



# NORTH CANADIAN OILS LIMITED

ANNUAL REPORT 1978



# NORTH CANADIAN OILS LIMITED

## COMPANY PROFILE

Founded in 1947, North Canadian Oils is an Alberta based company whose principal business is the exploration for oil, natural gas and other minerals and the development of these resources. The Company owns extensive gas producing properties in Alberta and Saskatchewan, prospective exploration lands in Canada and the United States, a 136 mile gas transmission line and established reserves of thermal coal.

Aside from its holdings related to mineral resources, North Canadian has material investments in the forest products industry, commercial real estate and a large Canadian food service company.

The shares of the Company have been listed on the Toronto and American Stock Exchanges since 1952.

## ANNUAL MEETING:

The 1979 Annual Meeting of shareholders will be held Friday, June 8, 1979, at 9 am. local time, Kenora Room, The Sheraton Center, Toronto, Ontario, Canada.

A formal notice of this meeting together with proxy statement and form of proxy, have been mailed with this report. All shareholders who are unable to attend the meeting are requested to sign and return their proxies which must reach the Company's office at least 48 hours prior to the time of the meeting.

COVER PHOTO  
CALGARY, ALBERTA  
— HUB OF CANADA'S  
OIL INDUSTRY  
photo by T. Santo.



## THE YEAR AT A GLANCE

Financial	1978	1977
Gross Revenue (before royalty) .....	\$19,850,000	\$18,344,000
Cash Flow .....	7,126,000	8,210,000
Net Income before extraordinary items .....	5,269,000	5,934,000
Per Share (after provision for preferred share dividend) .....	1.11	1.04
Net Income after extraordinary items .....	6,038,000	6,623,000
Per Share (after provision for preferred share dividend) .....	1.28	1.16
Exploration Expenditures .....	4,200,000	4,300,000
Development Expenditures .....	500,000	2,700,000
Investment in affiliate .....	17,769,000	25,012,000
Shareholders' Equity .....	27,104,000	36,321,000

### Operating

Natural Gas Production — billion cubic feet ...	18.7	19.3
Average per day — million cubic feet ....	51.3	52.8
Pipeline —		
Annual throughput, billion cubic feet .....	7.6	6.0
Oil Production — barrels .....	40,000	43,000

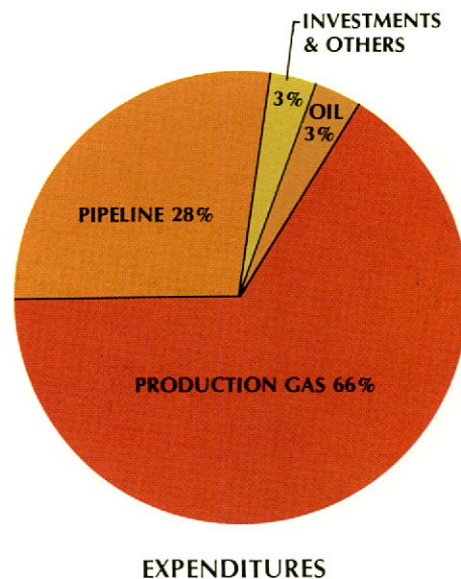
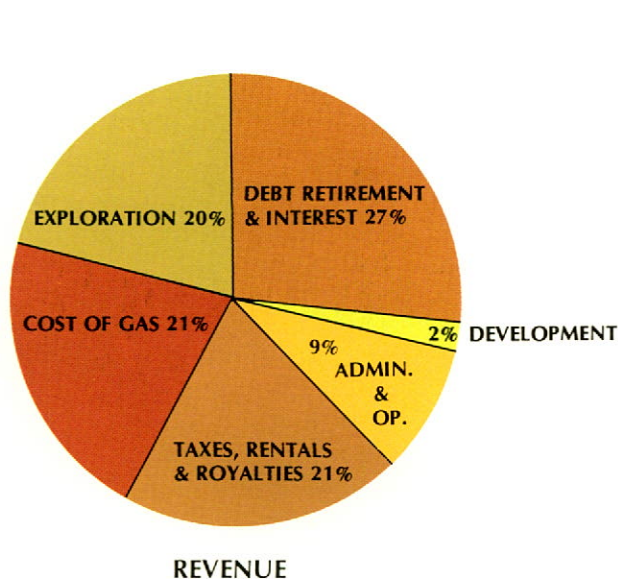
### Estimated

#### Gross Proven Recoverable Reserves — January 1, 1979

GAS .....	663 Billion cubic feet
OIL .....	318 Thousand barrels

### Undeveloped Acreage

Area	Gross	Net
Alberta	258,000	127,700
Saskatchewan	10,700	10,700
British Columbia	9,901	2,245
U.S.A.	22,834	5,597



NOTE: All statistical information includes data relating to the gas properties of Hatleigh Corporation.



## TO THE SHAREHOLDER



On behalf of the Board of Directors I am pleased to submit the thirty-second Annual Report of North Canadian Oils.

In a particularly eventful year for the Company there were a number of significant corporate developments. These were in order of their occurrence: the successful tender offer by Hatleigh Corporation (then Hambro Canada Limited) for approximately 21% of the publicly held shares of North Canadian Oils, the acquisition by Hatleigh Corporation of 100% of the common shares of Foodex Systems Limited, the amalgamation of Hatleigh Corporation with Hatleigh Investments Ltd., a wholly owned subsidiary of North Canadian

Oils and in conjunction therewith the assignment of certain producing properties by North Canadian to the newly amalgamated company. Also, there was a change in the Company's capital structure which was approved at a special meeting of the shareholders held on December 29.

Under the provisions of the amalgamation, North Canadian, which previously owned 49.3% of the common shares of Hatleigh Corporation, received all of the common shares of the ongoing company. The other Hatleigh shareholders exchanged their common shares for 9<sup>3</sup>/<sub>4</sub>% redeemable voting preference shares. Subject to Hatleigh's preferred share obligations and

debt service requirements, and to the corresponding obligations of Foodex, North Canadian can now utilize to its best advantage the extensive assets of the two companies.

Net income, after giving effect to all adjustments, including a write-off of foreign exploration costs of \$1,520,000, was \$6,038,000 or \$1.28 a share. This compares to \$6,623,000 or \$1.16 a share earned in 1977. The write-off, which reduced per share earnings for the year by 33¢, was created by the Company's relinquishment of a foreign exploration concession which it had held since 1975. All of the costs related thereto, including the drilling of a 13,000 foot well offshore India were, in

fact, incurred prior to 1978. Because of the previously noted assignment of producing properties to Hatleigh Corporation at the time of the amalgamation, the gross revenue and cash flow figures for 1977 and 1978 cannot be related on a comparable basis.

Although considerable time and effort was expended on the completion of the Hatleigh acquisition, it was not at the expense of the Company's principal business of exploration and production. In 1978, North Canadian participated in the drilling of 36 exploratory wells in Canada and 2 in the United States. Of these, 19 were completed as gas or prospective gas discoveries, 4 as potential oil wells and the others abandoned. A continued high level of exploration activity is projected for 1979.

Gas production, which totaled 18.7 million cubic feet for the year, was down approximately 3% from the record level set in 1977. Because of higher prices, however, net revenue from sales was up by 11% or nearly \$1.1 million. Of substantial benefit to the Company was a reduction by the Alberta Government on August 1 of the royalty levied on gas produced from low deliverability wells. It is estimated that on the basis of the current price, the change in royalty will increase North Canadian's net operating income by over \$1 million a year.

The ever increasing surplus of natural gas in western Canada poses a far greater problem for the industry than was realized when the so called "gas bubble" was first identified two years ago. The lack of markets has not as yet had a noticeable effect on the level of exploration activity but a slow down is inevitable unless relief is soon provided. Some encouragement, however, can be

gained from recent public statements of key government officials which indicate a turn about in the federal government's position with respect to permitting additional gas exports. This is supported by the release, on February 28 of this year, of a National Energy Board report on the current and long range supply of Canadian gas which indicates an immediately available surplus to Canadian needs of over two trillion cubic feet. Several new export applications are already on file and it is believed likely that the first approvals for the export of additional gas to the United States will be granted before the end of this year.

It is estimated that North Canadian has in the past two years discovered a possible 30 to 40 billion cubic feet of gas in western Canada for which there is no immediate market. These new found reserves, which have yet to be fully evaluated, are in addition to the Company's proven recoverable reserves which as of January 1, were estimated to be 663 billion cubic feet.

In February of this year, North Canadian sold its 25% interest in the Canso salt storage project in Nova Scotia to Gulf Canada Limited with the conviction that Gulf's participation would greatly enhance the probability of the project's successful completion. The Company recovered its investment in full and has the option to "back in" to the project at a later date or to receive a substantial cash consideration if and when the storage facility becomes operational.

As you will note from the accompanying proxy material, the shareholders are asked to vote at the forthcoming annual meeting on a resolution

approving the granting of an option by Hatleigh Corporation to a company solely owned by Mr. J. F. Kay, North Canadian's major shareholder. If exercised, the option will enable Mr. Kay's company to purchase all of the shares of Peel-Elder Developments Limited which holds the principal real estate interests of Hatleigh. The terms of the proposed transaction and all pertinent information relating thereto is fully set forth in the Information Circular-Proxy Statement provided herewith.

