



VOYAGER
PETROLEUMS LTD.

ANNUAL REPORT
1978

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OF MANAGEMENT

APR 17 1979

McGILL UNIVERSITY

VOYAGER PETROLEUMS LTD.

HIGHLIGHTS

	1978	1977	Increase (Decrease) Percent
Financial			
Revenue	\$22,727,000	\$19,163,000	19
Cash flow from operations	\$19,539,000	\$16,372,000	19
per share	\$2.48	\$2.09	
Net earnings	\$12,296,000	\$10,455,000	18
per share	\$1.56	\$1.34	
Dividends per share	\$.40	\$.19	111
Capital expenditures	\$19,049,000	\$16,517,000	15
Shareholders' equity — December 31	\$42,240,000	\$32,257,000	31
Shares outstanding — December 31	7,935,900	7,858,100	
Shares outstanding — weighted average	7,864,083	7,830,800	
Number of registered shareholders — December 31	1,793	1,976	
Operating			
Natural gas sales — thousand cubic feet	18,388,000	17,511,000	5
daily average	50,377	47,977	
Crude oil sales — barrels	27,852	26,868	4
daily average	76	74	
Proven natural gas reserves billion cubic feet	452	406	11
Proven oil and condensate reserves — barrels	520,000	557,000	(7)
Well drilled	138	129	7
successfully completed	76	77	
Land holdings — December 31			
Working interest — gross acres	14,077,538	13,581,142	4
— net acres	4,243,444	3,115,625	36
Royalty interest — acres	1,334,295	1,340,643	
Number of employees — December 31	50	46	9

VOYAGER



PETROLEUMS LTD.

April 12, 1979

To The Shareholders:

Enclosed is a copy of the 1978 Annual Report.

In view of the meetings which are to be held on April 24, 1979 to consider a Plan of Arrangement between the Company and its shareholders, the holding of the Annual General Meeting has been deferred for the time being. However, your Directors thought that the 1978 Annual Report would be of interest to the Company's shareholders and it is therefore being made available to you at this time.

Yours truly,

A. Barry Beaven
Secretary

ABB/mjb

CHAIRMAN'S REPORT

To The Shareholders

I am pleased to report that Voyager was able to achieve new record levels in sales, cash flow and earnings during 1978, despite the impact of the gas marketing problems which we have alluded to before and with which most of you are now familiar. The excess of its contract commitments over available markets caused our main gas purchaser, in the spring of 1978, to seek from producers a two year reduction in takes of natural gas and additional time in which to recover gas paid for and not taken. This arrangement was concluded between the gas purchaser and the producers, including Voyager, and applies to the two contract years ending October 31, 1979. The effect has been felt on our revenues but in 1978 Voyager received \$4,500,000 under the take-or-pay provisions of our contracts, for gas not delivered. This sum will not be reflected in the Company's earnings until the gas is actually delivered over the next six years.

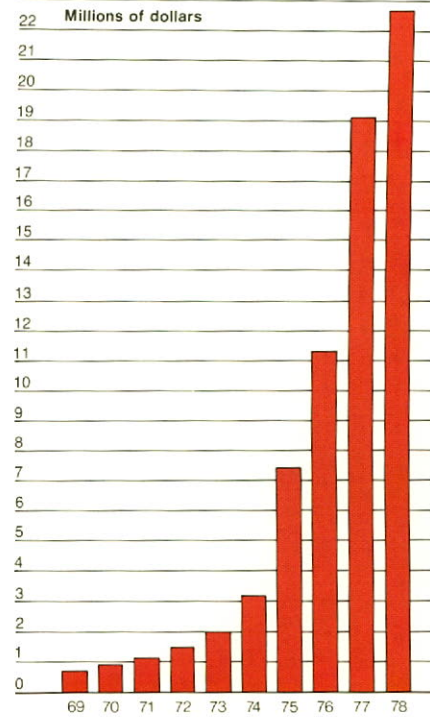
Natural gas sales averaged 50.4 million cubic feet per day which was slightly higher than the average of 48 million cubic feet per day in 1977. The Company's cash flow and operating income increased by 19% and 18%, respectively, over the previous year. Of significance is the fact that, while producing 18.4 billion cubic feet of gas over the 12 months, our remaining recoverable reserves had increased by 46 billion cubic feet to 452 billion cubic feet at the year end.

The Company continued an active program in East-Central Alberta during the year, both by drilling to earn on lands owned by others and by encouraging drilling, by others, at no cost to Voyager, on acreage which we hold but for which we had no immediate drilling plans. At the same time we expanded our plant and production facilities as required to meet our gas contract obligations.

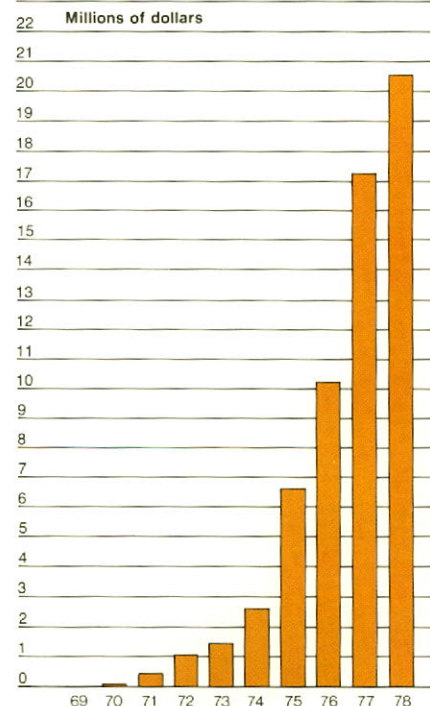
Following up on an aggressive land acquisition program over the last two years, Voyager shot 1400 miles of seismic during 1978 in Manitoba, Saskatchewan and Alberta. The extensive use of geophysical data combined with geological support is being utilized in the appraisal of our land holdings. Our exploration drilling activity during the year involved 19 exploratory wells of which 10 were cased as potential gas or oil producers.

During the past year, Voyager increased its gross land holdings in the State of Kansas by 146,000 acres. This year we will initiate a drilling program in that State as a direct follow-up to the geological studies in five counties undertaken in 1978.

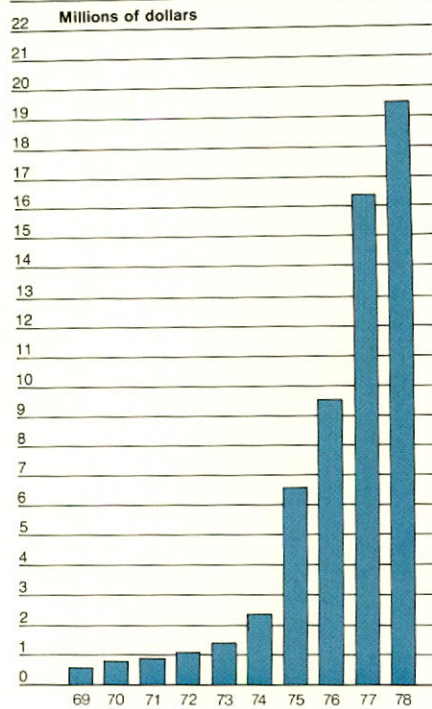
Revenue



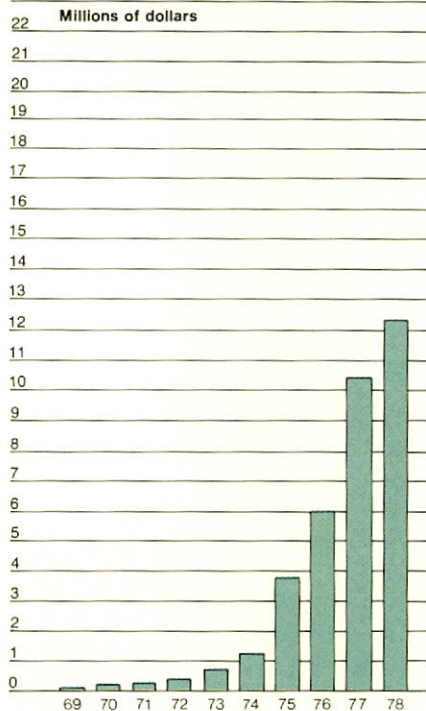
Production Revenue



Cash Flow



Net Earnings



Seismic surveys, one by a major company and one by Voyager and its U.K. partners, will be carried out this year on two of our blocks in Southern England. The results of these surveys will greatly assist in the appraisal of our United Kingdom properties.

