	4,058
Gain on sale of investments	—	186,758
	<u>11,063,619</u>	<u>7,181,092</u>
Application of Funds		
Petroleum and natural gas properties	8,387,930	4,250,244
Equipment	1,528,524	1,815,423
Repayment of long-term debt	1,213,624	—
Dividend (Note 6)	342,452	—
Reduction in prepaid gas revenue	29,000	29,000
Loans to shareholders	—	196,650
	<u>11,501,530</u>	<u>6,291,317</u>
Increase (decrease) in working capital	(437,911)	889,775
Working capital at beginning of year	4,852,536	3,962,761
Working capital at end of year	<u>\$ 4,414,625</u>	<u>\$ 4,852,536</u>
Changes in Elements of Working Capital		
Increase (decrease) in		
Cash	\$ (212,866)	\$ 991,994
Marketable securities	100,845	(499,049)
Accounts receivable	911,858	1,495,117
Notes receivable from shareholders	7,504	3,930
Materials and supplies	872,175	106,887
Prepaid expenses	17,483	10,755
Decrease (increase) in		
Accounts payable	(1,309,620)	(1,219,859)
Dividend payable	(342,452)	—
Current portion of long-term debt	(482,838)	—
Increase (decrease) in working capital	<u>\$ (437,911)</u>	<u>\$ 889,775</u>

Notes to Consolidated Financial Statements

December 31, 1975

1. Accounting Policies

(a) Principles of Consolidation

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

(b) Translation of Foreign Currencies

Assets, liabilities, income and expenses of the company which are in currencies other than Canadian dollars have been translated into Canadian funds on the following basis:

- (i) Current assets and current liabilities at the exchange rate on December 31, 1975.
- (ii) Property and equipment and long-term debt at rates in effect on the dates of acquisition.
- (iii) Income and expenses at the average rate for the year.

(c) Exploration and development costs

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.

(d) Depletion and depreciation

Depletion of exploration and development costs and depreciation of plant and production equipment is provided on the unit of production method based on the estimated proven oil and gas reserves as determined by the company and periodically substantiated by independent professional engineers. Depreciation of other equipment is provided by the diminishing balance method at rates ranging from 20% - 30%.

(e) Deferred income taxes

The company follows the tax allocation method of recording income taxes for all significant timing differences between accounting income and taxable income. Provincial Government royalty refunds and tax credits in the amount of \$554,171 (1974 — \$119,305) have been taken into account in calculating the current years' deferred income tax provision.

2. Notes Receivable

Loans in the amount of \$892,733 (1974 — \$917,034) have been advanced to five senior officers to enable these individuals to purchase a total of 170,000 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 installments, with approximately 75% becoming payable in the tenth year.

3. Long-Term Debt

(a) Production Loan

The company has a \$15,000,000 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 are required during 1976.

In accordance with its full cost accounting policy (Note 1(c)), interest expense of \$382,365 in 1975 (\$170,970 in 1974) has been capitalized.

(b) Agreement Payable

During the year, the company acquired certain gas producing properties. Under the terms of the purchase agreement the remaining unpaid balance at December 31, 1975 of \$1,931,352 is payable in four annual installments of \$482,838 each, commencing in 1976. No interest is payable on the unpaid balance.

4. 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 — December 31, 1974		29,100
Share options exercised	\$3.78	(500)
	5.13	(300)
	4.73	(500)
Outstanding — December 31, 1975		<u>27,800</u>

The outstanding options are exercisable in installments on a cumulative basis on various dates to 1984, at an average option price of \$4.14.

5. Executive Remuneration

- (a) Nine persons served as directors for which no directors' fees were paid.
- (b) Five persons served as officers receiving as officers aggregate remuneration of \$224,232.
- (c) Two persons who served as officers also served as directors.
- (d) Legal fees paid to a director of the company amounted to \$6,837.

6. Dividend Restriction

The company is subject to the Federal Anti-Inflation Legislation which became effective October 14, 1975. This legislation restricts the company to a maximum annual dividend of 8.8¢ per share in the twelve month period ended October 31, 1976. The restriction that will apply to dividend payments subsequent to October 13, 1976 has not been determined by the regulatory authorities.

7. Contingent Liabilities and Commitments

- (a) The company has issued non-interest bearing promissory notes totalling \$500,000 in favour of various governmental authorities. These notes are lodged as security for commitments on exploratory leases.
- (b) Under the terms of a joint venture agreement the company is committed to contribute a total of \$1,000,000 as its share of an exploratory program. The company has contributed \$209,000 of this amount to December 31, 1975.
- (c) The company has entered into lease agreements covering office premises for annual rentals of \$76,500 during the period 1976 - 1981.
- (d) Under the provisions of an employee profit sharing plan the company is committed to contribute annually the lesser of 300% of total employee contributions to the plan or 1½% of the company's net profit for the year.

Voyager

PETROLEUMS LTD.

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

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Telephone (403) 265-3155

Directors

Stanley J. Chad — *Calgary*
Hubert A. Gray — *Calgary*
Donald E. Grimm — *Dallas*
Fern Kahanoff — *Calgary*
Sydney Kahanoff — *Calgary*
Harold R. Logan — *Dallas*
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*
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*

