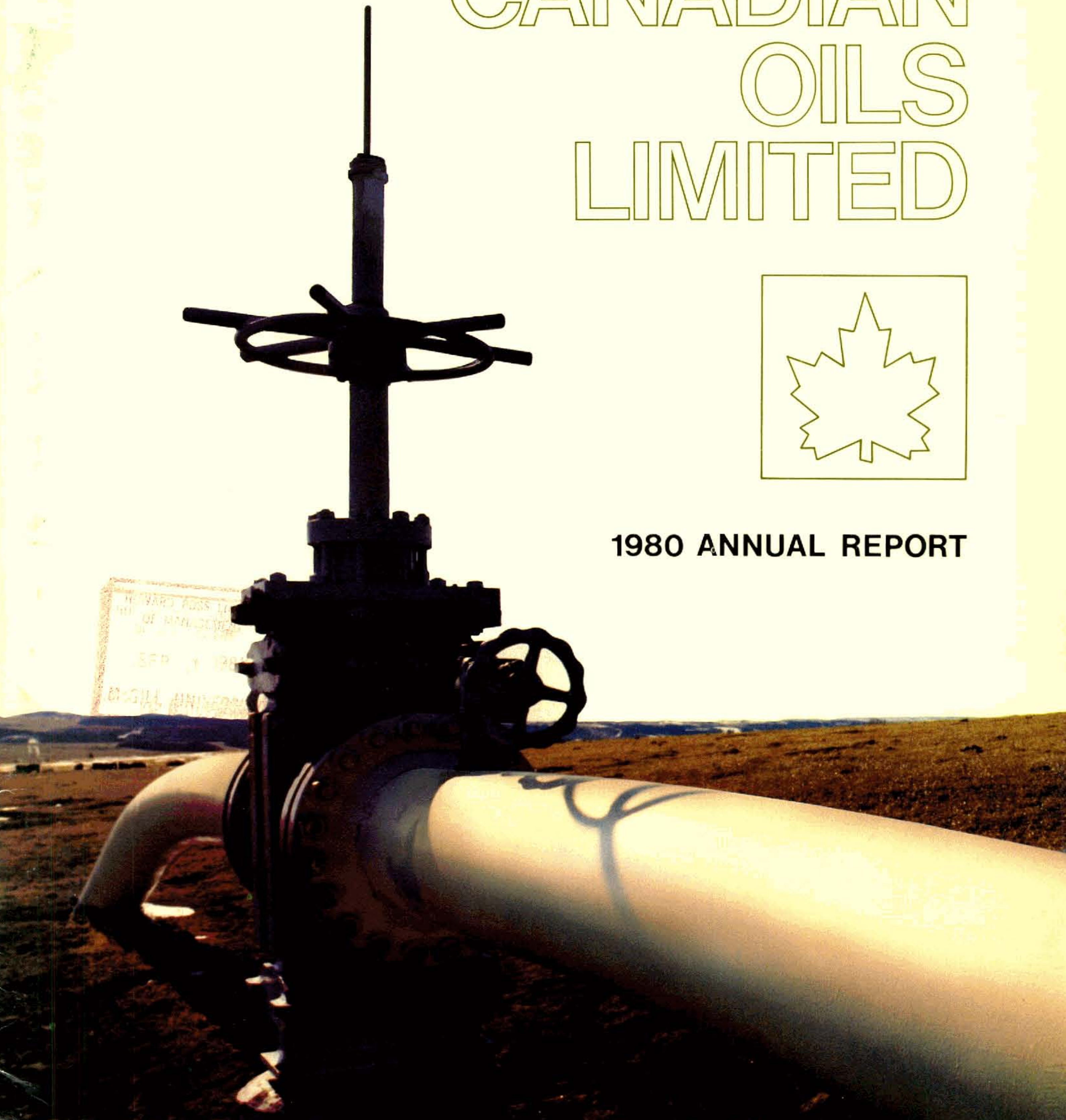
NORTH CANADIAN OILS LIMITED



1980 ANNUAL REPORT

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 extensive coal leases.

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

NORTH CANADIAN OILS LIMITED

the year at a glance

Financial

Financial	1980	1979
Gross Revenue (before royalty)	$20,172,000	$17,489,000
Funds Provided from Operations	8,416,000	6,800,000
Income before extraordinary items	4,313,000	4,361,000
Per Share (after provision for preferred share dividends)	.95	.96
Net Income (Loss) after extraordinary items	(9,072,000)	10,427,000
Per Share (after provision for preferred share dividends)	(2.04)	2.32
Exploration Expenditures	5,995,000	2,800,000
Development Expenditures	5,311,000	5,100,000
Investment in affiliate	8,119,000	20,546,000
Shareholders' Equity	28,510,000	37,506,000

Operating

Operating	1980	1979
Natural Gas Production — billion cubic feet	18.0	18.1
Average per day — million cubic feet	49.3	49.6
Pipeline -		
Annual throughput, billion cubic feet	7.5	7.5
Oil Production — barrels	50,000	47,700

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

Estimated Gross Proven Recoverable Reserves — January 1, 1981

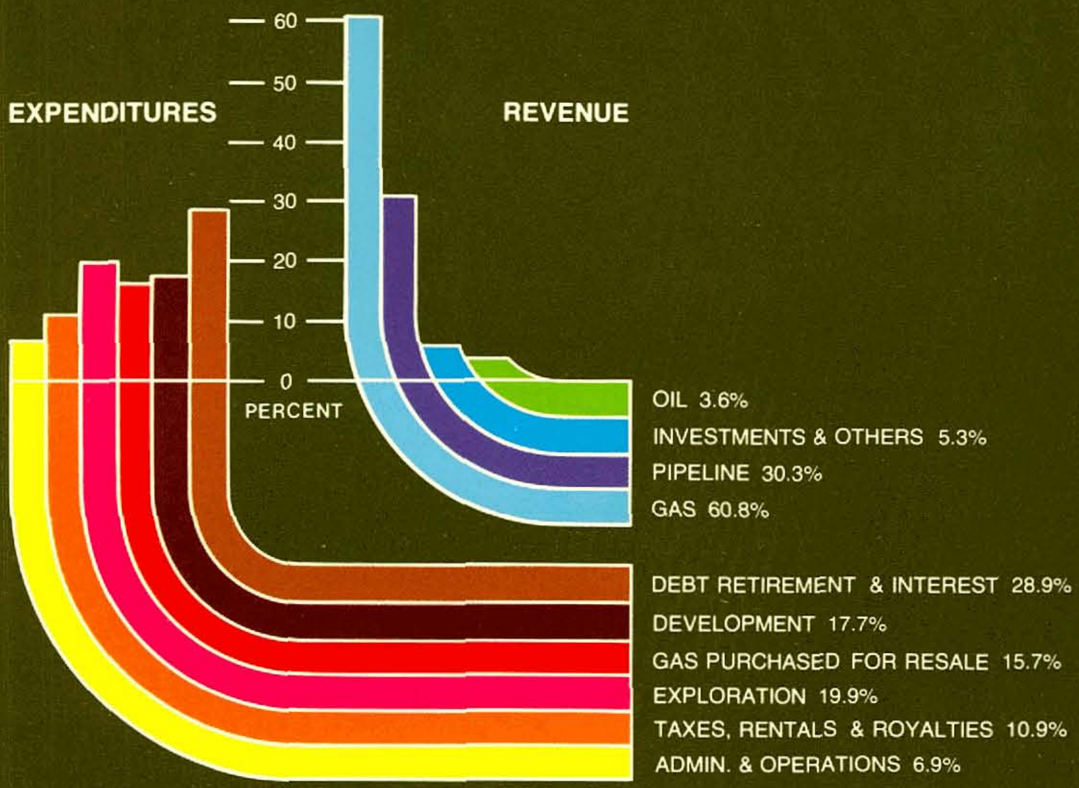
GAS	630 Billion cubic feet
OIL	569 Thousand barrels

Undeveloped Acreage March 31, 1981

Area	Gross	Net
Alberta	519,705	188,809
Saskatchewan	10,700	10,700
British Columbia	9,901	2,245
U.S.A.	1,130,613	238,354
	1,670,919	440,108

annual meeting

The 1981 Annual Meeting of shareholders will be held Monday, June 29, 1981, at 10:00 a.m. local time, Jasper Room, The Westin Inn, Calgary, Alberta, Canada.



On behalf of your Board of Directors, I am pleased to present the Company's thirty-fourth Annual Report.

North Canadian reported a $9,072,000 loss for 1980 as a consequence of a fourth quarter write down of $14.5 million in the value of its investment in Hatleigh Corporation. This was the first loss for the Company in twenty three years, and was necessitated by a re-appraisal by Hatleigh of its investment in Foodex, Inc., a wholly-owned subsidiary. North Canadian's net profit in 1980 was $5.4 million before accounting for this write down and the Company's equity interest in Hatleigh's operating loss for the year. The equivalent figure for 1979 was a $4.0 million net profit.

North Canadian had the highest net operating revenue and cash flow in the history of the Company as a result of higher oil and gas prices and improved pipeline earnings in 1980. Natural gas production for the year was approximately 18 billion cubic feet. Oil production totalled some 50,000 barrels, which was a gain of approximately 5% despite a temporary cutback in production from the Joarcam Field in preparation for commencement of a waterflood program which is expected to substantially enhance future recovery.

The past year was a very productive year for the Company's exploration department. North Canadian continued its strong land acquisition program, initiated in 1979, acquiring varying interests in nearly 1.3 million acres most of which was in the United States. The Company participated in 56 exploratory wells of which 60% were cased as commercial or potentially-commercial oil or gas discoveries. The Company also drilled 51 development wells, all of which were successfully completed and now are on production.