In Australia, Voyager increased its net interest in the offshore permits during 1978 and a marine seismic survey over these holdings on the Northwest Continental Shelf is planned for early 1979. Our Queensland onshore permit will also be the subject of active appraisal this year.

On November 22, 1978 it was announced that agreement had been reached whereby Nu-West Development Corporation Ltd. of Calgary would acquire approximately 65% of Voyager's outstanding shares from a group of major shareholders and directors and officers. The sale was closed on January 12, 1979. Nu-West currently holds approximately 68% of the outstanding shares and is in the process of making an offer of \$25, or equivalent in Nu-West preferred shares, to the remaining shareholders.

Voyager is indeed fortunate in obtaining the services of H. Earl Joudrie who became a Director and the President and Chief Executive Officer of the Company on February 1, 1979, concurrently with my appointment as Chairman of the Board. Mr. Joudrie is well known in the Canadian petroleum industry as a highly qualified, knowledgeable executive. I look forward to a continuing association with Voyager and with Earl Joudrie in my new capacity.

I would like to record, with regret, the resignations from our Board of Directors of Hub Gray, Harry Kay and Don Grimm and express our appreciation to them for their contribution during their terms of office. I would also like to welcome our new directors, Ralph T. Scurfield, Chesley J. McConnell and Francis M. Parsons. Their proven abilities and progressive attitudes will, I am sure, make these three gentlemen valuable additions to your Board.

To the Board of Directors, officers and staff I extend on my behalf and yours sincere thanks for their continued loyalty and devotion. In my last report as President of the Company, I would also like to express my personal appreciation to all those who have contributed so much over the years, as original investors, employees, shareholders, directors and other associates. Without their support and assistance Voyager could not have achieved its present level of success.



Chairman of the Board.

PRESIDENT'S COMMENTS



To The Shareholders:

In reporting 1978 results Voyager has completed its tenth year as a public company. A decade marked by outstanding growth and achievement. The success of Voyager has been due in no small part to the hard work and foresight of Mr. Sydney Kahanoff, his associates on the Board of Directors and to the dedicated people of Voyager.

Nu-West Development Corporation Ltd., a successful Alberta based company in the home building and real estate development business has purchased control of Voyager and is offering to buy the remaining shares. The future success of Voyager will thus be reflected in the continued growth of Nu-West.

Voyager's present reserves and income are concentrated in natural gas producing properties in East-Central Alberta. At the same time the Company has actively increased its exploratory acreage holdings in other areas.

We will expect to maximize our development activities within Voyager's gas contract area in Alberta, where we also see some excellent opportunities for new exploration projects.

Outside this area we would intend to concentrate our efforts on an expanded program of exploration in the traditional Western Canadian sedimentary basin and in the United States. Holdings in the United Kingdom and Australia will be evaluated as circumstances dictate.

The present energy situation augers well for a continued increase in the value of hydrocarbon reserves and government policies which will provide incentives to encourage exploration and development of politically secure supplies.

We intend to take advantage of this situation by combining skilled people with our own available capital and investment monies from other sources, to mount an aggressive program of oil and gas exploration and development.

A handwritten signature in black ink, appearing to read 'H. Earl Joudrie'. The signature is stylized and cursive.

H. Earl Joudrie
President

REVIEW OF OPERATIONS AND HOLDINGS

General

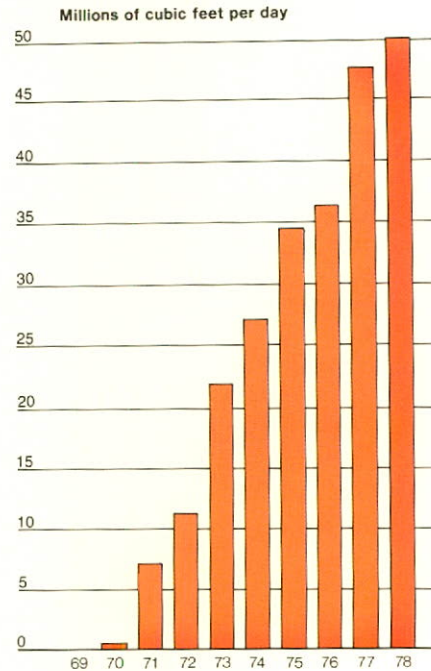
Throughout 1978 Voyager continued as one of industry's most active operators, participating in drilling 138 wells of which 76 were cased as potential producers, for a success ratio of 55 percent. These results compare with our 1977 program in which 60 percent of the 129 wells drilled were cased. Aggregate footage drilled for the year was 439,000 feet.

Exploration and development programs again increased Voyager's natural gas reserves. DeGolyer and MacNaughton estimated the Company's remaining proven (Canadian) reserves at December 31, 1978 at 451 billion cubic feet of saleable natural gas and 448 thousand barrels of oil and natural gas liquids. Comparable estimates by the same consultants at December 31, 1977 were 405 billion cubic feet of natural gas and 480 thousand barrels of oil and natural gas liquids, respectively. The Company added 46 billion cubic feet of gas reserves to its inventory after replacing record sales for the year of 18.5 billion cubic feet.

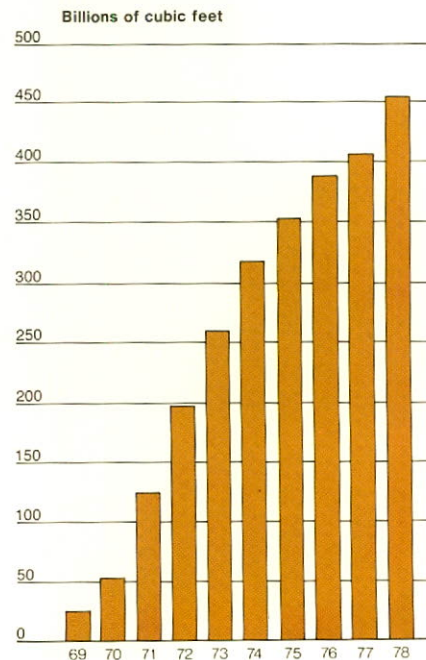
Restricted markets in the face of a burgeoning natural gas surplus in Alberta has continued to plague industry with severe cutbacks in nominations to all gas producers in the Province during the past year. In the contract year ending October 31, 1978 Voyager experienced a reduction in takes of gas by TransCanada PipeLines Limited of 14% or 3.7 billion cubic feet. For this gas, which was not taken, Voyager received \$4,500,000. Despite the existing marketing problems and the resultant reduction in deliveries Voyager continued to improve annual gas sales by increasing reserves and productive capacity within its gas contract area. During 1978 Company sales averaged 50.4 million cubic feet per day compared to 48.0 million cubic feet per day for the previous year. The chart of monthly sales (page 6) illustrates the seasonal fluctuations affecting gas demand.