As in prior years we take this appropriate opportunity to express our sincere appreciation to all North Canadian employees for the dedicated manner in which they have carried out their varied responsibilities. Without them the accomplishments of the past year would not have been possible.



**ROBERT F. RUBEN**  
President and Chief  
Executive Officer

MARCH 19, 1979

NORTHWEST TERRITORIES

ALBERTA

Lake Athabasca

FT. CHIPEWYAN

NORTHWEST ALBERTA AREA

ATHABASCA TAR SANDS

PELICAN LIVOCK AREA

SASKATCHEWAN

OTTER

DIXONVILLE

Lesser Slave Lake

CENTRAL ALBERTA AREA

FIGURE LAKE AREA

CORBETT CREEK

EDMONTON

NORTH CANADIAN GAS PIPELINE

HINTON

JOARCAM

THREE HILLS CREEK

CALGARY

INVERMERE

ATLEE BUFFALO AREA

HATTON SCHULER AREA

MEDICINE HAT

MONTANA

**NORTH CANADIAN PROPERTIES AND INTERESTS — 1978**

-  Petroleum & Natural Gas Lands
-  Current Exploratory Wells
-  Oil Production
-  Gas Production
-  Coal Leases
-  Mining Claims
-  Major Gas Fields
-  Major Oil Fields



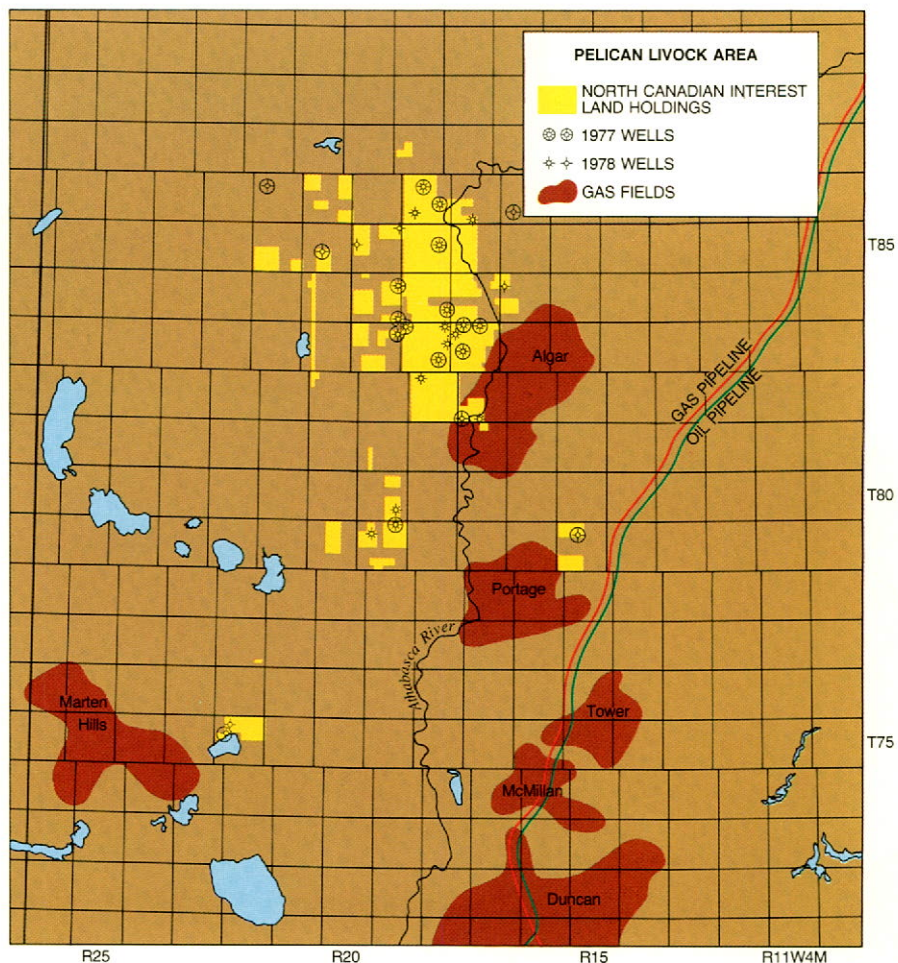
## EXPLORATION



D.F. CHRISTENSEN  
Vice President, Exploration

The high level of exploration activity established in 1977 continued into 1978 with North Canadians participation in the drilling of 38 exploratory wells. Of the 31 exploratory wells in which the Company made direct investment, 18 were completed as gas discoveries and 3 as oil discoveries. Seven wells drilled by others on Company lands resulted in one gas discovery and one oil discovery.

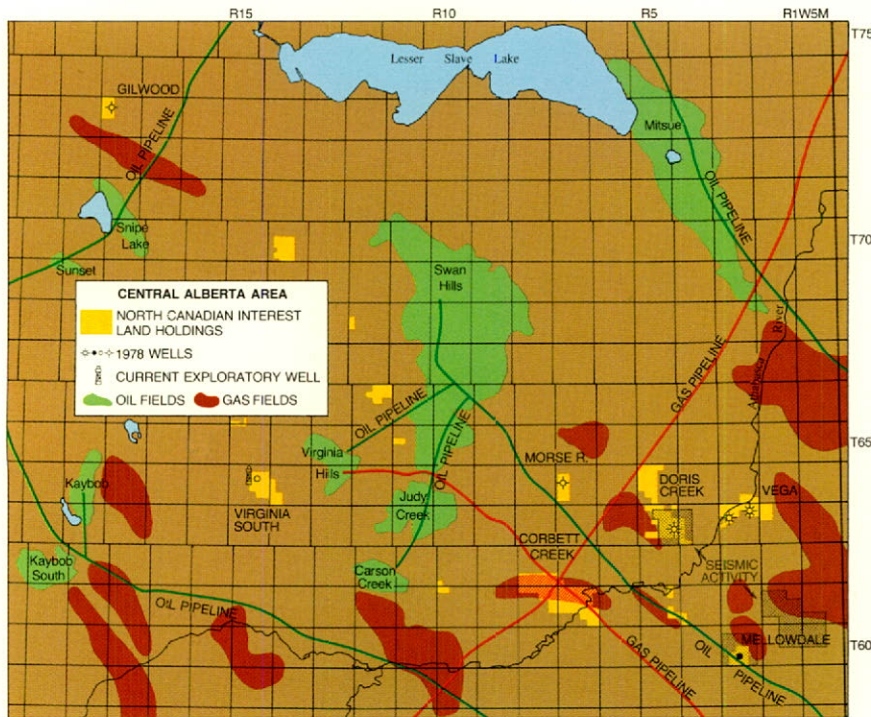
Following a three year period of extensive exploration involving 4,600 miles of marine seismic and the drilling and abandonment of a 13,000 foot well in the Gulf of Mannar, the Company and its Canadian partners relinquished the 1,235,000 acre concession area offshore India on October 31, 1978. Eighty-five thousand acres of land located along the Mackenzie River, Northwest Territories in which North Canadian held a 25% interest, was also relinquished during the year. New land in the amount of 46,000 acres located in Alberta and 12,000 acres located in the United States was added to the Company's exploration land portfolio.



### Canada

Thirteen exploratory wells were drilled by the Company and its partners in the Pelican-Livock area during the first quarter of 1978. Nine wells were cased as potential gas producers and four abandoned. Combined with the nineteen exploratory wells drilled in 1977, this completes the exploration earning phase on 230,000 acres of land spread over this gas prone area of northeastern Alberta. Final result of the two year program is twenty-one gas discoveries. North Canadian's overall interest averages approximately 10%.

North Canadian participated in four exploratory wells in the extensive shallow gas area of northwestern Alberta during 1978. At Hawk Hills, one well was completed as a Cretaceous Bluesky gas well and one well was abandoned. Bluesky discoveries were also completed at Rainbow-Basset and Buchanan. Additional land was acquired in the Buchanan and Boyer areas and the Company now holds interests of 22½% to 100% in approximately 61,000 acres in the northwest Alberta area.



the Triassic Halfway sand. The Company holds a net 21.25% interest in 4,400 acres of lands surrounding this gas pool development. Pipeline facilities have been constructed in anticipation of the commencement of production in November of 1979.

### Foreign

A 14,500 foot test, located in Fremont County, Wyoming, was abandoned in the late summer of 1978 after testing non-commercial gas in several Tertiary and Mesozoic sands. North Canadian, a 33 1/3% participant in this venture, has optioned a portion of its interest to a major oil company which is soon to drill a 16,000 foot test on adjoining lands.