In late 1980, the Company, recognizing the increased activity in the coal industry, employed the services of an independent engineering firm to assess the volume and quality of available coal in its coal properties at Robb, Alberta. 24 drill holes were spaced over the 2,826 acre lease. From the information obtained, it was reported that approximately 30 million tonnes of high-quality thermal coal were economically recoverable by open pit mining. An additional 250 million tonnes are said to be in place but, at current prices are not economically mineable at the present time. In reponse to a number of inquiries, the Company is now holding discussions with respect to the development or disposition of these properties with several interested parties.

to the shareholders

In last year's Annual Report, I ventured an opinion that Mr. Trudeau's re-election would not adversely affect the Canadian Petroleum Industry. However, the Liberal Government that was returned to power had far different ideas and concepts than those of the ousted government of some six months previous. On October 28, 1980, the Liberal government introduced its National Energy Policy in conjunction with the Federal Budget proposing a radically new tax regime, discriminatory treatment of foreign owned or controlled companies and highly preferential rights for Petro Canada, Canada's national oil company. The new policy is without question causing a dramatic change in the infrastructure of the industry. It is incumbent on every company, regardless of size, to carefully examine, and in many cases, significantly alter its future planning.

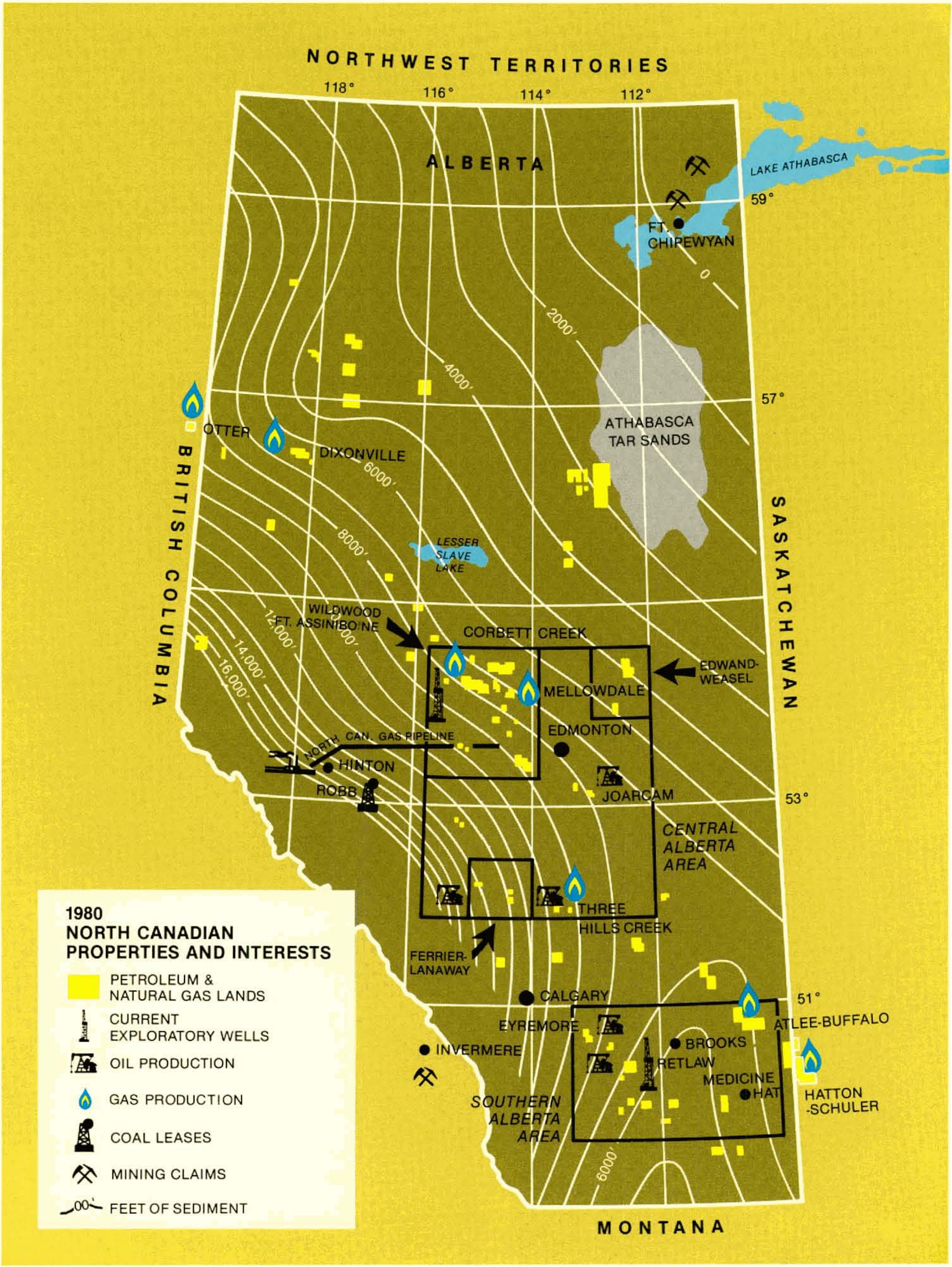
Two provisions of the October budget, which apply to all producing companies, are the introduction on January 1st of 1981 of an 8% Petroleum and Gas Revenue Tax on all Canadian production, and the freezing of the wellhead price of natural gas until 1982. These measures will, to a great extent, offset previously-projected increases in the Company's operating income and cash flow from oil and gas production in 1981, now expected to be of little material change from 1980. Because of price increases scheduled by the Federal Budget for 1984 and 1985, however, the Company's pre-budget projections for the longer term still appear valid and may, in fact, prove to be conservative.

For the past eighteen years it has been my pleasure and privilege, as President and Chief Executive Officer of North Canadian Oils, to write this annual letter. As has been announced it is my intent to retire from the Company following the Annual Meeting. I wish to take this opportunity to express my sincere gratitude to the Company's Directors, its Shareholders and, most certainly, my associates within the Company for the support given me in my endeavors on behalf of North Canadian Oils.

Robert F. Ruben

Robert F. Ruben
President and Chief Executive Officer

May 13, 1981


NORTHWEST TERRITORIES
118°
116°
114°
112°
ALBERTA
LAKE ATHABASCA
59°
FT. CHIPEWYAN
0
2000'
4000'
57°
ATHABASCA TAR SANDS
OTTER
DIXONVILLE
6000'
BRITISH COLUMBIA
SASKATCHEWAN
8000'
LESSER SLAVE LAKE
WILDWOOD
FT. ASSINIBOINE
12,000'
14,000'
16,000'
CORBETT CREEK
EDWAND-WEASEL
MELLOWDALE
NORTH CAN. GAS PIPELINE
EDMONTON
HINTON
ROBB
JOARCAM
53°
CENTRAL ALBERTA AREA
THREE HILLS CREEK
FERRIER-LANAWAY
CALGARY
51°
ATLEE-BUFFALO
EYREMORE
BROOKS
INVERMERE
RETLAW
MEDICINE HAT
HATTON -SCHULER
SOUTHERN ALBERTA AREA
6000'
MONTANA
1980
NORTH CANADIAN PROPERTIES AND INTERESTS
PETROLEUM & NATURAL GAS LANDS
CURRENT EXPLORATORY WELLS
OIL PRODUCTION
GAS PRODUCTION
COAL LEASES
MINING CLAIMS
00 FEET OF SEDIMENT

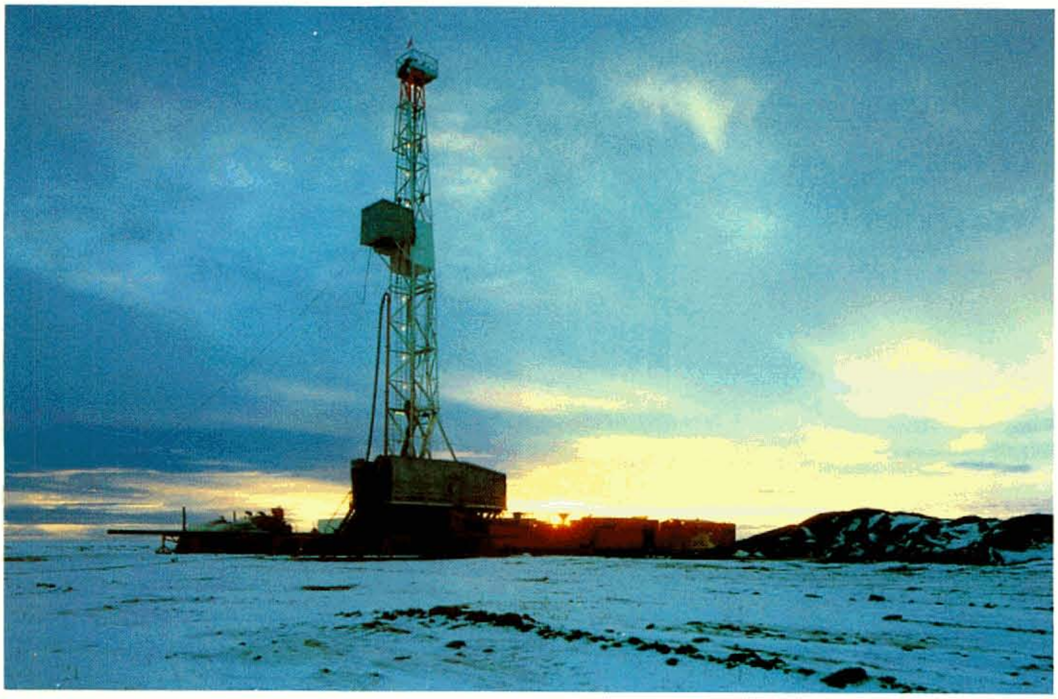
1980 represents North Canadian's most active year in oil and gas exploration to date. Increasing its inventory of exploratory acreage was a major emphasis of the Company's 1980 program. Following the previously reported acquisition of 770,000 gross acres in the state of Nebraska in January 1980, the Company added a further 332,000 gross acres of leases to its United States inventory in 1980. An additional approximately 200,000 acres of exploratory leases were acquired in Alberta during the year. The Company participated in drilling of 56 exploratory wells during the period, resulting in 23 gas, 9 oil, 2 oil and gas discoveries and 22 dry holes. A drill and core hole exploration program carried out on North Canadian's 2,826 acres of coal leases, located at Robb in West Central Alberta, indicates the presence of over 30 million tonnes of open pit recoverable bituminous "C" thermal coal. An additional 250 million tonnes of similar coal, presently lying below economic mining depths, are estimated to be situated within the company's lease blocks.