In October, 1978 Voyager concluded a sizeable farmout involving lands in East-Central Alberta for which Voyager had no immediate drilling or development plans. Under the terms of this

Daily Gas Production



Gas Reserves



agreement an estimated minimum of 80 wells will be drilled at no cost to Voyager. The farmee will earn a percentage interest in each of the sections on which the wells are drilled. Upon completion of this earning phase the agreement provides for an option which, if exercised, would involve the drilling of an additional 70 to 80 wells. The entire drilling program will be completed before the end of 1979. Voyager is operating the program and will retain a significant interest after earning by the farmee.

Land Holdings

Voyager continued an aggressive land acquisition program during the year and once again substantially increased its holdings in Western Canada and in Kansas. The following table sets out land holdings at December 31, for each of the years 1977 and 1978:

	1978		1977	
	Gross	Net	Gross	Net
Oil and Gas Rights Held/Acreage at December 31				
NORTHERN CANADA				
Arctic Islands — Offshore	75,240	3,762	75,240	3,762
Beaufort Sea — Offshore	865,666	367,579	865,666	367,579
Hudson Bay — Offshore	263,698	72,517	263,698	72,517
Northwest Territories	9,432	1,078	70,749	5,660
EASTERN CANADA				
Grand Banks/Flemish Cap — Offshore ..	563,565	509,464	608,122	493,952
WESTERN CANADA				
Alberta	1,350,574	804,224	1,289,894	771,376
British Columbia	186,471	81,419	185,134	80,973
Saskatchewan	213,155	212,316	92,248	91,718
Manitoba	142,549	133,372	29,208	26,277
UNITED STATES OF AMERICA				
Colorado	70,872	68,172	69,593	69,073
Kansas	191,574	187,928	45,429	26,250
Montana	2,720	920	6,960	1,810
Texas	17	17	43	17
Wyoming	4,908	2,338	5,947	2,608
UNITED KINGDOM				
Southern England — Onshore	335,552	134,221	335,552	134,221
Celtic Sea — Offshore	—	—	64,214	10,488
AUSTRALIA				
NW Continental Shelf — Offshore	9,573,445	1,436,017	9,573,445	957,344
Queensland — Onshore	228,100	228,100	—	—
TOTAL	14,077,538	4,243,444	13,581,142	3,115,625

The foregoing does not include royalty interests in 168,759 acres in Alberta, British Columbia, and Yukon Territory, net profits and royalty interests in 1,105,708 acres in the Arctic and royalty interests in 59,828 acres in the United States.

In cases where acreage is held under a license or permit from the Crown, the licensee or permittee is entitled to select oil and gas rights under a percentage of the original area comprised in the license or permit, pursuant to the provisions of the relevant regulations.

Production

East-Central Alberta

During 1978 Voyager maintained a high level of activity in East-Central Alberta, drilling a total of 105 wells resulting in 58 potential gas producers and three oil wells. In this area, Voyager's gross and net land holdings now total 709,000 and 505,000 acres, an increase of nearly 40,000 net acres over the past year.

Land and reserve inventories were enhanced through an aggressive program of leasing and of farmin drilling to earn interests in lands held by others. This program has enabled the Company to increase the natural gas reserves by which daily contract volumes are determined. Reserve redeterminations concluded November 1, 1978 improved Voyager's daily contract volume from 60 to 71 million cubic feet per day. These redeterminations increased the quantity of gas the Purchaser is obligated to take or pay for by some 4 billion cubic feet for the current contract year.

In order to accommodate this increase in contract volumes and to offset production declines, a considerable expansion of production facilities was necessary. Construction of 43 miles of gas gathering lines to tie in 29 additional wells was completed during the year. Additional compressors and processing equipment were installed to increase

Voyager's net productive capacity to above 88 million cubic feet per day at year-end.

Highlights of activities in East-Central Alberta are summarized below:

Holden

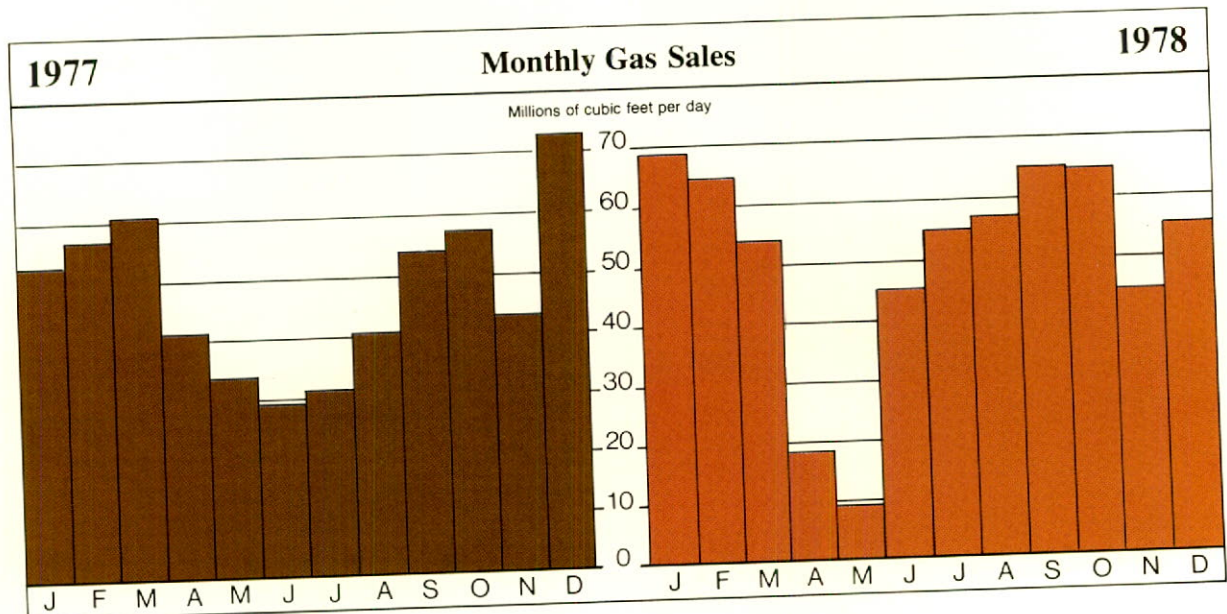
For the second consecutive year additional compression has been installed in the Holden area. The Company now owns 100 percent interest in this plant with compression facilities of 6,300 horsepower. Sales at this delivery point during 1978 totalled 9 billion cubic feet of which 6.6 billion cubic feet were for Voyager's account.

Plain

In November an increase in contract volume of 4.2 million cubic feet per day was received for the Plain contract, of which Voyager's share is 1.5 million cubic feet per day. A plant expansion was completed in December to accommodate this increase.