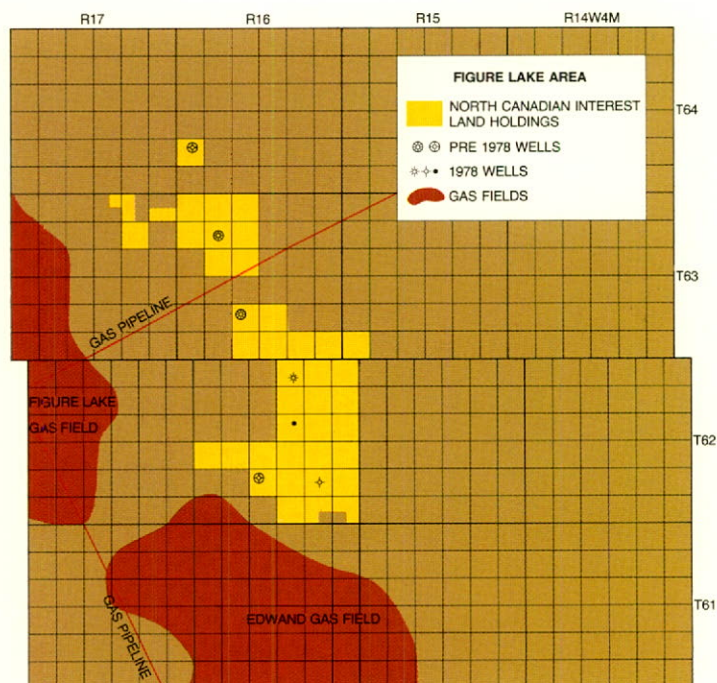
In the Figure Lake-Edward area of Alberta, North Canadian drilled three exploratory wells; two late in 1978 and the other in January, 1979. One was completed as a potential Cretaceous oil well, one as a Cretaceous gas well and the other abandoned. With the drilling of these three wells, the Company now holds varying interests in 23,840 acres on this prospective oil and gas trend.

The first of these has been completed as a shut-in gas well after testing 2.5 million cubic feet of gas per day from the Cretaceous Buick sand. The second well has been cased in

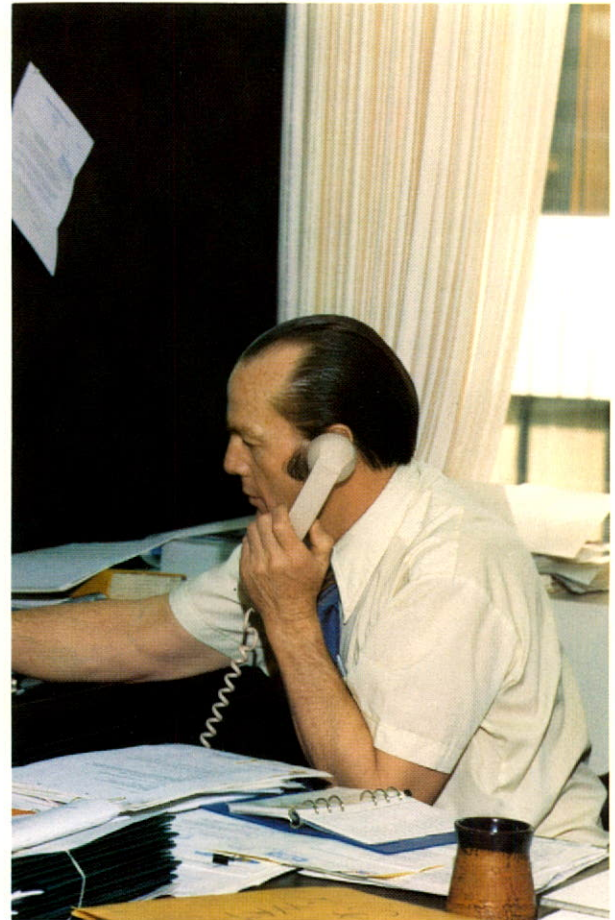
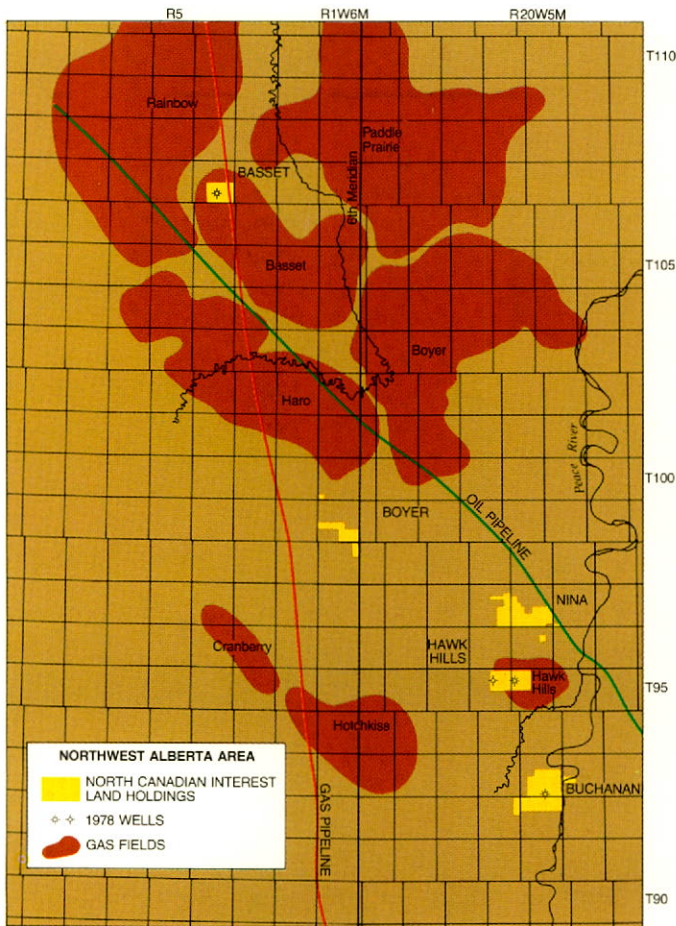
North Canadian owns a 25% interest in 11,000 acres of land covering eight specific prospects located in the shallow bay waters of the Texas Gulf Coast between the cities of Beaumont and

In central Alberta, the Company participated in six exploratory wells which resulted in two Viking gas discoveries at Vega, a Viking gas discovery at Doris and a Cretaceous oil discovery at Mellowdale with interests varying from 17% to 100% in approximately 98,000 acres of land. North Canadian plans to intensify its activity in this area during the coming year.

Two wells were drilled as step outs to the 1977 gas discovery in the Otter area of northeastern British Columbia.







**BENJAMIN L. COOK**  
Land Manager

Harlingen. The 11,300 foot Hartsburg #1 well located near Beaumont, Texas was drilled and abandoned in late December after encountering nonporous sand. The Company had a 10% working interest and a 4.2% carried interest in this first test of the prospects. It is anticipated that at least 3 of the remaining prospects will be drilled in 1979.

In northeast Indiana, the Company as a 25% interest partner, has joined in a stratigraphic testing program to evaluate oil prospects underlying the old Trenton shallow gas trend of Indiana and Ohio. The first well of a four well program was spudded late in the year but has been suspended through spring break-up. The drilling group

controls approximately 7,600 acres on this play.

### Other Activities

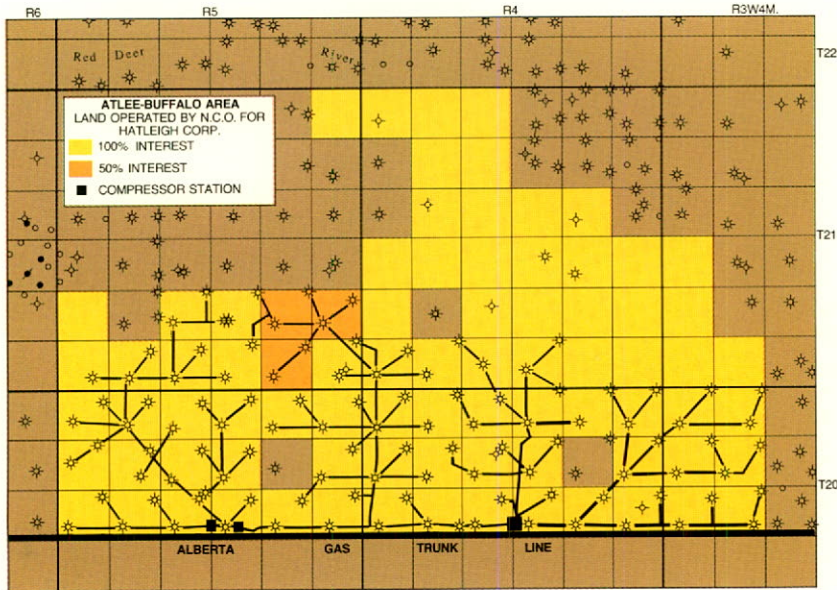
Reconnaissance geophysical surveys were completed on the 36,000 acre Cape Breton, Nova Scotia, salt storage area during 1978 and also two core holes were drilled to further delineate the extent of the salt body. Early in 1979 North Canadian disposed of its 25% interest in the project to Gulf Canada Limited. The agreement of sale provides for a full recovery by North Canadian of its investment in the project and further provides the Company with an option to assume a small working interest position in the project at a later date or to receive a substantial

cash payment if and when the facility becomes operational.

In May 1978, 1,110 acres of coal leases, located in west central Alberta, near the town of Robb, were granted to North Canadian. The land borders leases already held and now gives the Company a total of 2,810 acres of leases in this active thermal coal mining district.



## DEVELOPMENT



The Company did not drill any development wells in 1978. An additional compressor was installed at Hatton and some minor compression facilities were added at Hilda Schuler and

Atlee-Buffalo. An extensive development drilling program is planned for 1979.