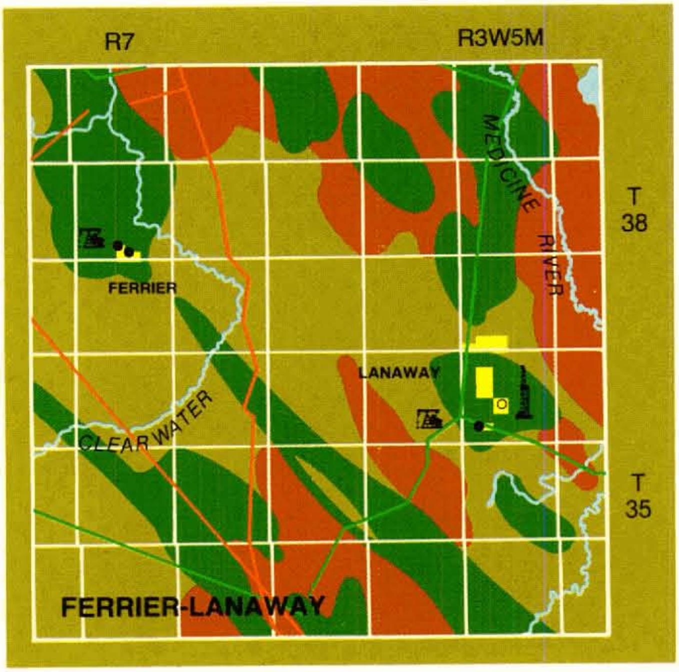
CANADA

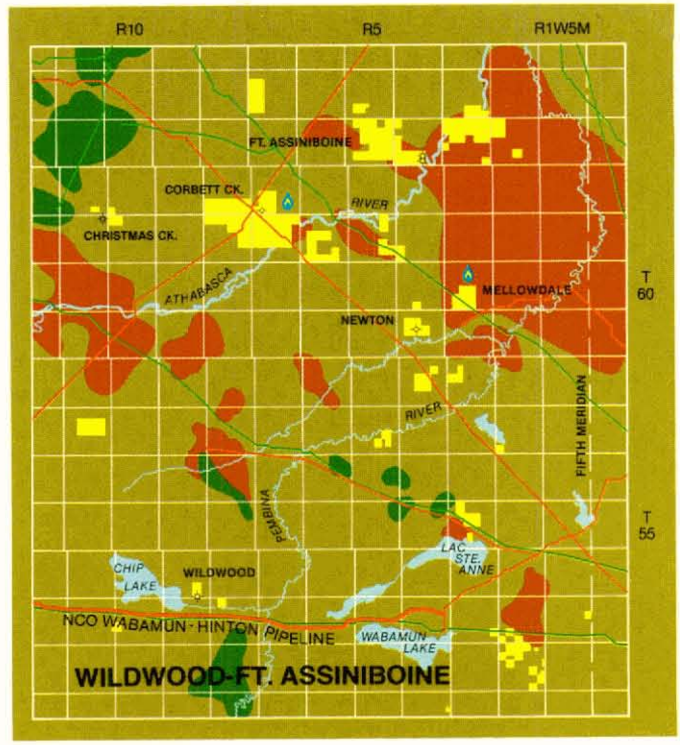
North Canadian's exploration activity in Canada during 1980 was largely concentrated in Southern Alberta and involved searching for Cretaceous river channel and bar sand reservoirs. Approximately 175 miles of new geophysical data was evaluated and 30 exploration wells were drilled. The exploratory drilling yielded 15 gas wells and 4 oil wells. In order to thoroughly evaluate exploratory land and geophysical data accumulated over the past two years, the Company expects southern Alberta to continue as the focus for its main Canadian exploration activity for at least another year. This is evidenced by the drilling of four exploratory tests, all of which are gas discoveries in the first quarter of 1981.

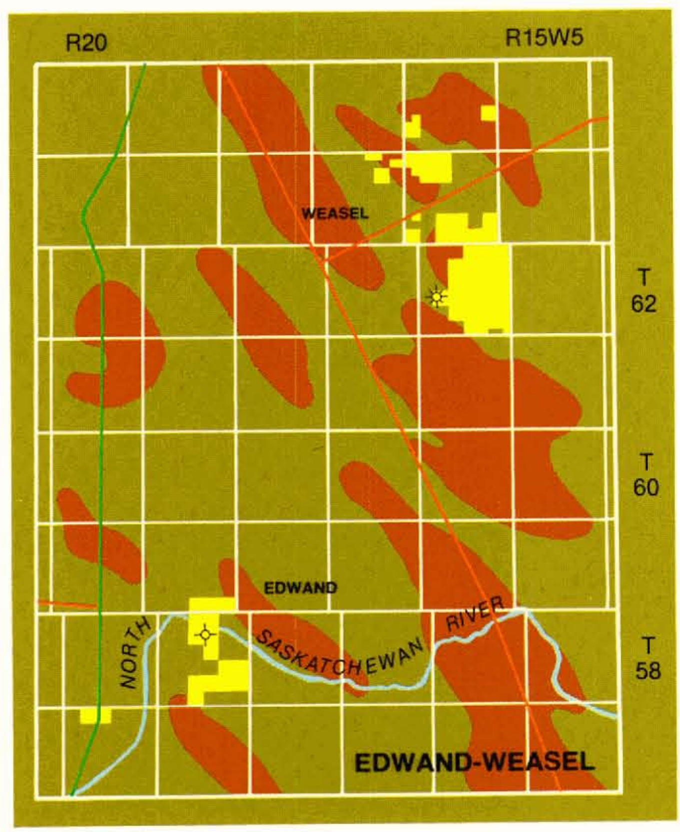
In Central Alberta, eleven exploratory wells were drilled by North Canadian and its partners. Gas discoveries were made at Christmas Creek, Fort Assiniboine, Wildwood and Edwand. Oil was discovered at Ferrier where two wells are now on production. The Company expects to participate in at least 10 exploratory tests in 1981 in this area.