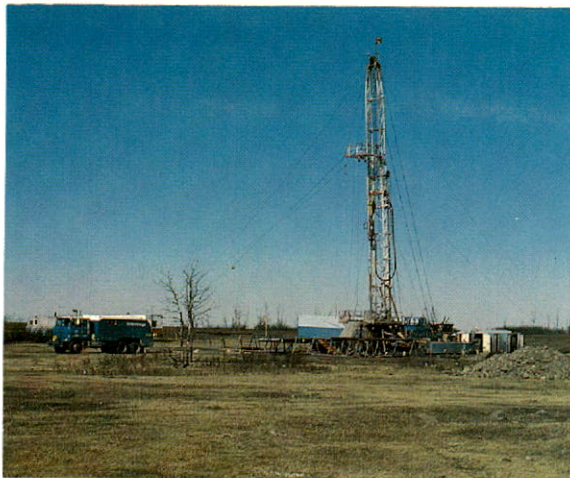
Warwick, Viking and Killam

As a result of our continuous drilling program and increased contract volumes, several capital projects were approved late in the year with construction to commence in early 1979. Plant expansions designed to improve sales capacity are underway at our delivery points in these three areas.



Mundare-Lamont

During the past two years Voyager has conducted an active program of leasing and earning interests by farmin drilling in the Mundare-Lamont area of East-Central Alberta. The Company now holds interests in over 62,000 gross acres in this area. Of 20 exploratory wells drilled, 11 are cased as potential gas wells and 15 or more development locations are scheduled for drilling during the summer of 1979. The Company has now established sufficient reserves to warrant field development in support of a trunk line delivery point. During the summer of 1979 a capital investment of some \$1,200,000 is planned for field facilities and plants capable of processing 10 million cubic feet of gas per day for deliveries to commence November 1, 1979.



Exploration

During 1978 Voyager participated in drilling 19 exploratory tests in Western Canada outside of the East-Central Alberta natural gas contract area. Ten wells were completed as potential gas or oil wells and nine were abandoned. Follow-up drilling is now under review.

Many of the recent discoveries in Western Canada are a result of significant advances in the science of recording and interpreting geophysical data. In utilizing the advantages of this important exploration tool, Voyager embarked on an ambitious geophysical program during the year acquiring over 1,600 miles of seismic data. These surveys, conducted largely throughout Central Alberta, Southeastern Saskatchewan and Southwestern Manitoba, identified a number of high quality exploration prospects.

Voyager increased its exploratory acreage holdings in Western Canada by 323,000 gross acres through an active program of freehold leasing and bidding at Crown sales.

The Company's continuing seismic and leasing programs are designed to develop an expanded portfolio of drillable exploration prospects in Western Canada.

Alberta

Steen River

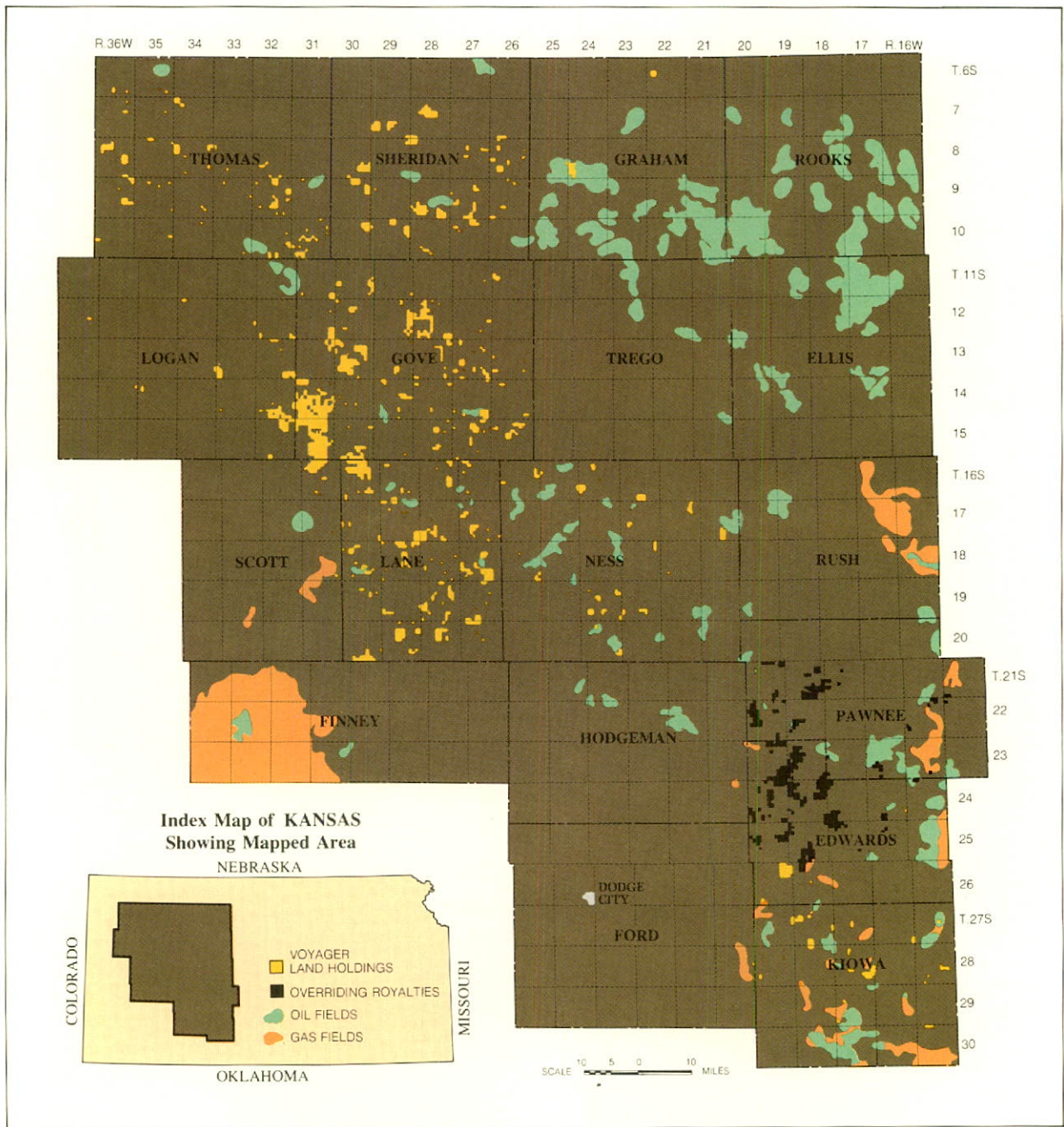
A well, drilled at no cost to Voyager, was completed as a Sulphur Point gas well with indicated deliverability of over 2 million cubic feet per day. Follow-up drilling will be dependent upon the availability of future gas markets.

Edson

The extent of Cretaceous gas reserves in this area was further delineated by drilling two wells. Both wells were cased to be evaluated with production testing. Voyager and partners have acquired an additional 1,920 gross acres of Crown land with potential for deeper Devonian prospects.