Plans were approved late in 1978 for an expansion of the gas processing plant at Three Hills

Creek. While North Canadian has but a relatively small interest in the producing unit, the added facilities should provide the Company with an additional 100 million cubic feet of gas a year.

The Company presently owns and operates a total of 480 wells in the shallow gas areas of Alberta and Saskatchewan. Predicated on full development of both the Medicine Hat and Milk River sands underlying the Company's acreage, more than 600 proven locations remain to be drilled.

As of January 1, 1979, the Company's proven gross reserves, including the properties now held by Hatleigh, were estimated at 663 billion cubic feet of gas and 318,000 barrels of oil. These figures do not include the estimated probable reserves attributable to new discoveries.



## PIPELINE



**W. K. MILLER**  
Manager, Gas Transmission

Net operating revenue from the 136 mile Wabamun to Hinton natural gas pipeline for the year

declined approximately 14%. This reduction reflects twelve months operations under the Company's new gas supply contract with St. Regis (Alberta) Ltd., formerly North Western Pulp & Power Ltd. This new gas sales agreement effective April 1977 shelters North Canadian against future gas price escalations.

In addition to sales to St. Regis, the line's major customer, gas is also sold to other industrial users and to Gas Alberta, a provincial government agency responsible for the requirements of the smaller rural gas systems along the line's route. As well as supplying gas to the above

customers the pipeline is employed in the transportation of gas for Northwestern Utilities Limited, an Alberta based utility company.

All gas is purchased for resale from Alberta and Southern Gas Co. Ltd. under a long term contract which ensures an available supply of up to 30 million cubic feet a day. An additional 10 million cubic feet per day is available from Trans Canada Pipelines. The average daily throughput for the line in 1978 was 20.7 million cubic feet of gas versus 17.5 million cubic feet in 1977.



# PRODUCTION

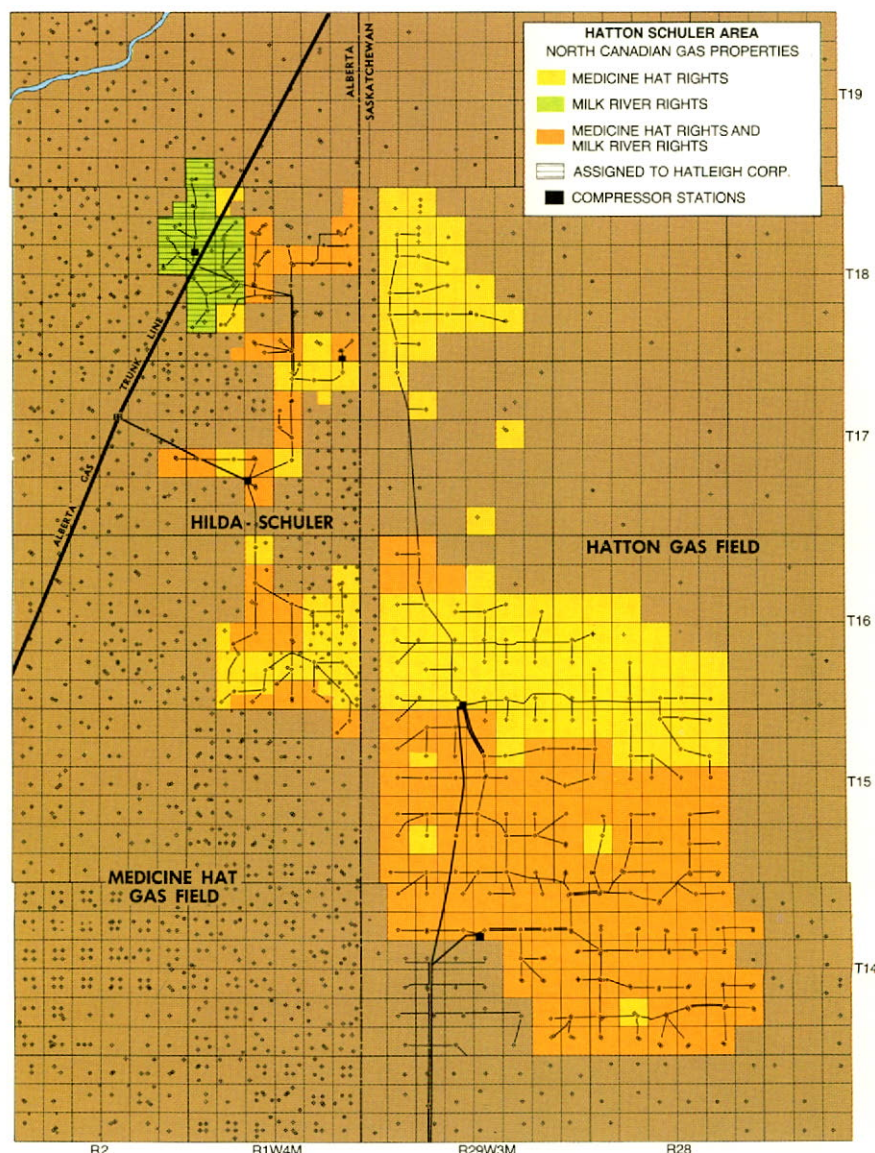


**NATHAN GOODMAN**  
Vice-President, Production

Total production for the year from all of the Company's gas properties, including those operated for Hatleigh Corporation, was 18.7 billion cubic feet, a decrease of approximately 3% or 600 million cubic feet from the record level set in 1977. Of the decrease, over 300 million cubic feet is directly attributable to a reduction in sales to the Saskatchewan Power Company. It is expected that this will be made up during the balance of the 1978-79 contract year which overlaps the calendar year.

Despite the reduced volume of production, net sales revenue was up 11% or nearly \$1.1 million due to higher prices received for gas in 1978, in both Alberta and Saskatchewan. As of last August 1, the royalty levied by the Alberta government on gas produced from low deliverability wells was substantially reduced. It is estimated that on the basis of the current price, the change will increase North Canadian's net operating income by over \$1 million a year.

It is anticipated that present levels of production will be maintained in 1979. A new source of production will be the Otter



area in British Columbia which is scheduled for start-up late in the fall. It is unlikely that any of the Company's other unconnected gas areas will be placed on production until additional gas exports are approved by the federal government or new markets are made available in eastern Canada. Subject to further evaluation it is estimated that at year end the Company had a possible 30 to 40 billion cubic feet of unconnected gas.

Oil production, which accounts for approximately 3% of the Company's net operating income, averaged 109 barrels per day compared to 118 barrels per day in 1977. As in the case of gas production, however, higher prices more than offset the decrease in sales volume. The current price received for oil is \$12.86 per barrel. A further increase is promised for next July 1.



Family dining at one of the 102 Ponderosa Steak Houses owned and operated by Foodex Inc.

On August 31, the Company effectively concluded its acquisition of Hatleigh Corporation (formerly Hambro Canada Limited) of which it now owns all of the common shares. Hatleigh's principal assets are 100% ownership of Foodex Inc., and Peel-Elder Developments Limited, approximately 21% of the common shares of North Canadian Oils Limited, a controlling interest in Gibraltar Pari-Mutuel, Inc. and 75,600 shares of McIntyre Mines.

#### **FOODEX, INC.**

The principal division of Foodex operates 102 "Ponderosa Steak Houses" in Canada which it owns or holds under long term lease. Exclusive use of the

Ponderosa name in Canada in perpetuity is by agreement with Ponderosa Systems Inc., a U.S. company. These family style restaurants, which feature a moderately priced menu of beef and seafood entrees, generated revenues of \$56,996,000 in 1978. Net income, up 20%, was \$3,216,000.

To service its Ponderosa Steak Houses, Foodex owns and operates a modern automated meat processing plant near Toronto which, in 1978, was expanded from 19,500 square feet to 44,400 square feet. In addition to serving the requirements of the Foodex restaurants, the plant also provides a limited custom meat processing service for retail outlets.

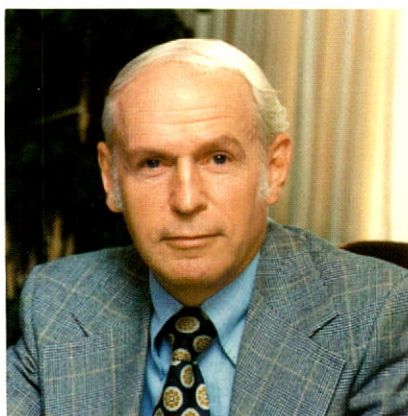
In addition to the Ponderosa Steak Houses, Foodex also owns and operates eighteen Frank Vetere's Pizzeria and Taverns, eleven of which were opened in 1978. An additional twenty-six units are planned for 1979 of which eleven were under construction at year-end. Featuring a unique deep pan pizza, the Frank Vetere chain is expected in time to become a major participant in the pizza segment of the food service industry.

#### **GIBRALTAR PARI-MUTUEL, INC.**

In addition to its restaurant operations, Foodex owns approximately 63% of Gibraltar Pari-Mutuel, Inc. a New Jersey corporation which owns and operates, through a 70% owned subsidiary, Bowie Race Course, a thoroughbred track located midway between Washington, D.C. and Baltimore, Maryland, and, through a wholly owned subsidiary Freehold Raceway, a harness track in Freehold, New Jersey, about 60 miles out of New York City. Gibraltar also owns 323 acres of undeveloped land in Prince Georges County, Maryland and 189 acres adjacent to Freehold Raceway.