exploration









1980 EXPLORATORY WELLS

NCO GAS PRODUCTION

NCO OIL PRODUCTION

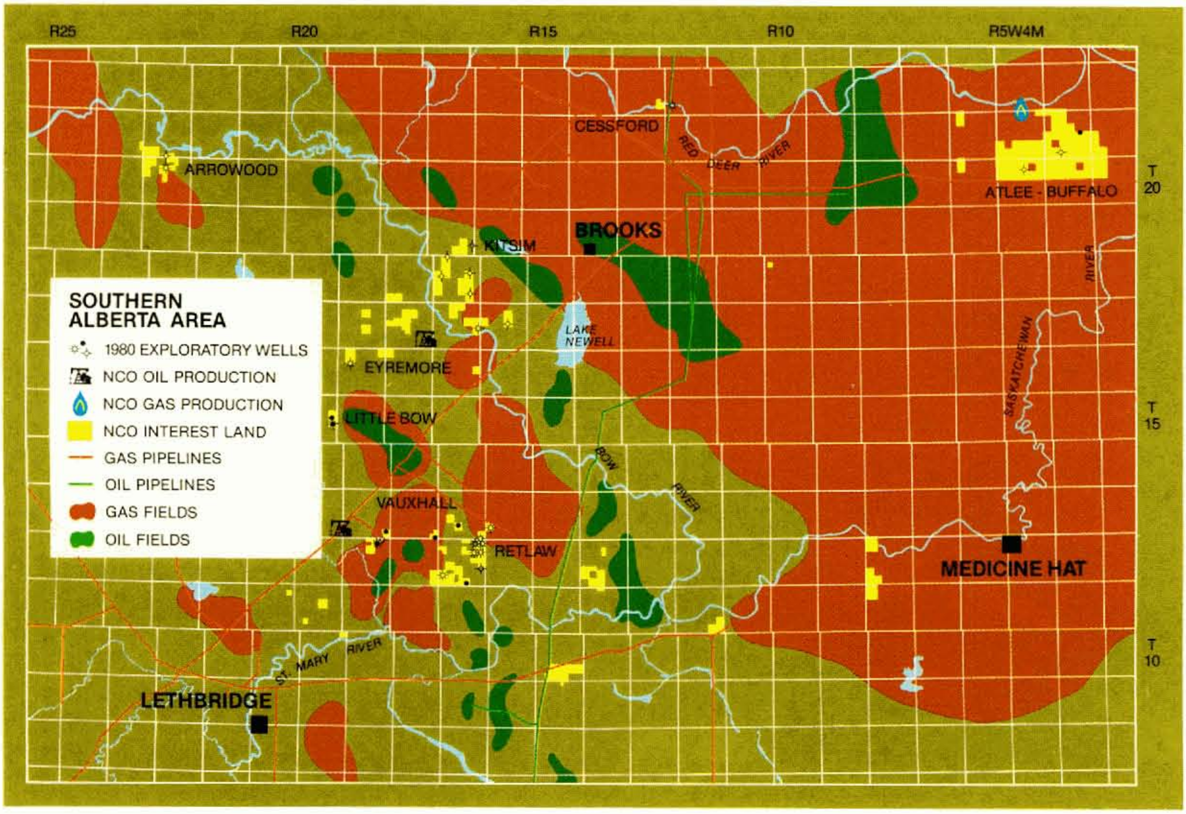
NCO INTEREST LANDS

GAS PIPELINES

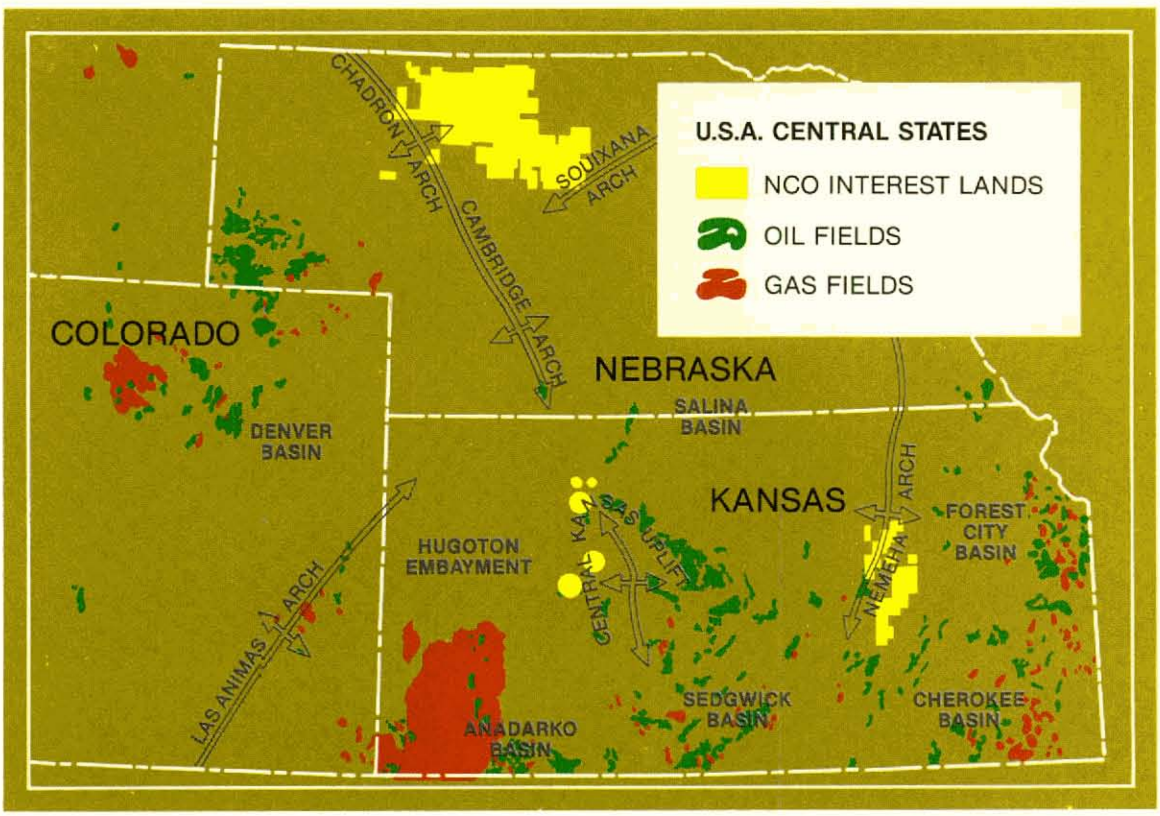
OIL PIPELINES

GAS FIELDS

OIL FIELDS


R25
R20
R15
R10
R5W4M
SOUTHERN ALBERTA AREA
1980 EXPLORATORY WELLS
NCO OIL PRODUCTION
NCO GAS PRODUCTION
NCO INTEREST LAND
GAS PIPELINES
OIL PIPELINES
GAS FIELDS
OIL FIELDS
ARROWOOD
CESSFORD
RED DEER RIVER
ATLEE - BUFFALO
T 20
BROOKS
KITSIM
LAKE NEWELL
EYREMORE
LITTLE BOW
VAUXHALL
RETLAW
BOW RIVER
SASKATCHEWAN RIVER
T 15
MEDICINE HAT
ST. MARY RIVER
T 10
LETHBRIDGE


U.S.A. GULF COAST
1980 NCO WELLS
CURRENTLY DRILLING
OKLAHOMA
ARKANSAS
MISSISSIPPI
TEXAS
LOUISIANA
REPUBLIC OF MEXICO
GULF OF MEXICO
DALLAS
HOUSTON
NEW ORLEANS
MASON #1
CAMERON
VALENTINE
DONALD #1
FAIRBANKS #1
SULLIVAN #1
SCARMARDO #1
MEISENHEIMER
FOX UNIT #2
SMYTH #1
MISSISSIPPI RIVER
RIO GRANDE RIVER


U.S.A. CENTRAL STATES
NCO INTEREST LANDS
OIL FIELDS
GAS FIELDS
COLORADO
NEBRASKA
KANSAS
DENVER BASIN
SALINA BASIN
FOREST CITY BASIN
HUGOTON EMBAYMENT
SEDGWICK BASIN
CHEROKEE BASIN
ANADARKO BASIN
CHADRON ARCH
CAMBRIDGE ARCH
SOUIXANA ARCH
LAS ANIMAS ARCH
CENTRAL KANSAS UPLIFT
NEMEHA ARCH

UNITED STATES

Over the past three years, the Company has progressively accelerated its exploration efforts in the U.S. In 1980, North Canadian was especially active in acquiring leases in midwest states of Kansas, Nebraska and Colorado, and in exploratory drilling onshore, along the Gulf Coast of the southern U.S.

MIDWEST U.S. AREA

North Canadian has acquired a 13.5% interest in two separate prospective trends, consisting of 67,000 acres and 138,000 acres respectively. They are located on and flanking the Nemaha Arch in east central Kansas. Seismic exploration has commenced on the largest block. Drilling of at least four wells is projected for the summer of 1981. On the 67,000 acre blocks, where geophysical work has been initiated, your Company is carried through the primary exploration work phase consisting of 100 miles of seismic and eight lower Paleozoic exploration wells. Exploratory drilling is not expected until late in 1981.

In west central Kansas, North Canadian has acquired a 15% interest in a fifteen well drilling program located in Ness, Trego and Graham Counties. Detailed seismic shooting on this project was completed in December 1980, and first drilling will commence in April 1981.

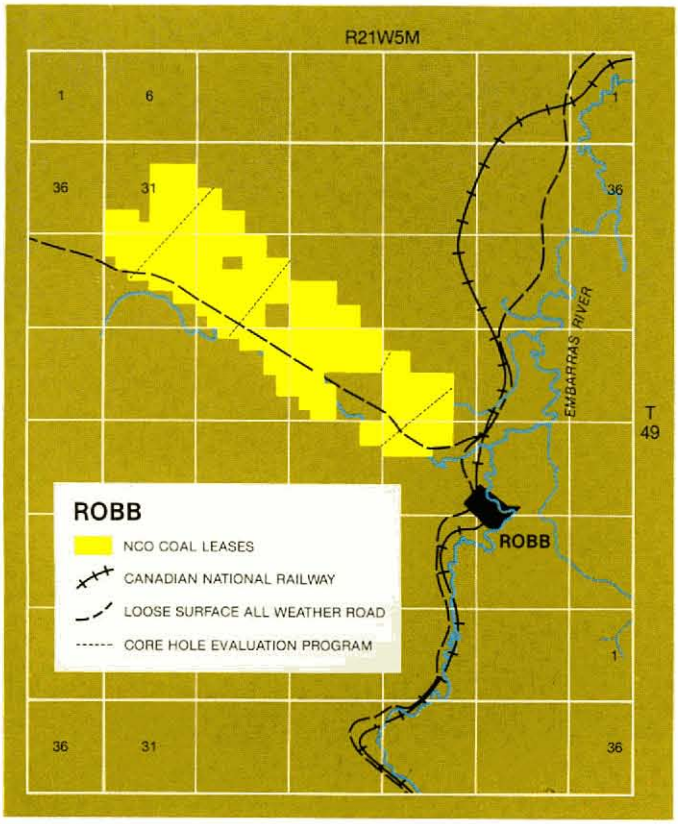
The prospects are situated on the Central Kansas Uplift, a structural trend along which oil has been produced from many zones for over 20 years.

In southeastern Colorado, adjacent to the north-south trending Las Animas Arch, 73,000 acres of land were acquired by North Canadian. Leasing along this favorable geologic trend is presently being pursued by the Company, and geophysical exploration is expected to begin in late summer of 1981. North Canadian has taken partners into this project but retains a 33⅓% interest in the leases.

In Nebraska the initial geophysical gravity program was finally completed late in 1980 after extensive delays due to weather and surface access problems. Stratigraphic drilling on this large 770,000 acre block is now expected in the fourth quarter of 1981.

GULF COAST AREA

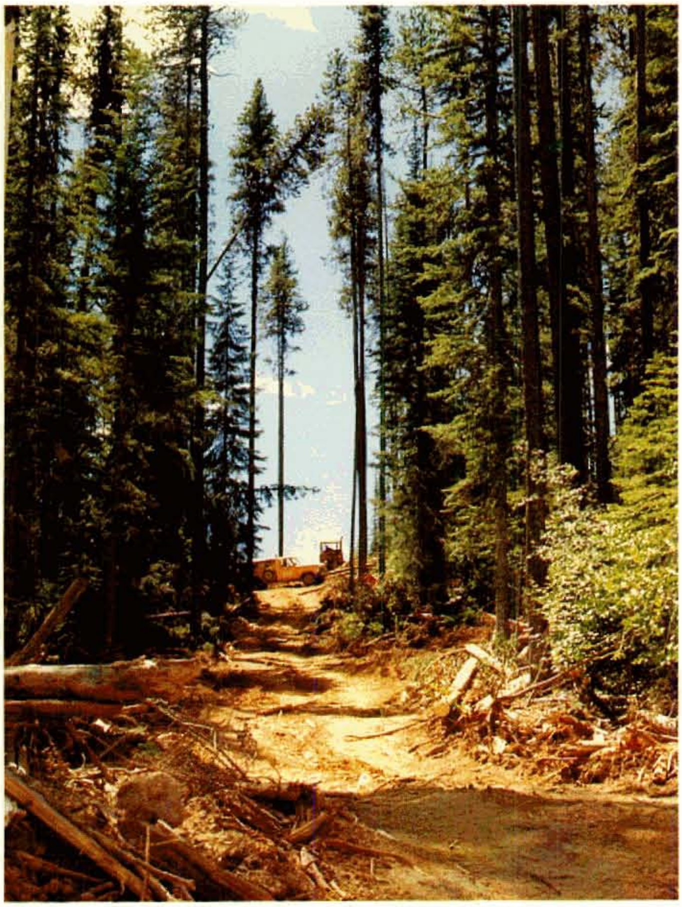
North Canadian, early in 1980, acquired a 20% interest in a nine prospect, 32,760 acre, drilling program located onshore along the U.S. Gulf Coast in the states of Texas, Arkansas, Louisiana and Mississippi. Eight wells were drilled in 1980 resulting in two oil discoveries in Texas and one oil discovery in Arkansas. The final exploratory well is expected to reach total depth in the second quarter of 1981.