Frontier Areas

Frontier acreage held by Voyager for several years is attracting industry attention. In the Beaufort Sea an



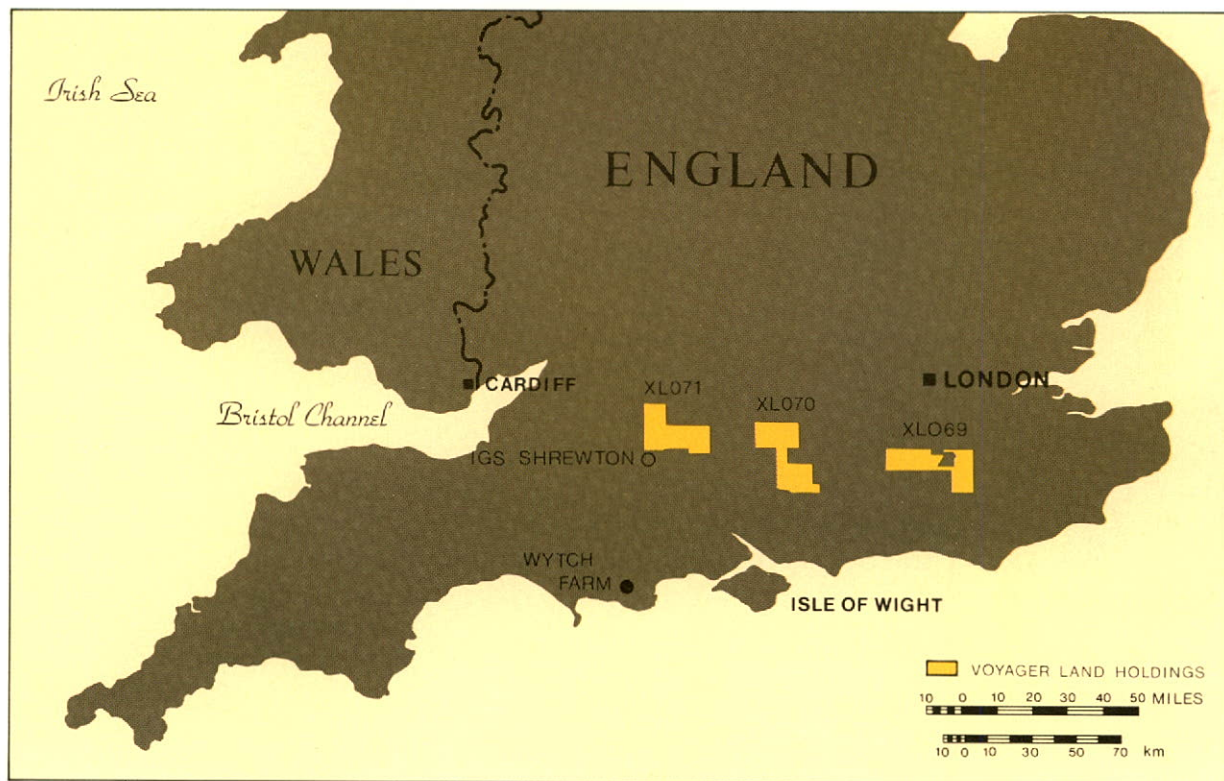
84,000-acre Permit, in which Voyager has an 8% interest, forms part of a block on which Dome Petroleum received a seismic option. A 140-mile marine seismic program has been completed and is being interpreted. The block lies 10 miles east of Dome's Kilannik M-76 location scheduled to be drilled in 1979.

In the Flemish Cap area off the East Coast of Newfoundland, Esso Resources have announced they will drill a test well, in 1979, in 3,700 feet of water on Permit lands farmed in from Voyager. Voyager's 10 percent interest will be carried by Esso until such time as production facilities may be required.

United States

During the year a major leasing program was carried out in Central Kansas following detailed geological studies. The Company now holds 188,000 net acres in Kansas, and an initial ten-well exploration program will commence early in 1979.

A United States independent company has committed to a geophysical program over Voyager's 12,000-acre property in Eagle County, Colorado, with an option to drill an earning well later in 1979, at no cost to Voyager.



United Kingdom

Voyager holds a 40% interest in three onshore Licences covering 335,000 acres in Southern England. Seismic is planned or underway on the Licences to evaluate deep Triassic prospects following the 1977 discovery of a major onshore oil pool at Wytch Farm on the South Coast. Testing of the Wytch Farm discovery confirmed a production potential reported at over 10,000 barrels of oil per day. The British Department of Energy is drilling a deep stratigraphic test at Shrewton, five miles south of one of the Voyager Blocks, which may provide more definitive information on the potential Triassic horizons in the area.

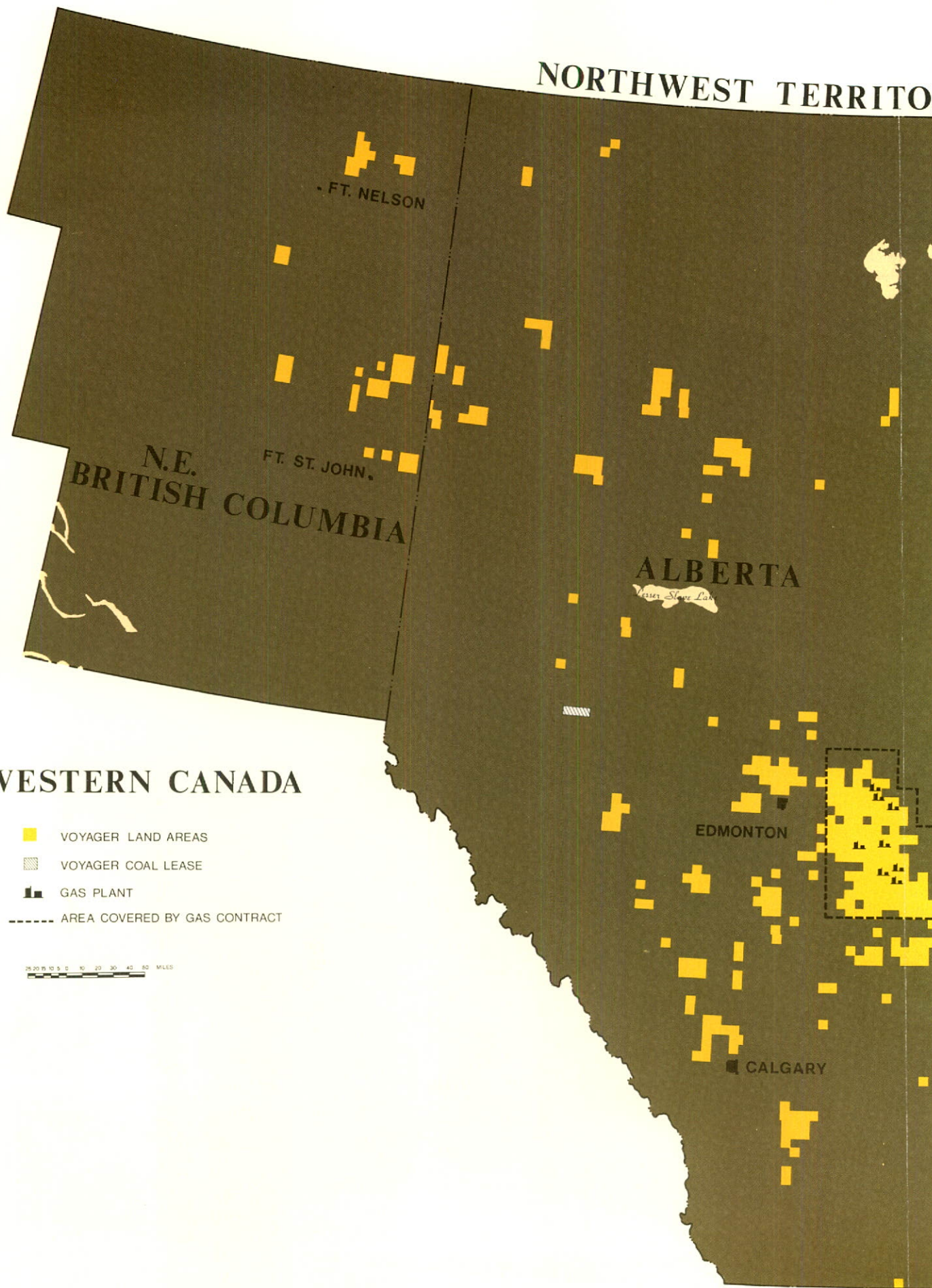
Industry interest in the area is high with five seismic crews presently operating. Shell will conduct a seismic program on Voyager's Exploration Licence XL070 (121,000 acres) in 1979 to earn an interest in the Licence. As well, Voyager and its United Kingdom partners have just completed a program on XL071 (106,000 acres). These programs will complete the Company's commitment on the Licences in Southern England to August, 1979 providing data for decisions on future activity.