#### **PEEL-ELDER DEVELOPMENTS LIMITED**

A real estate development company with holdings located for the most part in the greater Toronto area, Peel-Elder is primarily engaged in the administration of its substantial mortgage portfolio and in the management of its remaining properties pending their planned sale or liquidation. Included in these are three modern shopping centers having an aggregate net rentable area of over one million square feet and accommodating approximately 275 stores.



CHARLES K. LOUGH  
Vice-President, Finance

### Corporate Changes

Several transactions occurred during the year which affect the comparison of the financial information for the current period with that of prior years. The significant changes were:

- a) The Fulfillment of the Hatleigh Undertaking

Relative to its investment in Hatleigh Corporation (formerly Hambro Canada Limited) the Company fulfilled its undertaking on August 31, 1978, when a wholly owned subsidiary of the Company amalgamated with Hatleigh Corporation. At the time of the amalgamation the subsidiary owned 3,500,000 common shares of Hatleigh and certain gas properties, which had been transferred from North Canadian. Under the terms of the amalgamation the Hatleigh shareholders, other than the Company, received Class A and B  $9\frac{3}{4}\%$  special shares carrying 50.7% of the vote and the Company received all the common shares which carry 49.3% of the vote. As a result, the Company continues to account for its investment on the equity basis although it is the sole beneficiary of the earnings net of

preferred share dividends of Hatleigh. One of the effects of the amalgamation was to decrease gas revenue by \$1,750,000 and royalties and operating expenses by \$453,000 and \$126,000 respectively, and to reduce the provision for income taxes, depletion and depreciation. This reduction, however, was offset by an increase in the equity of the earnings of Hatleigh. The transfer also accounted for a reduction in the net investment in property, plant and equipment of approximately \$5.3 million.

- b) The Acquisition of the Company's Shares by Hatleigh

As at March 31, 1978, Hatleigh Corporation owned 1,219,296 common shares, approximately 21.6% of the issued shares of North Canadian which they acquired through a tender offer and open market transactions. The effect of this ownership reduced the weighted average number of common shares used in the computation of earnings per share for 1978 to 4,680,103 from 5,648,565 in 1977. After January 1, 1979, the earnings per share will be based on 4,435,669 shares.

- c) The Foodex Reorganization

In June 1978, Foodex Systems Limited, in which Hatleigh owned 56.2% of the common shares was reorganized so that Hatleigh now owns all the outstanding common shares of Foodex and the other shareholders own non-voting preference shares bearing an annual dividend of \$0.855 per share. The ultimate effect of this reorganization is that 100% of Foodex earnings, net of preferred share dividends,

flow through Hatleigh to the Company.

### Revenue

Total oil and gas revenue, including \$1.7 million from those properties now held by Hatleigh, was a record \$15.3 million, up 11.3% over 1977. The increase was due entirely to higher prices which more than offset a decrease of 3% in gas production and a 7.5% decrease in oil production. The weighted average price received for all gas sold in 1978 was 81¢ per thousand cubic feet compared to 70¢ in 1977. There is still a large disparity between the price received for gas in Alberta, which currently averages \$1.52 per thousand cubic feet and the 41¢ per thousand cubic feet received in Saskatchewan. The difference is, however, offset to some extent by the much lower Saskatchewan royalty.

The substantial gain in revenue from the Wabamun-Hinton pipeline is related to higher gas prices. This increase, however, was negated by an equivalent increase in the cost of gas purchased for resale. The decline in net operating revenue of \$178,000 is directly related to the changes effective April 1977, in the gas sales contract with one of the pipelines' major customers.

Investment income is attributable to dividends received on the 318,778 common shares of St. Regis Paper Company Limited held by the Company. Effective December 1, 1978, St. Regis increased the quarterly dividend to 45¢ per share from 43¢ (U.S.).

Total revenue from all sources, at a new high of \$19.8 million, was up \$1.5 million or 8.2% over 1977.

## Royalties

The average royalty paid by the Company on gas produced in Saskatchewan was 10.6% or approximately 4.2¢ per thousand cubic feet which includes the 2.0¢ provincial royalty. In Alberta the average royalty paid in 1978 was 32.4% or 48.8¢ per thousand cubic feet. On August 1, 1978, the Alberta government implemented a new percentage royalty schedule for low deliverability gas wells, which at the present price level reduced the royalty paid by the Company on the majority of its Alberta production by approximately 17¢ per thousand cubic feet. This lower royalty rate will have a significant effect on the net revenue of the Company in future years.

## Expenses

A full year's operation of development wells drilled and placed on stream during 1977, plus the higher cost of maintaining production from more mature fields coupled with the general increase in wages, material and services accounted for increased operating expenses of 8.5% over 1977. As a percentage of gas and oil revenue, operating expenses were 12.9% compared to 11.8% in 1977.

The increase of \$314,000 in administrative costs is to a large extent attributable to higher legal, audit, salaries and general expenses incurred as the result of increased corporate activities.

Interest expense on long term debt was \$1.9 million compared to \$547,000 in 1977. The increase reflects the higher interest rates in effect plus an increase in the bank loan attributable to the payment in August 1978, of the balance of the purchase price for the Hatleigh's shares.

The provision for depreciation and depletion which totaled \$886,000 was little changed from 1977. Because of the Company's decision to completely relinquish its exploration concession in India, an added \$1,520,000 was included in the provision for the amortization of foreign exploration costs. This had the effect of reducing net income for the year by approximately 33¢ per common share.

The reduction in corporate income tax of \$963,000 reflects the lower pre-tax income and increased expenses which have been explained elsewhere in this report.

## Income

In 1978, the Company's share of equity in the operating and extraordinary income of Hatleigh was \$2,577,000.

Income per common share was \$1.11 versus \$1.04 in 1977. Net income after the extraordinary item was \$6,038,000 or \$1.28 per share as compared to \$6,623,000 or \$1.16 per share in 1977.

## Changes in Financial Position

Working capital at December 31, 1978, was \$451,000, as compared to a deficit of \$462,000 at December 31, 1977. Funds provided from operations were \$7.1 million versus \$8.2 million in 1977. Capital investment was \$4.7 million. Of this, \$4.2 million was directed to exploration and the balance to expenditures on producing properties and other assets. The Company's long term debt at December 31, 1978, was \$20.0 million as compared to \$21.5 million at December 31, 1977.

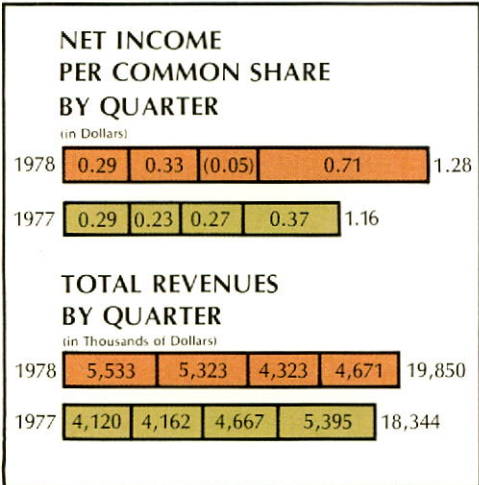
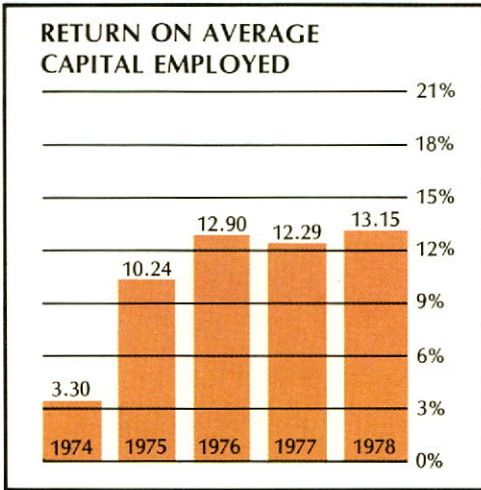
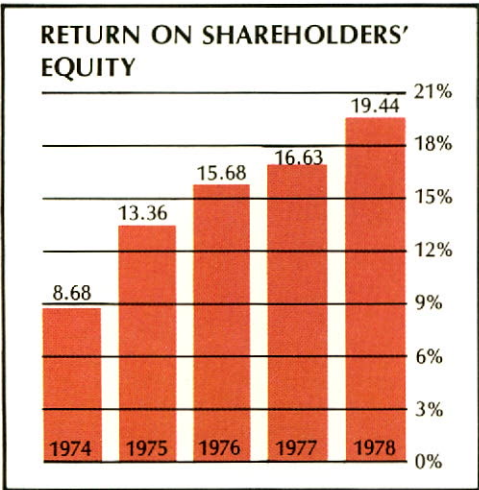
## Capital Reorganization:

On December 29, 1978, the shareholders approved the

conversion of common shares having a par value of 25¢ each to common shares without nominal or par value. In addition, \$21,500,000 of distributable surplus was transferred to paid up capital and is attributable to the outstanding common shares of the Company. As part of this program the Company received a dividend of \$11.5 million from Hatleigh Corporation and in turn reinvested this sum in Hatleigh as a non interest bearing loan.