In December 1980, the Company, as a 25% interest partner, joined in a three well exploration project to evaluate the Austin Chalk oil trend on 1,300 acres of leased land located in Burleson County, Texas. The first well has been cased for further testing of the Austin Chalk, when pumping equipment becomes available. The second exploratory well will commence in June 1981.

OTHER ACTIVITIES

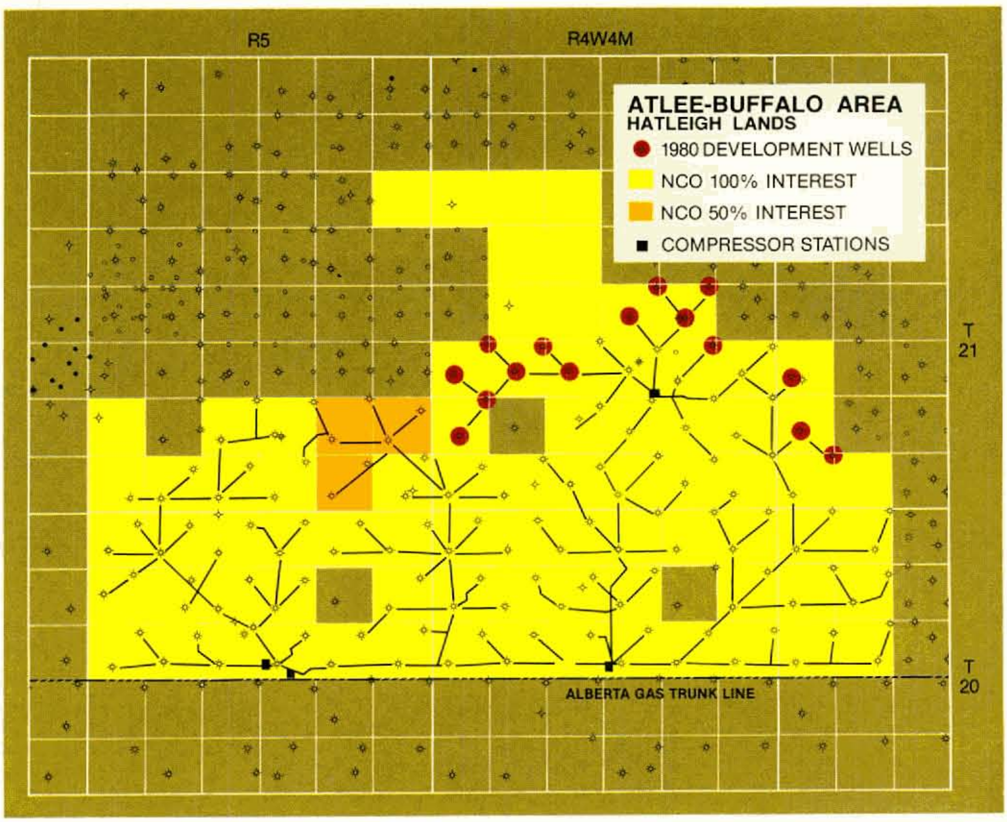
In December of 1980, North Canadian conducted an exploration program on its 2,826 acre coal lease located in west central Alberta near the town of Robb. Twenty-four core and rotary drill holes were spaced across the leases and each hole was logged with a full suite of geophysical logs. Interpretation of the data obtained indicates that approximately 30 million tonnes of open pit recoverable high volatile Bituminous "C" coal, with good thermal characteristics, is present beneath the property. An additional approximately 250 million tonnes of similar coal is estimated in place at depths not economical to mine under current technology. The Company is presently considering a number of alternatives in relation to exploiting this property.

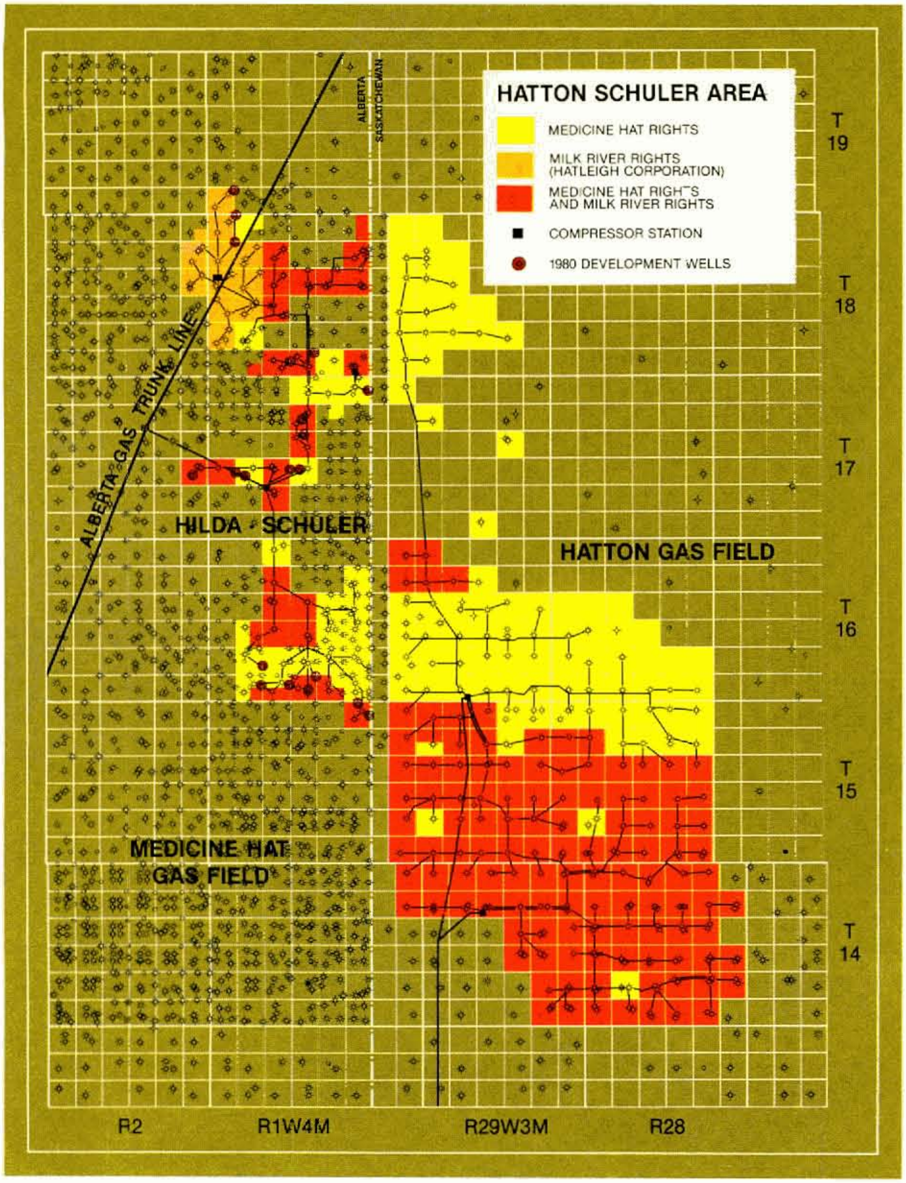


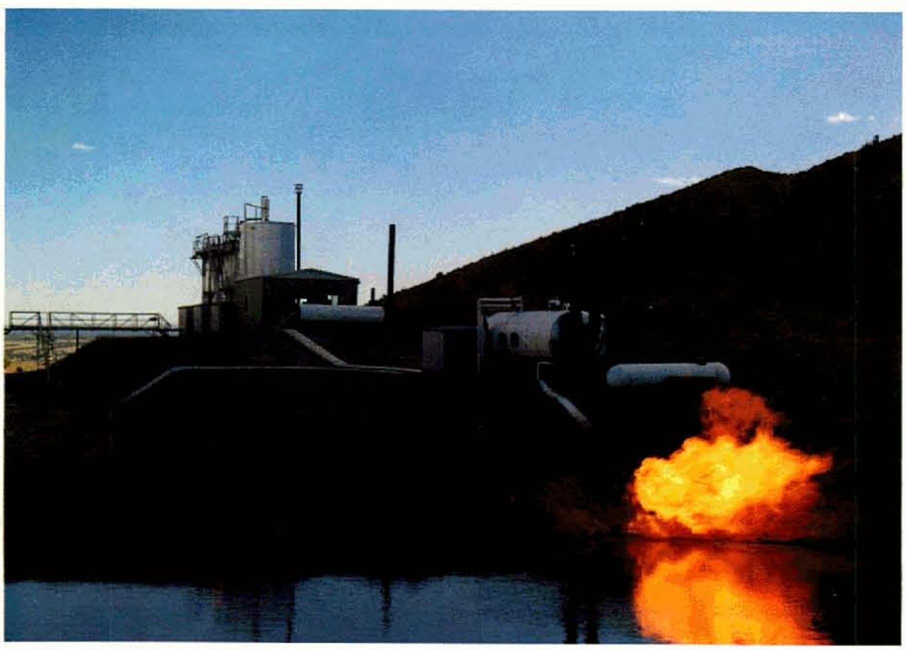
development

The Company's 1980 development expenditures were directed mainly to the drilling and connecting of 30 gas wells in Atlee-Buffalo, Alberta and 21 gas wells in Hatton, Saskatchewan. After adding these 51 new wells, North Canadian presently operates 561 gas wells in southeastern Alberta and southwestern Saskatchewan.

A substantial development program on the Alberta shallow gas properties is proposed for the current year, the results of which should be reflected in higher production rates in the final quarter of 1981. Construction of the Joarcam unit secondary waterflood scheme, which is targeted for completion in mid 1981, was started during the year. The benefits of increased production from this enhanced recovery scheme are expected several months after the commencement of actual water injection.







production

Gross natural gas production for 1980, from the Company's producing areas, including those held by Hatleigh Corporation, was 18.0 billion cubic feet — unchanged from the volume produced in 1979. The new wells, put on stream in the third quarter in the Hatton area of Saskatchewan and in the southeastern areas of Alberta during the last quarter, helped stabilize the natural decline from these mature fields. Production for the month of January 1981, from the southeastern Alberta fields, was approximately 9% higher than for the comparative period in 1980, whereas Saskatchewan production remained nearly constant.