Australia

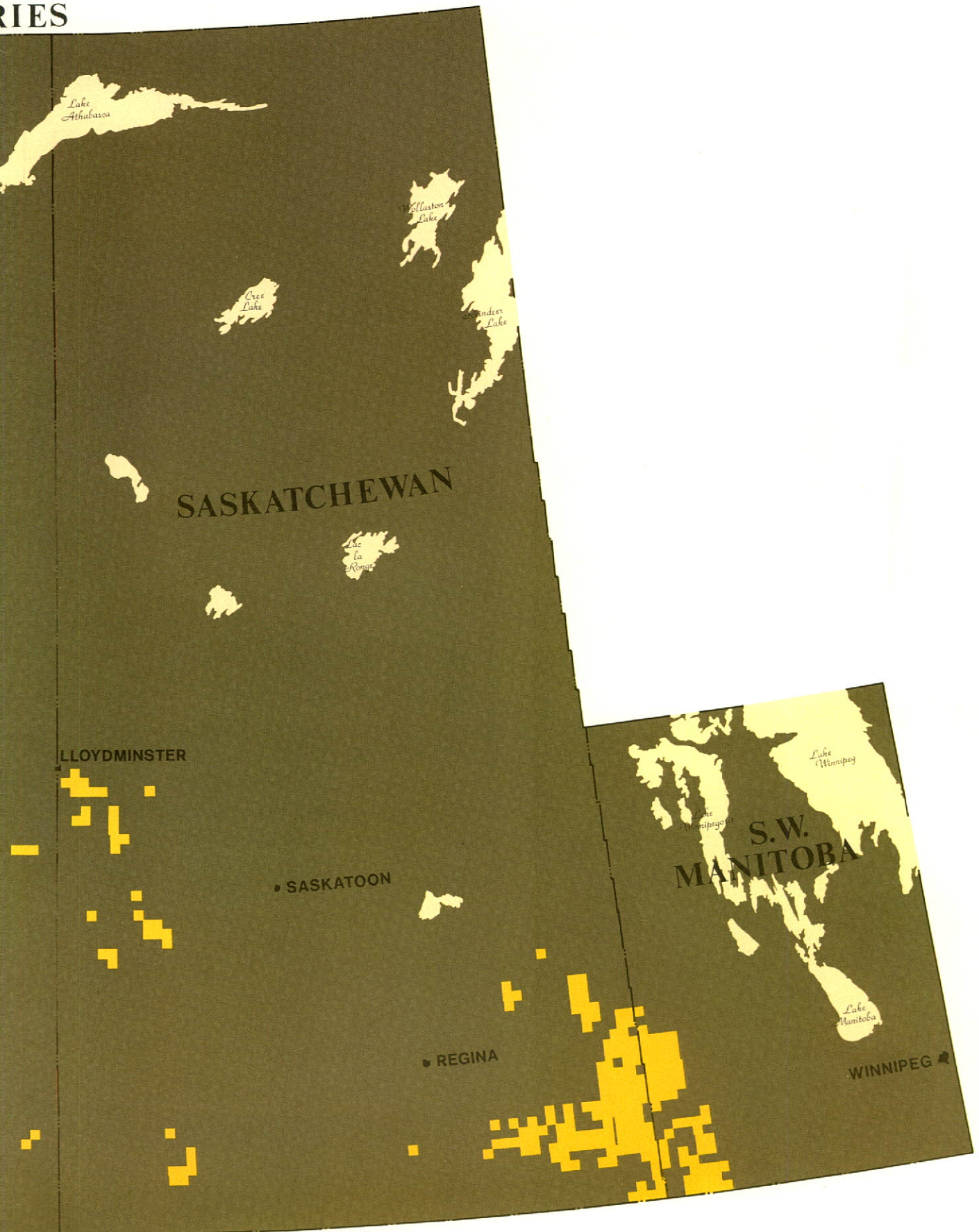
Voyager holds a 15 percent interest in two Permits on the Northwest Shelf of Australia, covering 9,500,000 acres. Geological and seismic data acquired on the southerly Permit indicate a sizeable structure. An additional 250-mile marine seismic survey is completed and is being processed.

The Voyager group has committed to 186 miles of marine seismic on the northerly Permit, which is offset to the north by a test well being drilled by others.

In early 1978 Voyager was awarded "An Authority to Prospect" on 12 Blocks, totalling 228,000 acres at Charleville, Queensland. Following a detailed technical review, the Company has been granted permission to re-enter an abandoned oil well which, if capable of commercial production, could result in offset drilling later in 1979.



RIES



U.S.A.

FINANCIAL REVIEW

NET EARNINGS AND CASH FLOW

For the year ended December 31, 1978, net earnings amounted to \$12,296,000 (\$1.56 per share), 18% more than the \$10,455,000 (\$1.34 per share) recorded in 1977. Cash flow from operations increased to \$19,539,000 (\$2.48 per share) from \$16,372,000 (\$2.09 per share) the year before, based on a weighted average of 7,864,083 shares outstanding during 1978 and 7,830,800 shares in 1977.

REVENUE

The Company's revenues for 1978, after royalties and freehold mineral taxes, were \$22,727,000 up 19% from \$19,163,000 the previous year. Higher gas prices were largely responsible for the increased revenues, Gas prices averaged \$1.53 per thousand cubic feet during the year as compared to \$1.30 per thousand cubic feet in 1977. Gas sales volumes increased by 5%. Royalties and mineral taxes represented 27.7% of gas and oil sales in 1978 as compared to 24.9% in 1977. An increase of \$335,000 in freehold mineral taxes and a greater proportion of production from Crown leases accounted for much of the change.

EXPENSES

Operating costs were \$1,943,000 in 1978, an increase of \$253,000 or 15% over the previous year. Higher levels of production combined with inflationary pressures on wages were generally responsible for this change. General and administrative expenses rose by 16% to \$676,000 in 1978 largely due to salary and wage increases and the use of consultants and outside services to support technical studies. Interest expense on long term debt for the year was \$569,000 reflecting a significantly higher average bank interest rate, more than offsetting a reduction in the average debt outstanding.

Non cash provisions of depletion and depreciation rose to \$2,926,000 in 1978, an increase of \$338,000 or 13%. Higher production levels combined with an increase in the overall depletion and depreciation rate accounted for the change.