## Accounting Change:

In the 1977 Annual Report we referred to the "successful efforts" method of accounting for costs incurred in exploring for and developing oil and gas reserves which was to be adopted for fiscal years beginning after December 15, 1978. As a result of a decision by the Securities and Exchange Commission of the United States this requirement has been withdrawn and it is proposed that it be replaced by a method entitled "Reserve Recognition Accounting." The introduction of this new method has been delayed until the Commission and industry have considered the subject more fully. In the interval, the Company will continue to use the "full cost" method as set forth in Note 1 to the financial statements.



## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of North Canadian Oils Limited as at December 31, 1978 and 1977 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination of the consolidated financial statements of North Canadian Oils Limited was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other auditors who have examined the consolidated financial statements of the company accounted for on the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.



## FIVE YEAR SUMMARY OF OPERATIONS

	1978	1977	1976	1975	1974
<b>Revenue</b>					
Gas and oil .....	\$13,589	\$13,783	\$ 9,356	\$ 6,828	\$ 4,099
Less royalties .....	3,427	3,839	2,491	1,615	606
	10,162	9,944	6,865	5,213	3,493
Pipeline operations .....	5,543	3,712	2,112	2,171	2,017
Investment income .....	636	754	820	900	902
Building rental and miscellaneous .....	82	95	205	131	138
	16,423	14,505	10,002	8,415	6,550
<b>Expenses</b>					
Operating and administrative .....	2,462	2,012	1,687	1,442	1,386
Gas purchased for resale .....	4,410	2,392	509	842	698
Interest .....	1,903	547	216	371	421
Income tax — current .....	522	1,344	1,525	1,319	971
	9,297	6,295	3,937	3,974	3,476
<b>Cash Flow</b> .....	7,126	8,210	6,065	4,441	3,074
Per common share .....	1.53	1.45	1.07	.79	.55
Depreciation, depletion .....	904	886	689	701	812
Amortization and write-off of foreign exploration .....	1,861	455	—	—	1,174
Equity in operating income of affiliate .....	1,808	106	—	—	—
Income before undernoted .....	6,169	6,975	5,376	3,740	1,088
Income tax — deferred .....	900	1,041	701	463	402
Net income before undernoted .....	5,269	5,934	4,675	3,277	686
Per common share .....	1.11	1.04	0.81	0.56	0.10
Extraordinary items .....	769	689	726	—	—
Net income .....	6,038	6,623	5,401	3,277	686
Per common share .....	1.28	1.16	0.94	0.56	0.10
Working capital — (deficit) .....	451	(462)	4,927	581	747
Long-term investments .....	29,446	36,689	10,000	15,000	15,000
Property and equipment-net .....	26,278	29,689	24,146	20,751	18,848
Long-term debt .....	20,000	21,526	2,203	5,409	7,227
Shares outstanding					
Common-no par value .....	*4,435	5,649	5,643	5,629	5,629
Preferred-par value \$50 per share .....	28	30	32	35	37
Shareholders' equity .....	27,104	36,321	29,816	24,520	21,428
Cost of finding and developing reserves					
Exploration .....	4,200	4,300	1,417	1,502	1,136
Development .....	500	2,700	2,780	1,122	2,453
*Excludes shares owned by Hatleigh Corp.					
<b>Production and Sales</b>					
*Natural Gas Production — billion cubic feet .....	18.7	19.3	17.3	18.8	15.5
Average per day — million cubic feet .....	51.3	52.8	47.4	51.5	42.5
Pipeline —					
Annual throughput, billion cubic feet .....	7.6	6.0	6.5	6.0	5.0
Oil Production — barrels .....	40,000	43,000	45,600	52,500	132,000
*Includes Hatleigh Corp. production					

### COMMON STOCK PRICE RANGE

	Toronto Stock Exchange (Can.)				American Stock Exchange (U.S.)			
	1978		1977		1978		1977	
First Quarter	\$11.00	\$8.50	\$ 8.62	\$7.50	\$ 9.88	\$7.75	\$ 8.50	\$7.25
Second Quarter	10.25	8.63	11.37	8.00	9.25	7.63	10.75	7.50
Third Quarter	14.00	9.88	11.00	8.50	12.25	8.75	10.62	7.87
Fourth Quarter	12.88	8.75	10.50	8.25	10.88	7.13	9.50	7.25





**NORTH CANADIAN OILS LIMITED**  
**CONSOLIDATED STATEMENT OF INCOME**  
 Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Revenue		
Gas and oil .....	\$13,589,000	\$13,783,000
Less royalties .....	3,427,000	3,839,000
	<u>10,162,000</u>	<u>9,944,000</u>
Pipeline operations .....	5,543,000	3,712,000
Investment .....	636,000	754,000
Miscellaneous .....	82,000	95,000
	<u>16,423,000</u>	<u>14,505,000</u>
Expenses		
Operating .....	1,756,000	1,620,000
Gas purchased for resale .....	4,410,000	2,392,000
Administrative .....	706,000	392,000
Interest on long-term debt .....	1,903,000	547,000
Depreciation .....	297,000	310,000
Depletion .....	607,000	576,000
Amortization and write-off of foreign exploration costs (Note 1) .....	1,861,000	455,000
	<u>11,540,000</u>	<u>6,292,000</u>
Income before the undernoted .....	4,883,000	8,213,000
Income taxes (Note 6)		
Current .....	522,000	1,344,000
Deferred .....	900,000	1,041,000
	<u>1,422,000</u>	<u>2,385,000</u>
Income before the undernoted .....	3,461,000	5,828,000
Equity in operating income of Hatleigh Corporation (Note 2) .....	1,808,000	106,000
Income before extraordinary items .....	5,269,000	5,934,000
Extraordinary items (Note 8) .....	769,000	689,000
Net income .....	<u>\$ 6,038,000</u>	<u>\$ 6,623,000</u>
Income per common share (Note 9)		
Income before extraordinary items .....	<u>\$1.11</u>	<u>\$1.04</u>
Net income .....	<u>\$1.28</u>	<u>\$1.16</u>



**NORTH CANADIAN OILS LIMITED**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
 Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Balance, beginning of year .....	\$29,284,000	\$22,822,000
Net income for the year .....	6,038,000	6,623,000
	<u>35,322,000</u>	<u>29,445,000</u>
Deduct		
Transfer to capital redemption reserve fund (Note 5) .....	104,000	76,000
Dividends on preferred shares .....	80,000	85,000
Transfer to common share capital account (Note 5) .....	19,332,000	—
	<u>19,516,000</u>	<u>161,000</u>
Balance, end of year .....	<u>\$15,806,000</u>	<u>\$29,284,000</u>

See accompanying notes to consolidated financial statements.

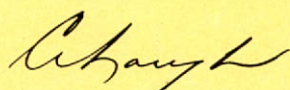


**NORTH CANADIAN OILS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
December 31, 1978 and 1977

<b>ASSETS</b>	<u>1978</u>	<u>1977</u>
Current assets		
Cash and short-term deposits .....	\$ 606,000	\$ 565,000
Accounts receivable .....	4,154,000	2,736,000
Due from Receiver General for Canada .....	1,491,000	—
Prepaid expenses .....	27,000	67,000
Total current assets .....	<u>6,278,000</u>	<u>3,368,000</u>
Long-term investments (Note 2)		
Hatleigh Corporation .....	32,885,000	25,012,000
Less cost of shares of North Canadian held by Hatleigh Corporation .....	<u>15,116,000</u>	<u>—</u>
	17,769,000	25,012,000
Other investments .....	<u>11,677,000</u>	<u>11,677,000</u>
	<u>29,446,000</u>	<u>36,689,000</u>
Property, plant and equipment (Note 3)		
At cost .....	35,270,000	38,897,000
Accumulated depreciation, depletion and amortization .....	<u>8,992,000</u>	<u>9,208,000</u>
	26,278,000	29,689,000
Other assets at cost .....	150,000	252,000
	<u>\$62,152,000</u>	<u>\$69,998,000</u>

Approved on behalf of the Board:

 , Director

 , Director

See accompanying notes to consolidated financial statements.

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1978</u>	<u>1977</u>
Current liabilities		
Accounts payable .....	\$ 3,066,000	\$ 3,149,000
Due to Hatleigh Corporation .....	967,000	—
Income taxes payable .....	—	179,000
Long-term debt due within one year .....	1,794,000	502,000
Total current liabilities .....	5,827,000	3,830,000
Long-term debt (Note 4) .....	20,000,000	21,526,000
Deferred income taxes (Note 6) .....	9,221,000	8,321,000
Shareholders' equity		
Capital stock (Note 5)		
5½% cumulative redeemable preferred shares, par value \$50 each; authorized 70,000 shares; issued 28,410 shares (1977 — 30,486 shares) .....	1,420,000	1,524,000
Common shares, authorized 7,500,000 shares; issued 5,654,965 shares (1977 — 5,648,565 shares) .....	22,914,000	1,412,000
	24,334,000	2,936,000
Capital redemption reserve fund .....	2,080,000	1,976,000
Contributed surplus (Note 5) .....	—	2,125,000
Retained earnings (Note 5) .....	15,806,000	29,284,000
	42,220,000	36,321,000
Less cost of shares of North Canadian held by Hatleigh Corporation (Note 2) .....	15,116,000	—
	27,104,000	36,321,000
Contingent liability (Note 11)		
	<u>\$62,152,000</u>	<u>\$69,998,000</u>

See accompanying notes to consolidated financial statements.