In 1980 the price for gas produced in southeastern Alberta and southwestern Saskatchewan, which areas accounted for a major portion of the Company's gas and oil revenue, averaged approximately $2.39 per thousand cubic feet and 46.7¢ per thousand cubic feet respectively, as compared to $1.72 and 42.0¢ for the corresponding period in 1979. Royalties applicable to the production from these areas was 23.5% and 10.5% respectively.

Crude oil production for the year was 50,000 barrels, up from 47,700 barrels or an increase of approximately 5% over 1979. Production from wells placed on stream late in 1979, plus production from wells connected in 1980, more than offset a decline in production from the Joarcam unit. This decline which is considered to be temporary, resulted from the conversion of a number of producing oil wells to water injection wells in order to implement the secondary recovery scheme scheduled to be in operation in mid-1981.

The average field price for crude oil in 1980 was $15.29 a barrel versus $13.23 in 1979.

pipeline

In 1980, net operating revenue from the Company's wholly-owned 136 mile long Wabamun to Hinton natural gas pipeline was $1,117,000, an increase of 25% over 1979. This increase resulted from greater gas volume requirements of the principal customer, St. Regis (Alberta) Ltd., for its sulphate pulp mill at Hinton, and from the additional tariff, applied during the year, to industrial users and Gas Alberta, the government agency which purchases gas for rural systems along the pipeline route. Revenue from transporting gas belonging to gas utility and gas transmission companies did not significantly change from 1979 figures.

Average daily throughput for the line was 20 million cubic feet per day in 1980, which was approximately the same as for the previous year. Virtually all sales gas carried in the pipeline is purchased from Alberta and Southern Gas Co. Ltd. under a contract which ensures a long term supply of up to 30 million cubic feet per day. An additional 10 million cubic feet per day is available from other sources, if required.

reserves

The Company's gross proven recoverable natural gas reserves as at January 1, 1981 have been estimated to be 630 billion cubic feet, all of which are developed and subject to sales contracts. Estimated proven recoverable oil reserves increased by 5.5% to 569,000 barrels. Not included in the reserve estimate are approximately 720,000 barrels of crude oil and 79.5 billion cubic feet of natural gas, attributable to the Company's interest in the Joarcam unit and to areas where gas is shut-in for the lack of a market.

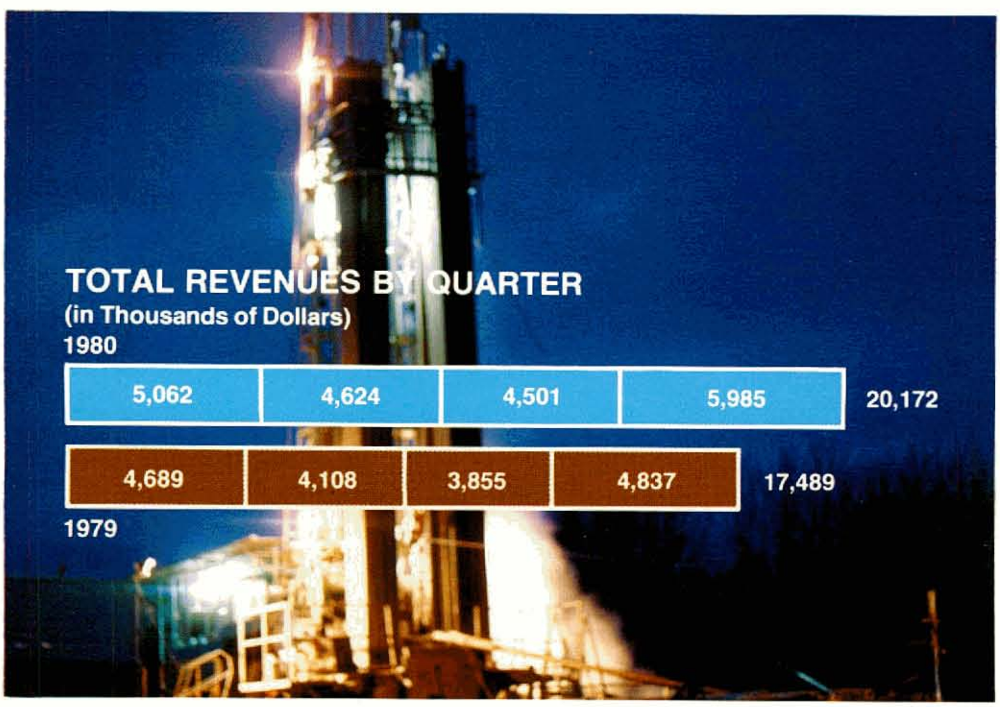
Capital Resources and Liquidity

Capital expenditures of approximately $13 million are forecast for 1981, for further development of the Company's producing gas properties and for exploration in Canada and the United States. The expenditures will be financed by using internally generated funds and by drawing on established bank lines of credit. For the past three years, all capital expenditures have been financed in a like manner. The Company has not employed long term borrowing for capital expenditures in its oil and gas business in the past three years and does not anticipate doing so in 1981.

Implementation of the reorganization increases the Company's borrowing base as the gas properties being transferred to the Company have debt capacity well in excess of the principal amount of the Secured Debentures secured by the properties. Implementation of the reorganiation will improve the Company's liquidity since the cash flow from the transferred gas properties (which is well in excess of the amounts needed to service the Secured Debentures) will flow to the Company.

No material change in the Company's liquidity position is otherwise forecast for 1981 except the possible impact of the National Energy Program. This program has reduced the Company's expectations of cash flow increases from oil and gas operations in the next three years by approximately 14%. However, the level of cash flow forecast is not lower than the 1980 level. Moderate increases in cash flow from existing operations are forecast for several years with material increases dependent on a combination of government action, a market developing for additional gas, and the results of exploration activity. Should new markets develop for gas, the Company could benefit substantially. However, due to uncertainty with respect to timing, management has not forecast new gas sales in considering the Company's cash flow and liquidity. Management is confident that established cash flow from operations and significant debt capacity will enable the Company to meet all commitments and provide a basis for growth in Canada, the United States and other foreign markets which prove to be of interest in the future.

financial review



Results of Operations

Comparison of 1980 to 1979

Revenue attributable to gas and oil properties, including those properties held by Hatleigh was $20.3 million compared to $16.3 million in 1979. Net revenue (after royalties) was $16.1 million versus $13.1 in 1979, a gain of 23%. The change is directly related to higher weighted average prices for gas produced and sold which increased to $1.08 per thousand cubic feet from 87¢ in 1979.

The Company's revenue from oil production, representing 4% of operating revenue, was up approximately $120,000 due to increased production and price and pipeline revenue increased as a result of greater demand for gas and increased tariffs.

The continued pressure of inflation throughout 1980 and higher costs of operating mature fields resulted in an 18% increase in operating expenses although administration costs were virtually unchanged.

In December 1980, the directors of Hatleigh determined that the investment in Foodex was not intended to be held indefinitely and the carrying value of the investment was written down in Hatleigh's accounts to an amount not exceeding its estimated realizable value. As a result, the Company wrote down by $14,501,000 its investment in Hatleigh, which amount was charged to income in the fourth quarter of 1980. The Company accounts for its interest in Hatleigh on the equity basis. During 1980, equity in the operating income of Hatleigh after providing for special share dividends of $1,501,000 was a loss of $1,127,000. Equity in the operating income of Hatleigh in 1979 was $359,000 after deducting special share dividends of $1,943,000.

Comparison of 1979 to 1978

The Company's 1979 and 1978 results are not comparable by reason of the transfer by the Company to Hatleigh on August 31, 1978 of certain producing gas properties (valued then at $15,000,000) in connection with the reorganization of Hatleigh in which the Company became Hatleigh's sole common shareholder. During the last four months of 1978 the revenues from these properties amounted to $1,750,000 and the related royalties and operating expenses amounted to $453,000 and $126,000 respectively. These amounts, along with related provisions for taxes, depletion and depreciation are recorded in Hatleigh's accounts and reflected in the Company's accounts through its equity in the operating income of Hatleigh.

Revenue attributable to oil and gas, including revenue from Hatleigh's properties, in 1979 ws $16.3 million versus $15.3 million in 1978, including Hatleigh's share of $5.6 and $1.7 million, respectively. Net revenue (after royalties) was $13.1 million compared to $11.5 in 1978, a gain of 14%, of which $4.2 and $1.3 million respectively relate to the Hatleigh properties. The change is directly related to a higher weighted average price for gas produced and sold in Alberta which increased to $1.74 per thousand cubic feet from $1.50 in 1978 and to lower royalties. The reduction in royalty of $1.5 million is attributable, as to $800,000, to the properties transferred to Hatleigh and, as to $700,000, to the reduction in the royalty rate for Alberta low deliverability gas wells implemented in August 1978.

The Company's revenue from oil production, representing 4% of operating revenue, was up $100,000 and is attributable to increased production and price.

Despite the continued pressure of inflation throughout 1979, an improvement in operating procedures and a reduction in repair and maintenance costs resulted in operating expenses being marginally lower for the year.

During 1979, equity in the operating income of Hatleigh, after providing for special share dividends of $1,943,000, was $359,000. The comparative amount in 1978 was $1.8 million after deducting special share dividends of $753,000. Comparison of these results is not meaningful because of certain corporate changes which occurred in August 1978 and the sale, effective January 1, 1979, of Peel-Elder Developments Limited.