CAPITAL EXPENDITURES

Capital expenditures increased 14% over 1977, reflecting a continuing high level of capital spending:

	1978	1977
Land acquisition and retention	\$ 5,605,000	\$ 4,567,000
Geological and geophysical	1,497,000	345,000
Drilling	7,420,000	7,496,000
Production facilities and equipment	4,527,000	4,109,000
	<u>\$19,049,000</u>	<u>\$16,517,000</u>

Land acquisition costs reflect a continuing active leasing program throughout the year in both Canada and the U.S. Geological and geophysical expenditures were substantially larger, due to a major emphasis on this activity during the period. There were significant sales of seismic data in 1977 which resulted in lower net expenditures for that year.

CHANGES IN FINANCIAL POSITION

Funds provided from operations increased 19% to \$19,539,000 in 1978. The Company's Tax Credit for Small Explorers reached \$1,000,000 during the year, which is the maximum annual credit allowed. The Company expects to remain at this maximum due to the level of Crown royalties now being paid.

Deferred gas contract revenue representing payment received under "take or pay" provisions of the gas sales contract with TransCanada totalled \$4,500,000 in 1978 reflecting the significant reduction (approximately 14%) in contract volumes actually taken by TransCanada.

DIVIDENDS

A dividend of \$.40 per share was declared in December 1978, payable January 1979, as compared to \$.19 per share declared in 1977.

VOYAGER PETROLEUMS LTD.

Consolidated Statement of Earnings

Year Ended December 31, 1978.

(thousands of dollars except per share figures)

	<u>1978</u>	<u>1977</u>
Revenue		
Gas and oil sales, net of royalties and mineral tax (1978 — \$7,901; 1977 — \$5,729)	\$20,612	\$17,253
Other operating revenue	1,562	1,310
Interest and other	553	600
	<u>22,727</u>	<u>19,163</u>
Expenses		
Operating	1,943	1,690
General and administrative	676	584
Interest on long-term debt (Note 2)	569	517
Depletion	2,153	1,897
Depreciation	773	691
	<u>6,114</u>	<u>5,379</u>
Earnings before deferred income taxes	16,613	13,784
Deferred income taxes	4,317	3,329
Net earnings for the year	<u>\$12,296</u>	<u>\$10,455</u>
Net earnings per share (Based on average number of shares outstanding)	<u>\$ 1.56</u>	<u>\$ 1.34</u>

Consolidated Statement of Retained Earnings

Year Ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Retained earnings at beginning of year	\$21,914	\$12,952
Net earnings for the year	12,296	10,455
	<u>34,210</u>	<u>23,407</u>
Dividend	3,174	1,493
Retained earnings at end of year	<u>\$31,036</u>	<u>\$21,914</u>

VOYAGER PETROLEUMS LTD.

Consolidated Balance Sheet as at December 31, 1978

(thousands of dollars)

ASSETS

	<u>1978</u>	<u>1977</u>
Current		
Cash and term deposits	\$ 2,644	\$ 3,294
Marketable securities	746	756
Accounts receivable	6,013	7,040
Materials and supplies	18	1,033
Notes receivable from shareholders (Note 1)	1,696	—
Prepaid expenses	80	31
	<u>11,197</u>	<u>12,154</u>
 Investments		
Notes receivable from shareholders (Note 1)	—	818
Investments	237	269
	<u>237</u>	<u>1,087</u>
 Property and equipment		
Petroleum and natural gas properties, less accumulated depletion of \$8,725 (1977 — \$6,502)	55,022	42,652
Equipment, less accumulated depreciation of \$2,374 (1977 — \$1,625)	15,864	12,396
	<u>70,886</u>	<u>55,048</u>
	<u>\$82,320</u>	<u>\$68,289</u>

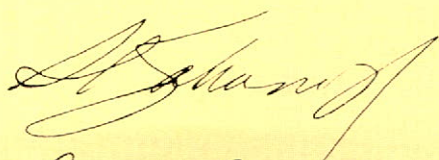
LIABILITIES

	<u>1978</u>	<u>1977</u>
Current		
Accounts payable	\$10,027	\$ 8,385
Dividend payable	3,174	1,493
Current portion of long-term debt	483	483
	<u>13,684</u>	<u>10,361</u>
 Long-Term Debt		
Production loan (Note 2)	5,250	13,860
Agreement payable	—	483
	<u>5,250</u>	<u>14,343</u>
 Deferred gas contract revenue (Note 2)	<u>4,947</u>	<u>447</u>
 Deferred income taxes	<u>16,198</u>	<u>10,881</u>

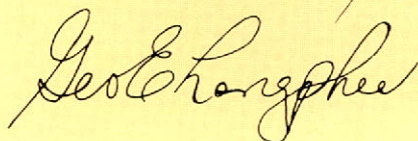
SHAREHOLDERS' EQUITY

Share Capital (Note 4)		
Authorized — 14,000,000 shares without nominal or par value		
Issued — 7,935,900 shares (1977 — 7,858,100)	11,205	10,343
 Retained earnings	<u>31,036</u>	<u>21,914</u>
	<u>42,241</u>	<u>32,257</u>
	<u>\$82,320</u>	<u>\$68,289</u>

On behalf of the Board



Director



Director

VOYAGER PETROLEUMS LTD.

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1978.

(thousands of dollars)

	<u>1978</u>	<u>1977</u>
Funds provided		
Net funds from operations	\$ 19,539	\$16,372
Tax credit for small explorers	1,000	739
Deferred gas contract revenue	4,500	447
Loans to shareholders	818	78
Shares issued	861	115
Other	318	(139)
	<u>27,036</u>	<u>17,612</u>
Funds applied		
Petroleum and natural gas properties	14,522	12,409
Equipment	4,527	4,108
Production loan	8,610	254
Agreement payable	483	483
Dividend	3,174	1,493
	<u>31,316</u>	<u>18,747</u>
Decrease in working capital	(4,280)	(1,135)
Working capital at beginning of year	1,793	2,928
Working capital (deficiency) at end of year	<u>\$ (2,487)</u>	<u>\$ 1,793</u>

Auditors' Report

The Shareholders Voyager Petroleum Ltd.

We have examined the consolidated balance sheet of Voyager Petroleum Ltd. as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 21, 1979

Touche Ross & Co
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1978

Summary of Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies.

Valuation of assets

Marketable securities and materials and supplies are valued at the lower of cost or net realizable value.

Investments are carried at cost.

Foreign Currency Translation

Foreign currencies have been translated into Canadian dollars on the following bases:

- a) Current assets and current liabilities at the rate of exchange in effect at the balance sheet date.
- b) Non current assets and liabilities at historical rates.
- c) Revenue and expense items at average rates prevailing throughout the year.

Gains or losses on translation are charged to earnings.

Petroleum and natural gas properties and equipment.

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized. Such costs include land acquisition costs, geological and geophysical costs, costs of drilling productive and non-productive wells and overhead related to exploration activities including interest on borrowed funds. Proceeds from disposals of properties are normally applied as a reduction of the cost of the remaining assets.

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

Deferred income taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions recorded in the accounts.

1. Notes Receivable

Loans secured by promissory notes have been advanced to senior officers to enable these individuals to purchase shares of the Company. Under provisions of the share purchase agreements, shares held by senior officers were offered for sale to satisfy the terms and conditions of the offer to purchase given by Nu-West Development Corporation Ltd., described in Note 7. As a result repayment arrangements for the promissory notes were accelerated and the notes were fully paid on January 12, 1979.

2. Long-Term Debt

Production Loan

In 1978 the Company arranged for a \$25,000,000 line of credit on favourable terms secured by the Company's interest in certain petroleum and natural gas properties. No repayments are anticipated during 1979 under existing arrangements with the Bank.