**NORTH CANADIAN OILS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
 Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Source of funds		
Income before extraordinary items .....	\$ 5,269,000	\$ 5,934,000
Add (deduct) items not requiring an outlay of funds		
Depreciation, depletion and amortization .....	2,765,000	1,341,000
Deferred income taxes .....	900,000	1,041,000
Equity in operating income of Hatleigh Corporation .....	(1,808,000)	(106,000)
Funds provided from operations .....	7,126,000	8,210,000
Dividend received from Hatleigh Corporation (Note 2) .....	11,500,000	—
Transfer of gas properties (Note 2) .....	5,296,000	—
Proceeds relating to extraordinary items .....	—	1,123,000
Other .....	148,000	—
Proceeds on issue of common shares .....	26,000	27,000
Increase in long-term debt .....	8,200,000	23,019,000
Total funds provided .....	<u>32,296,000</u>	<u>32,379,000</u>
Use of funds		
Expenditures for property, plant and equipment .....	4,668,000	7,232,000
Reduction of long-term debt .....	9,726,000	3,696,000
Redemption of preferred shares .....	85,000	60,000
Dividends on preferred shares .....	80,000	85,000
Other .....	28,000	26,000
Note receivable from Hatleigh Corporation (Note 2) .....	11,500,000	—
Investment in Hatleigh Corporation (Note 2) .....	5,296,000	24,992,000
Reclassification of marketable securities .....	—	1,677,000
Total funds used .....	<u>31,383,000</u>	<u>37,768,000</u>
Increase (decrease) in working capital .....	913,000	(5,389,000)
Working capital (deficit) beginning of year .....	(462,000)	4,927,000
Working capital (deficit) end of year .....	<u>\$ 451,000</u>	<u>\$ (462,000)</u>



**NORTH CANADIAN OILS LIMITED**  
**CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS**  
 Years ended December 31, 1978 and 1977

	<u>1978</u>	<u>1977</u>
Balance, beginning of year .....	\$2,125,000	\$2,083,000
Add		
Gain on redemption of preferred shares (Note 5) .....	19,000	16,000
Premium on issuance of common shares (Note 5) .....	24,000	26,000
	<u>2,168,000</u>	<u>2,125,000</u>
Deduct		
Transfer to common share capital account (Note 5) .....	2,168,000	—
Balance, end of year .....	<u>\$ —</u>	<u>\$2,125,000</u>

See accompanying notes to consolidated financial statements



**NORTH CANADIAN OILS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 Years ended December 31, 1978 and 1977

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary formed during 1978.

b) Oil and Gas Operations

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers.

Commencing in 1977, costs related to exploration in India were being amortized on a straight line basis over the term of the related exploration joint venture agreement. As a result of surrendering this offshore concession in 1978, the unamortized balance of \$1,520,000 was written off against income.

The pipeline is being depreciated over the term of the existing gas contracts and other equipment is being depreciated over the estimated useful lives of the assets. Leasehold improvements are being amortized over the term of the lease.

c) Translation of Foreign Currency Transactions and Financial Statements

Debt repayable in U.S. dollars is translated to Canadian dollars at the rate of exchange in effect at the balance sheet date to the extent that it is included in current liabilities. The amount that is included in long-term liabilities represents the Canadian dollar equivalent of United States dollars on the date of receipt.

Foreign current assets and current liabilities are translated into Canadian dollars at the year end rate of exchange. Property, other non-current assets and non-current liabilities are translated at rates prevailing when acquired or incurred. Income accounts, other than depletion, depreciation and amortization which are translated at the rates applicable to the related assets, are translated at the average exchange rates in effect during the year.

**2. LONG-TERM INVESTMENTS**

	<u>1978</u>	<u>1977</u>
Hatleigh Corporation (formerly Hambro Canada Limited)		
Investment, at equity .....	\$21,385,000	\$25,012,000
Note receivable, at cost .....	11,500,000	—
	<u>32,885,000</u>	<u>25,012,000</u>
Less cost of shares of North Canadian held by Hatleigh Corporation .....	15,116,000	—
	<u>\$17,769,000</u>	<u>\$25,012,000</u>

In 1977 the Company purchased 3,500,000 common shares (49.3%) of Hatleigh Corporation (formerly Hambro Canada Limited) for a cash consideration of \$24,992,000. During 1978 the Company incorporated a subsidiary and transferred certain gas properties and the shares of Hatleigh Corporation ("Hatleigh") to the subsidiary. The subsidiary then amalgamated with Hatleigh with the result that the Company now owns 100% of the common shares of Hatleigh which carry 49.3% of the votes at shareholders' meetings. The previous common shareholders received Class A and B 9<sup>3</sup>/<sub>4</sub>% special shares carrying 50.7% of said votes of Hatleigh in exchange for their common shares. The Company, therefore, continues to account for its investment on the equity basis.

The change in the investment in 1978 increased the excess of the cost of the investment over the underlying net book value of the assets by \$5,326,000 which has been allocated to real estate assets.

The aggregate unamortized balance of the excess at December 31, 1978 amounts to \$12,235,000 (1977 — \$7,251,000). Of this amount \$4,124,000 at December 31, 1978 (1977 — \$4,231,000) relates to goodwill and is being amortized over forty years. The balance is being amortized at the same rate as certain underlying real estate assets.

During 1978 the Company received a dividend in the amount of \$11,500,000 from Hatleigh. The Company subsequently advanced \$11,500,000 to Hatleigh by way of an interest-free note receivable.

The aforementioned amalgamation has been treated in the financial statements of Hatleigh as a capital reorganization. In the financial statements of the Company, the amalgamation has been treated as a purchase by the Company of common shares of Hatleigh. Summarized financial information at December 31, 1978 of Hatleigh giving effect to the amalgamation as a purchase and to reflect the net assets to common shareholders is as follows:

	Hatleigh as reported	Adjustments	Hatleigh as adjusted
Current assets .....	\$ 34,769,000		\$ 34,769,000
Investments		(ii) { 1,937,000 }	
North Canadian Oils Limited .....	13,471,000	(i) { (292,000) }	15,116,000
Other .....	2,515,000		2,515,000
Gas properties .....	14,923,000	(ii) { (9,617,000) }	5,306,000
Rental properties and fixed assets .....	94,042,000	(iii) { 5,193,000 }	99,235,000
Other .....	37,501,000		37,501,000
	<u>197,221,000</u>		<u>194,442,000</u>
Current liabilities .....	47,776,000		47,776,000
Long-term debt .....	60,185,000		60,185,000
Deferred income taxes .....	17,576,000		17,576,000
Minority interest .....	25,542,000		25,542,000
Preferred shareholders' equity .....	21,978,000		21,978,000
	<u>173,057,000</u>		<u>173,057,000</u>
Net assets to common shareholders .....	<u>\$ 24,164,000</u>		<u>\$ 21,385,000</u>

Adjustments:

- (i) Reversal of Hatleigh's equity in the earnings of North Canadian Oils Limited.



**NORTH CANADIAN OILS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 Years ended December 31, 1978 and 1977

- (ii) Reversal of the appraisal increase on gas properties transferred from North Canadian to Hatleigh.
- (iii) Allocation of the excess of the cost of the investment over underlying net book value of the assets, net of amortization of \$133,000.

Other investments

St. Regis Paper Company — 318,778 common shares, at cost, quoted market value \$10,626,000 (1977 — \$10,733,000).

**3. PROPERTY, PLANT AND EQUIPMENT**

	1978		1977	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation, Depletion and Amortization
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon .....	\$30,490,000	5,320,000	\$34,177,000	5,630,000
Pipeline, other equipment and leasehold improvements.....	4,780,000	3,672,000	4,720,000	3,578,000
	<u>\$35,270,000</u>	<u>8,992,000</u>	<u>\$38,897,000</u>	<u>9,208,000</u>

**4. LONG-TERM DEBT**

	1978		1977	
	Due Within One Year	Long-term Portion	Due Within One Year	Long-term Portion
6% Series A Secured Notes maturing October 1, 1979 .....	\$ 855,000	—	\$ 250,000	855,000
5 <sup>1</sup> / <sub>2</sub> % Series B Secured Notes (\$793,000 U.S., 1977 \$1,023,000 U.S.) maturing October 1, 1979 .....	939,000	—	252,000	852,000
Bank loans .....	—	20,000,000	—	11,800,000
Other long-term debt .....	—	—	—	8,019,000
	<u>\$1,794,000</u>	<u>20,000,000</u>	<u>\$ 502,000</u>	<u>21,526,000</u>

Notes — Series A and B

The Series A and B notes are secured by a first mortgage on the Company's gas pipeline, its interest in certain gas fields and the related gas purchase and sales contracts.