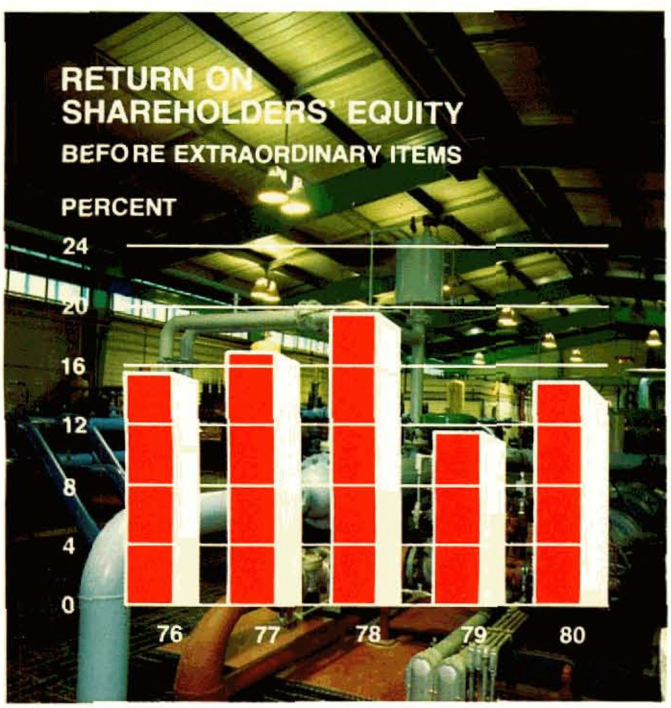
SELECTED FINANCIAL DATA OF THE COMPANY

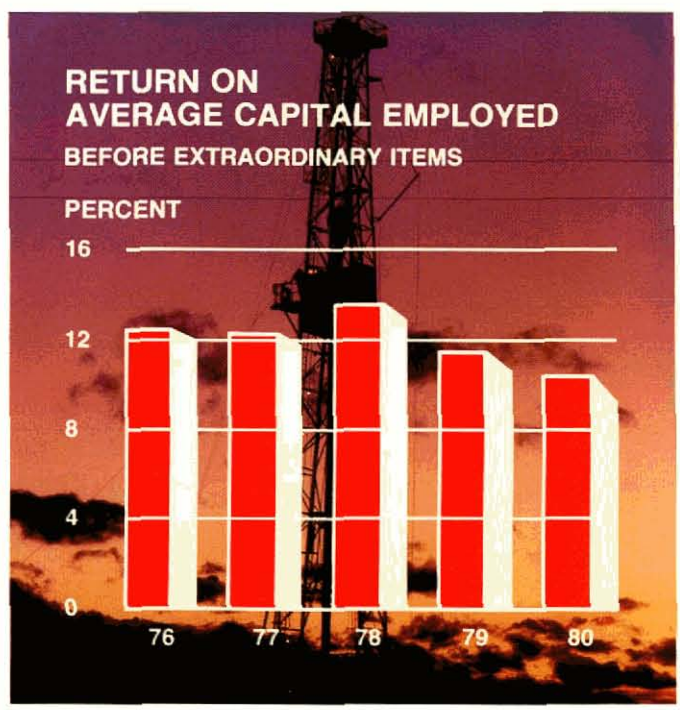
The following table summarizes certain selected financial data in accordance with generally accepted accounting principles (GAAP) in Canada and the United States and is qualified in its entirety by the more detailed Consolidated Financial Statements of the Company appearing elsewhere herein.

	Year ended December 31,				
	1980	1979	1978	1977	1976
	(Stated in thousands of Canadian dollars except for per share data)				
Net operating revenues	$17,704	$15,600	$16,423	$14,505	$10,002
Income from continuing operations(a)	$ 5,440	$ 4,002	$ 3,461	$ 5,828	$ 4,675
Income from continuing operations per common share (Canadian GAAP) (a)	$1.22(b)	$.89	$.74	$1.03	$.83
Income from continuing operations per common share (U.S. GAAP) (a)	$1.25	$.92	$.72	$1.15	$.91
Total assets (at end of period)	$56,156	$69,656	$62,152	$69,998	$41,251
Long-term obligations (including redeemable preferred shares) (at end of period)	$10,814	$17,843	$21,420	$23,050	$ 3,803

(a) Before equity in operating income (loss) of Hatleigh Corp. and extraordinary items.

(b) Before extraordinary loss of $2.99 per common share. Net loss for the year ended December 31, 1980 was $2.04 per common share.





five year summary of operations

	1980	1979	1978	1977	1976
Revenue					
Gas and oil	$12,989	$10,782	$13,589	$13,783	$ 9,356
Less royalties	2,468	1,889	3,427	3,839	2,491
	10,521	8,893	10,162	9,944	6,865
Pipeline operations	6,113	5,561	5,543	3,712	2,112
Investment income	540	783	636	754	820
Miscellaneous	530	363	82	95	205
	17,704	15,600	16,423	14,505	10,002
Expenses					
Operating and administrative	2,554	2,274	2,462	2,012	1,687
Gas purchased for resale	4,723	4,408	4,410	2,392	509
Interest	1,679	2,320	1,903	547	216
Income tax — current (recovery)	325	(202)	522	1,344	1,525
	9,281	8,800	9,297	6,295	3,937
Funds Provided from Operations	8,416	6,800	7,126	8,210	6,065
Per common share	1.88	1.46	1.53	1.45	1.07
Depreciation, depletion	1,210	962	904	886	689
Amortization and write-off of foreign exploration	—	—	1,861	455	—
Equity in operating income of affiliate	(1,127)	359	1,808	106	—
Income before undernoted	6,086	6,197	6,169	6,975	5,376
Income tax — deferred	1,773	1,836	900	1,041	701
Net income before undernoted	4,313	4,361	5,269	5,934	4,675
Per common share	0.95	0.96	1.11	1.04	0.81
Extraordinary items	(13,385)	6,066	769	689	726
Net income	(9,072)	10,427	6,038	6,623	5,401
Per common share	(2.04)	2.32	1.28	1.16	0.94
Working capital — (deficit)	(487)	4,166	451	(462)	4,927
Long-term investments	8,819	27,430	29,446	36,689	10,000
Property and equipment - net	42,019	33,256	26,278	29,689	24,146
Long-term debt	9,600	16,547	20,000	21,526	2,203
Shares outstanding					
Common - no par value	*4,477	*4,453	*4,435	5,649	5,643
Preferred - par value $50 per share	24	26	28	30	32
Shareholders' equity	28,510	37,506	27,104	36,321	29,816
Cost of finding and developing reserves					
Exploration	5,995	2,800	4,200	4,300	1,417
Development	5,311	5,100	500	2,700	2,780

*Excludes shares owned by Hatleigh Corp.

Production and Sales	1980	1979	1978	1977	1976
+Natural Gas Production — billion cubic feet	18.0	18.1	18.7	19.3	17.3
Average per day — million cubic feet	49.3	49.6	51.3	52.8	47.4
Pipeline —					
Annual throughput, billion cubic feet	7.5	7.5	7.6	6.0	6.5
Oil Production — barrels	50,000	47,700	40,000	43,000	45,600

+Includes Hatleigh Corp. production

COMMON STOCK PRICE RANGE

	Toronto Stock Exchange (Can.)				American Stock Exchange (U.S.)			
Quarter	1980		1979		1980		1979	
First	$28.00	$14.00	$13.50	$10.38	$24.75	$10.38	$11.75	$ 8.50
Second	20.25	15.50	17.25	11.50	16.75	12.38	15.00	9.50
Third	22.50	17.88	16.38	12.50	19.63	14.75	14.00	10.50
Fourth	23.25	16.50	22.63	14.50	21.00	13.75	19.75	11.75

NORTH CANADIAN OILS LIMITED

consolidated balance sheets

	December 31	
ASSETS	**1980**	**1979**
CURRENT ASSETS		
Cash and short-term deposits	$ 136,000	$ 2,638,000
Accounts receivable	4,433,000	5,036,000
Due from Receiver General for Canada	—	950,000
Prepaid expenses	160,000	88,000
Total current assets	4,729,000	8,712,000
LONG-TERM INVESTMENTS (Note 2)		
Hatleigh Corporation	8,119,000	20,546,000
Other security investments	700,000	6,884,000
	8,819,000	27,430,000
PROPERTY, PLANT AND EQUIPMENT (Note 3)		
Full cost method	53,096,000	43,184,000
Accumulated depreciation and depletion	11,077,000	9,928,000
	42,019,000	33,256,000
OTHER ASSETS AT COST (Note 7)	589,000	258,000
	$56,156,000	$69,656,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,824,000	$ 4,546,000
Income taxes payable	61,000	—
Due to Hatleigh Corporation	1,331,000	—
Total current liabilities	5,216,000	4,546,000
LONG-TERM DEBT (Note 4)	9,600,000	16,547,000
DEFERRED INCOME TAXES (Note 6)	12,830,000	11,057,000
CONTINGENT LIABILITIES (Note 9)		
SHAREHOLDERS' EQUITY (Note 5)		
5½% cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares, issued 24,285 shares (1979 — 25,925 shares)	1,214,000	1,296,000
Common shares, no par value; authorized 7,500,000 shares, issued 5,696,165 shares (1979 — 5,672,365 shares)	23,272,000	23,063,000
	24,486,000	24,359,000
Capital redemption reserve fund	2,286,000	2,204,000
Contributed surplus	40,000	23,000
Retained earnings	16,814,000	26,036,000
	43,626,000	52,622,000
Less cost of shares of North Canadian held by Hatleigh Corporation (Note 2)	15,116,000	15,116,000
	28,510,000	37,506,000
	$56,156,000	$69,656,000

On behalf of the Board,

Director

Director

See accompanying notes to consolidated financial statements.