In accordance with the Company's full cost accounting policy, interest expense of \$910,000 has been capitalized in 1978.

Deferred Gas Contract Revenue

The Company has a "take or pay" gas purchase contract pursuant to which the buyer is obligated to take a

determined quantity of gas during a contract year. Failing to take the quantity requires the buyer to pay at current prices for gas not taken. The buyer has the right to take delivery of such gas paid for, and not received, anytime within the next six years, payment otherwise being forfeited. The buyer can only take such gas in excess of minimum contract quantities currently being delivered. The value of the gas not taken during the contract year ended October 31, 1978 amounted to \$4,500,000 (1977 — \$447,000) and it is not anticipated that the buyer will take delivery of such gas during 1979.

3. Income Taxes

Deferred income taxes amounted to \$4,317,000 in 1978 and \$3,329,000 in 1977 for an effective tax provision rate of 26% and 24% respectively. These amounts vary from "expected" tax levels computed by applying applicable Canadian Federal and Provincial tax rates to earnings before income taxes as follows:

	(In Thousands)	
	<u>1978</u>	<u>1977</u>
Computed "expected" tax expense at 47%	<u>\$7,808</u>	\$6,479
Increase in income tax resulting from		
Royalties and other payments to the Crown	<u>2,329</u>	1,586
Reduction in income tax resulting from		
Resource allowance on Canadian resource profits	<u>(2,803)</u>	(2,251)
Depletion allowance on resource profits	<u>(1,785)</u>	(1,405)
Miscellaneous	<u>(232)</u>	(341)
	<u>5,317</u>	4,068
Tax credit for small explorers	<u>(1,000)</u>	(739)
Net deferred income tax provision	<u>\$4,317</u>	<u>\$3,329</u>

At December 31, 1978 the Company had unclaimed Canadian development expense of approximately \$8,000,000 which may be applied against future taxable income.

4. Share Capital

Employee Stock Option Plan

Options were outstanding at December 31, 1978 to purchase 11,600 shares at prices ranging from \$1.615 to \$12.04 per share. The options are exercisable in cumulative annual instalments commencing one year from the date of granting and expire ten years thereafter. No officers hold stock options.

During the year, options to purchase 5,000 shares were issued, 7,800 shares were issued on the exercise of stock options and options to purchase 1,400 shares were cancelled.

5. Remuneration of Directors and Senior Officers.

The aggregate direct remuneration of directors and senior officers, including the five highest paid employees, was \$327,000. Directors' fees of \$27,000 were paid in 1978 (1977 — \$nil).

6. Commitments

Under the provisions of an employee profit sharing plan the Company is committed to contribute annually 1½% of the Company's defined profit for the year. Company contributions totalled \$288,000 for 1978.

7. Subsequent Event

Pursuant to agreements dated November 21, 1978 certain shareholders representing approximately 65% of the outstanding common shares of the Company agreed to sell their direct and indirect holdings to Nu-West Development Corporation Limited. This sale was completed January 12, 1979. Nu-West has agreed to make an offer for the remaining outstanding common shares.

FIVE YEAR REVIEW

	1978	1977	1976	1975	1974
FINANCIAL (in thousands of dollars)					
Revenue					
Production, net of royalties and mineral tax	\$20,612	\$17,253	\$10,239	\$ 6,673	\$ 2,611
Other operating revenue	1,562	1,310	713	306	184
Interest and other	553	600	403	494	437
	<u>22,727</u>	<u>19,163</u>	<u>11,355</u>	<u>7,473</u>	<u>3,232</u>
Expenses					
Operating	1,943	1,690	950	568	421
General and administrative	676	584	291	198	163
Interest on long term debt	569	517	439	356	297
Depletion	2,153	1,897	1,143	781	337
Depreciation	773	691	348	214	147
	<u>6,114</u>	<u>5,379</u>	<u>3,171</u>	<u>2,117</u>	<u>1,365</u>
Earnings before deferred taxes and extraordinary item	16,613	13,784	8,184	5,356	1,867
Deferred income taxes	4,317	3,329	2,166	1,542	610
Earnings before extraordinary item	12,296	10,455	6,018	3,814	1,257
Extraordinary item					120
Net earnings	<u>\$12,296</u>	<u>\$10,455</u>	<u>\$ 6,018</u>	<u>\$ 3,814</u>	<u>\$1 ,377</u>

FINANCIAL STATISTICS

Net earnings per share					
From operations	\$ 1.56	\$ 1.34	\$.77	\$.49	\$.16
Extraordinary item					\$.02
Cash flow from operations per share	\$ 2.48	\$ 2.09	\$ 1.24	\$.82	\$.30
Dividends per share	\$.40	\$.19	\$.12	\$.04	
Average number of shares outstanding (in thousands)	7,864	7,831	7,806	7,782	7,768
Capital expenditures (in thousands of dollars)					
Land	5,605	4,567	4,466	5,205	2,157
Geological and geophysical	1,497	345	651	372	592
Drilling	7,420	7,496	7,155	2,811	1,501
Production facilities	4,527	4,109	3,922	1,529	1,816
	<u>\$19,049</u>	<u>\$16,517</u>	<u>\$16,194</u>	<u>\$ 9,917</u>	<u>\$ 6,066</u>

OPERATIONS

Natural gas sales (mmcf/d)	50.4	48.0	36.5	34.3	27.0
Proven natural gas reserves (bcf)	452	406	385	352	318
Wells drilled	138	129	224	93	82
Successfully completed	76	77	141	56	51
Land holdings (in thousands of acres)					
Working interest — gross	14,078	13,581	4,311	6,984	9,714
— net	4,243	3,116	2,241	3,108	4,009
Royalty interest	1,334	1,341	1,627	1,042	130

VOYAGER PETROLEUMS LTD.

Incorporated under the laws of Alberta, September 30, 1966



Head Office — Suite 600, Bow Valley Square 2
205 - Fifth Avenue South West
Calgary, Alberta T2P 2W4
Telephone (403) 265-3155
Telex: 03-824799

Directors

A. Barry Beaven — *Calgary, Alberta*
H. Earl Joudrie — *Calgary, Alberta*
S. Kahanoff — *Calgary, Alberta*
W. Fern Kahanoff — *Calgary, Alberta*
Gordon H. Lennard — *Calgary, Alberta*
Harold R. Logan — *New York, New York*
George E. Longphee — *Victoria, B.C.*
Campbell M. MacInnes — *Invermere, B.C.*
Chesley J. McConnell — *Edmonton, Alberta*
Francis M. Parsons — *Calgary, Alberta*
Ralph T. Scurfield — *Calgary, Alberta*

Officers

Sydney Kahanoff, *Chairman of the Board*
H. Earl Joudrie, *President and Chief Executive Officer*
A. Barry Beaven, *Vice President and Secretary*
Edward L. Molnar, *Vice President, Production*
Harold R. Allsopp, *Vice President, Finance and Treasurer*
Ernest A. Chillack, *Assistant Secretary*

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

Voyager Petroleums Australia Ltd.
Voyager Petroleums (U.K.) Limited
Voyager Petroleums, Inc., *a Colorado Corporation*
Sabra Petroleum Ltd., *a Bermuda Company*
Panwest Pty. Limited, *incorporated under the laws of*
New South Wales, Australia (50% owned)

Canadian Bankers

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

United States Bankers

United Bank of Denver, *Denver, Colorado*

Auditors

Touche Ross & Co., *Calgary, Alberta*