Bank loans

The bank loans bear interest from <sup>1</sup>/<sub>4</sub>% to 1% above the bank prime rate and are secured by 3,300,000 common shares of Hatleigh Corporation and 318,778 common shares of St. Regis Paper Company. Although the bank loans are subject to call on demand, the agreement does not

require payment until February 1980. Because of this agreement and the security being a long-term investment, it is the opinion of management that the loans should be a long-term liability.

#### Other Long-term Debt

In relation to the purchase of the shares of Hatleigh Corporation (formerly Hambro Canada Limited), the Company's bank issued an Irrevocable Letter of Credit which matured August 18, 1978, in the amount of \$7,379,000 (U.S.). At maturity the bank advanced funds to the Company sufficient to meet the liability under the letter of credit. Such advances are included in bank loans at December 31, 1978.

### 5. CAPITAL STOCK

#### Preferred Shares Redeemed

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed at par from the holders on 30 days notice or purchased on the market. At December 31, 1978 the requirements had been met and in addition 2,000 shares applicable to June 1, 1979 and 1,590 shares applicable to June 1, 1980 have been cancelled (2,076 were purchased and cancelled in 1978). In connection with the redemption of the preferred shares \$104,000 and \$76,000 was transferred to the capital redemption reserve fund for 1978 and 1977 respectively. The differences between the acquisition cost and the par value of the preferred shares redeemed, in the amounts of \$19,000 and \$16,000 have been credited to contributed surplus for 1978 and 1977 respectively.

The preferred share indenture imposes certain restrictions on payment of common share dividends.

During 1978 the shareholders approved the conversion of common shares of a par value of \$0.25 each to common shares without nominal or par value. In addition, the Company capitalized distributable surplus in the amount of \$21,500,000 by adding that amount to the paid-up capital attributable to the outstanding common shares of the Company.

	<u>1978</u>	<u>1977</u>
Common Shares Issued		
Shares issued under stock option plan .....	6,400	5,925
Consideration (being cash and notes receivable) credited to		
Capital stock .....	\$ 2,000	\$ 1,000
Contributed surplus .....	24,000	26,000
	<u>\$26,000</u>	<u>\$27,000</u>

### 6. INCOME TAXES

The provisions made for income taxes in 1978 and 1977 differ from the amounts which would have been expected if it were assumed that the reported pre-tax earnings were subject to the Canadian Federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided are as follows:





**NORTH CANADIAN OILS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 Years ended December 31, 1978 and 1977

	1978		1977	
	Amount	% of Pre-Tax Earnings	Amount	% of Pre-Tax Earnings
Computed "expected" income taxes ..	\$2,246,000	46.0	\$3,778,000	46.0
Increase (decrease) in income taxes resulting from:				
Non-deductibility of royalties and other payments to the crown .....	1,442,000	29.5	1,677,000	20.4
Less related allowances and rebates:				
Federal .....	(1,253,000)	(25.7)	(1,390,000)	(16.9)
Provincial .....	(740,000)	(15.1)	(803,000)	(9.7)
	1,695,000	34.7	3,262,000	39.8
Allowance for earned depletion ...	(329,000)	(6.7)	(925,000)	(11.2)
Other .....	56,000	1.1	48,000	0.4
	<u>\$1,422,000</u>	<u>29.1</u>	<u>\$2,385,000</u>	<u>29.0</u>

Deferred income taxes arise from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which gave rise to such timing differences, and the amount of deferred income taxes attributable thereto, are as follows:

	1978	1977
Excess of capital cost allowance deducted for income tax purposes over depreciation recorded in the accounts .....	\$251,000	\$ 217,000
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded in the accounts ....	649,000	824,000
Total deferred income taxes .....	<u>\$900,000</u>	<u>\$1,041,000</u>

**7. STOCK OPTION PLAN**

Under the terms of Employee Common Stock Option Plans, options are exercisable cumulatively in three equal instalments within a five year period with the first instalment exercisable one year after date of granting the option. At December 31, 1978, 38,500 shares were still available for granting, nil at December 31, 1977. Options outstanding at December 31, 1978 expire in 1983. Payment for shares issued under the stock option plan was accepted by the Company in the form of cash or notes receivable. The notes, which are secured by the purchased shares, are non-interest bearing until they mature, at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. Notes receivable in the amount of \$105,000 at December 31, 1978 and \$159,000 at December, 1977, are due from directors and officers and are carried on the balance sheet under other assets.

Option information is outlined below:

	<u>1978</u>	<u>1977</u>
Options exercised .....	6,400	5,925
Options granted .....	61,500	—
Options outstanding December 31, .....	61,500	6,400
Option price .....	\$8.55	\$3.56-4.18

#### 8. EXTRAORDINARY ITEMS

	<u>1978</u>	<u>1977</u>
Gain on sale of building net of income tax of \$153,000 .....	\$ —	\$775,000
Equity in extraordinary items of Hatleigh Corporation:		
Reduction of income taxes on application of losses brought forward .....	769,000	—
Other .....	—	(86,000)
	<u>\$769,000</u>	<u>\$689,000</u>

#### 9. INCOME PER SHARE

Income per share is calculated on the weighted average number of shares outstanding during the year. The weighted average number of shares used in 1978 has been reduced by the number of shares of the Company acquired in 1978 by a subsidiary of Hatleigh Corporation.

#### 10. STATUTORY INFORMATION

Directors and senior officers (comprising a group of 12 in 1978 and 16 in 1977, including the five highest paid employees) of the Company received remuneration amounting to \$275,000 in 1978 and \$230,000 in 1977.

#### 11. CONTINGENT LIABILITY

Under the terms of the Hatleigh amalgamation referred to in Note 2 the holders of the Class B special shares may elect to exchange, until September 1, 1980 (or such earlier time under certain circumstances) ten Class B special shares into a \$70 principal amount 11<sup>1</sup>/<sub>4</sub>% secured debenture. As additional security for the debentures the Company has guaranteed the payment of interest and principal if Hatleigh should default under the terms of the debenture issue. Prior to fulfilling this guarantee, the Company is obligated to redeem all of its outstanding 5<sup>1</sup>/<sub>2</sub>% cumulative redeemable preferred shares. At December 31, 1978, debentures in the amount of \$2,273,000 were outstanding. The maximum principal amount guaranteed is \$14,993,000.

#### 12. SUBSEQUENT EVENT

In March 1979 Hatleigh Corporation agreed in principle to grant an option, exercisable until June 30, 1979 to a company wholly owned by a principal shareholder of the Company, to purchase Hatleigh's real estate operations held by Peel-Elder Developments Limited, its wholly owned subsidiary. Consummation of this transaction is subject to approval by regulatory authorities, shareholders of the Company and Hatleigh and certain other conditions.



## DIRECTORS

J. TREVOR EYTON, Q.C.  
Partner, Tory, Tory, DesLauriers & Binnington  
Toronto, Ontario

\* MARSHALL A. JACOBS  
Senior Partner, Jacobs Persinger & Parker  
New York, New York

† J. BUCKLEY JONES  
Retired  
Calgary, Alberta

\* JAMES F. KAY  
Chairman of the Board of Dylex Limited  
Toronto, Ontario

CHARLES K. LOUGH  
Vice-President — Finance, and Secretary of the Company  
Calgary, Alberta

† ROSS A. MacKIMMIE, Q.C.  
Partner, MacKimmie Matthews  
Calgary, Alberta

FREDERIC Y. McCUTCHEON  
President of Arachne Management Limited  
Markham, Ontario

† HAROLD P. MILAVSKY  
President and Chief Executive Officer of Trizec Corporation  
Calgary, Alberta

\* ROBERT F. RUBEN  
President and Chief Executive Officer of the Company  
Calgary, Alberta

\* Member of the Executive Committee

† Member of the Audit Committee

## OFFICERS

ROBERT F. RUBEN  
President and Chief Executive Officer

D. F. CHRISTENSEN  
Vice-President, Exploration

NATHAN GOODMAN  
Vice-President, Production

CHARLES K. LOUGH  
Vice-President, Finance, and Secretary

## KEY PERSONNEL

W. K. MILLER  
Manager, Gas Transmission

B. L. COOK  
Land Manager

B. A. KURUCZ  
Chief Accountant

## CAPITAL

7,500,000 Common shares without nominal or par value

Issued 5,654,965

70,000 Preferred shares having a par value of \$50.00 per share

Issued 28,410

## COMMON SHARE REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA  
Calgary and Toronto

The BANK of NOVA SCOTIA TRUST COMPANY of NEW YORK  
New York City, U.S.A.

## PREFERRED SHARE REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA  
Calgary and Toronto

## COMMON SHARES LISTED

TORONTO STOCK EXCHANGE (NCOT)

AMERICAN STOCK EXCHANGE (NCD)

## PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE

## AUDITORS

PEAT, MARWICK, MITCHELL & CO., Calgary, Alberta

## BANK AFFILIATIONS

The BANK of MONTREAL

The MERCANTILE BANK of CANADA

## HEAD OFFICE

Tenth Floor, Bradie Building

630 Sixth Avenue Southwest, Calgary, Alberta T2P 0S8

## FORM 10K

North Canadian Oils Limited will furnish upon written request, to any registered shareholder without charge, a copy of its most recent Annual Report — Form 10K, as filed with the United States Securities and Exchange Commission.



**NORTH CANADIAN OILS LIMITED**