NORTH CANADIAN OILS LIMITED

consolidated statements of income

	Year ended December 31		
	1980	1979	1978
Revenue			
Gas and oil	$12,989,000	$10,782,000	$13,589,000
Less royalties	2,468,000	1,889,000	3,427,000
	10,521,000	8,893,000	10,162,000
Pipeline operations	6,113,000	5,561,000	5,543,000
Investment	540,000	783,000	636,000
Management fee and miscellaneous	530,000	363,000	82,000
	17,704,000	15,600,000	16,423,000
Expenses			
Operating	1,815,000	1,544,000	1,756,000
Gas purchased for resale	4,723,000	4,408,000	4,410,000
Administrative	739,000	730,000	706,000
Interest on long-term debt	1,679,000	2,320,000	1,903,000
Depreciation	318,000	295,000	297,000
Depletion	892,000	667,000	607,000
Amortization and write-off of foreign exploration costs	—	—	1,861,000
	10,166,000	9,964,000	11,540,000
Income before the undernoted	7,538,000	5,636,000	4,883,000
Income taxes (Note 6)			
Current (recovery)	325,000	(202,000)	522,000
Deferred	1,773,000	1,836,000	900,000
	2,098,000	1,634,000	1,422,000
Income before the undernoted	5,440,000	4,002,000	3,461,000
Equity in operating income (loss) of Hatleigh Corporation (Note 2)	(1,127,000)	359,000	1,808,000
Income before extraordinary items	4,313,000	4,361,000	5,269,000
Extraordinary items (Note 11)	(13,385,000)	6,066,000	769,000
Net income (loss)	$ (9,072,000)	$10,427,000	$ 6,038,000
Income (loss) per common share			
Income before extraordinary items	$ .95	$ .96	$ 1.11
Extraordinary items	(2.99)	1.36	.17
Net income (loss)	$ (2.04)	$ 2.32	$ 1.28

See accompanying notes to consolidated financial statements.

consolidated statements of changes in financial position

	Year ended December 31		
	1980	1979	1978
SOURCE OF FUNDS			
Income before extraordinary items	$ 4,313,000	$ 4,361,000	$ 5,269,000
Add (deduct) items not requiring an outlay of funds			
Gain on disposal of fixed assets	(7,000)	—	—
Depreciation, depletion and amortization	1,210,000	962,000	2,765,000
Deferred income taxes	1,773,000	1,836,000	900,000
Equity in operating (income) loss of Hatleigh Corporation	1,127,000	(359,000)	(1,808,000)
Funds provided from operations	8,416,000	6,800,000	7,126,000
Dividend received from Hatleigh Corporation	—	—	11,500,000
Transfer of gas properties	—	—	5,296,000
Net proceeds from settlement of shareholder's action	—	196,000	—
Proceeds on sale of property, plant and equipment	212,000	249,000	—
Proceeds on sale of investments	6,685,000	5,663,000	148,000
Proceeds on disposition of other assets	41,000	—	—
Proceeds on issue of common shares	209,000	149,000	26,000
Reduction of note receivable from Hatleigh Corporation	—	3,282,000	—
Increase in long-term debt	221,000	4,710,000	8,200,000
Total funds provided	15,784,000	21,049,000	32,296,000
USE OF FUNDS			
Expenditures for property, plant and equipment	10,178,000	8,189,000	4,668,000
Reduction of long-term debt	7,168,000	8,163,000	9,726,000
Redemption of preferred shares	65,000	101,000	85,000
Dividends on preferred shares	68,000	73,000	80,000
Additions to other investments	—	700,000	—
Additions to other assets	372,000	108,000	28,000
Note receivable from Hatleigh Corporation (Note 2)	—	—	11,500,000
Investment in Hatleigh Corporation (Note 2)	2,586,000	—	5,296,000
Total funds used	20,437,000	17,334,000	31,383,000
Increase (decrease) in working capital	(4,653,000)	3,715,000	913,000
Working capital (deficit), beginning of year	4,166,000	451,000	(462,000)
Working capital (deficit), end of year	$ (487,000)	$ 4,166,000	$ 451,000
Increase (decrease) accounted for as follows:			
Cash and short-term deposits	$ (2,502,000)	$ 2,032,000	$ 41,000
Accounts receivable	(603,000)	882,000	1,418,000
Due from Receiver General for Canada	(950,000)	(541,000)	1,491,000
Prepaid expenses	72,000	61,000	(40,000)
Accounts payable	722,000	(1,480,000)	83,000
Due to Hatleigh Corporation	(1,331,000)	967,000	(967,000)
Income taxes payable	(61,000)	—	179,000
Long-term debt due within one year	—	1,794,000	(1,292,000)
Increase (decrease) in working capital	$ (4,653,000)	$ 3,715,000	$ 913,000

See accompanying notes to consolidated financial statements.

consolidated statements of retained earnings

	Year ended December 31		
	1980	1979	1978
Balance, beginning of year	$26,036,000	$15,806,000	$29,284,000
Net income (loss) for the year	(9,072,000)	10,427,000	6,038,000
	16,964,000	26,233,000	35,322,000
Deduct			
Transfer to capital redemption reserve fund (Note 5)	82,000	124,000	104,000
Dividends on preferred shares	68,000	73,000	80,000
Transfer to common share capital account (Note 5)	—	—	19,332,000
	150,000	197,000	19,516,000
Balance, end of year	$16,814,000	$26,036,000	$15,806,000

See accompanying notes to consolidated financial statements.

auditors' report to the shareholders

We have examined the consolidated balance sheets of North Canadian Oils Limited and subsidiaries as at December 31, 1980 and 1979 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1980. 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 reports of other auditors who have examined the consolidated financial statements of the company accounted for on the equity method for the three years ended December 31, 1980.

In our opinion, these consolidated financial statements present fairly the financial position of North Canadian Oils Limited and subsidiaries as at December 31, 1980 and 1979 and the results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1980 in accordance with accounting principles generally accepted in Canada (which differ from accounting principles generally accepted in the United States as set out in note 18 to the consolidated financial statements) applied on a consistent basis.

Calgary, Canada
March 5, 1981
(except for note 17 for which
the date is April 7, 1981)

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

notes to consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with accounting principles generally accepted in Canada and are stated in Canadian Dollars.

The principal activity of the Company is the exploration and development of oil and gas and its investment in Hatleigh Corporation.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States 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, cost 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.

Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the statement of income.

As a result of surrendering an offshore concession in 1978, the unamortized balance of $1,520,000 was written off against income in 1978.

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.

Expenditures for maintenance and repairs are charged against income; expenditures for renewals or betterments are capitalized.

(c) Translation of Foreign Currency

Foreign current assets and current liabilities are translated into Canadian dollars at the year end rate of exchange. Other assets and liabilities are translated at rates prevailing when acquired or incurred. Income accounts, other than the depletion and depreciation which are translated at the rates applicable to the related assets, are translated at the average exchange rate in effect during the year. On December 31, 1980, the Canadian dollar was quoted at $0.84 U.S. = $1.00 Cdn.

(d) Income Per Share

Income per common share was computed by dividing net income, after provision for preferred dividend requirements, by the weighted average number of common and common equivalent (stock options) shares outstanding. Such calculation is in accordance with the requirements of the Accounting Principles Board Opinion 15 of the American Institute of Certified Public Accountants. Income per common share computed in accordance with generally accepted accounting principles in Canada would not be significantly different from that computed under APB 15.

The weighted average number of shares has been reduced by 1,219,296 shares acquired in 1978 by a subsidiary of Hatleigh Corporation.

2. LONG-TERM INVESTMENTS

	December 31	
	1980	1979
Hatleigh Corporation at equity	$12,692,000	$27,444,000
Note receivable at cost	8,218,000	8,218,000
Debentures receivable at cost	2,325,000	—
	23,235,000	35,662,000
Less cost of 1,219,296 shares of North Canadian held by Hatleigh Corporation ("Hatleigh")	15,116,000	15,116,000
	$ 8,119,000	$20,546,000

As a result of a series of transactions in 1978, the Company now owns 100% of the common shares of Hatleigh which carry 49.3% of the votes at shareholders' meetings. Class A and B 9¾% special shares carry 50.7% of said votes. The Company, therefore, continues to account for its investment on the equity basis. On September 30, 1980 Hatleigh's authorized, issued and outstanding Class B shares became Class A shares.

The Directors of Hatleigh Corporation in December 1980 determined that the investment in Foodex Inc. and Gibraltar Pari-Mutuel, Inc. was not intended to be held indefinitely. Hatleigh Corporation accounted for that investment by the equity method and, since December 1980, at an amount not exceeding its estimated realizable value. As a result, the Company wrote down by $14,501,000 its goodwill relating to its investment in Hatleigh Corporation in the fourth quarter of 1980.

As a result of the transactions during 1978, referred to above, the excess of the cost of the investment over the underlying net book value of the assets acquired was $11,904,000 of which $5,326,000 has been allocated to real estate assets and $6,578,000 to goodwill. The amount that relates to real estate has been charged against equity in the extraordinary items of Hatleigh as it relates to the disposal of the underlying real estate assets in 1979. The aggregate unamortized balance of the excess at December 31, 1980 amounts to $1,832,000 (December 31, 1979 — $16,666,000). All of this amount relates to goodwill and is being amortized over forty years.

During 1978, the Company received a dividend of $11,500,000 from Hatleigh. The Company subsequently advanced $11,500,000 to Hatleigh by way of an interest-free note receivable. The note receivable at December 31, 1980 and 1979 is $8,218,000.

Summarized financial information reflecting net assets to common shareholders and the results of operations of Hatleigh as at and for the years ended December 31, 1980 and 1979 is presented below. The information is after giving effect to certain adjustments in the financial statements of the Company treating the aforementioned series of transactions as a purchase.

	December 31	
	1980	1979
Net assets to common shareholders		
Current assets	$11,485,000	$ 5,153,000
Investments		
North Canadian Oils Limited	15,116,000	15,116,000
Foodex	11,446,000	28,166,000
Lane Bryant	14,538,000	3,508,000
Kesmark Holdings Ltd. — 10% debenture	8,000,000	9,000,000
Other	—	1,216,000
	60,585,000	62,159,000
Gas properties, net of accumulated depreciation and depletion of $516,000 - 1980; $282,000 - 1979	7,203,000	6,220,000
	67,788,000	68,379,000
Current liabilities	24,638,000	8,663,000
Long-term debt	15,394,000	11,708,000
Deferred income taxes	439,000	180,000
Minority interest	1,280,000	1,280,000
Preferred shareholders' equity	13,345,000	19,104,000
	55,096,000	40,935,000
Net assets to common shareholders	$12,692,000	$27,444,000

	Year ended December 31	
	1980	1979
Results of operations		
Revenue from operations	$ 7,331,000	$ 5,569,000
Equity in earnings (loss) of investments	(1,879,000)	35,000
Other	1,918,000	2,768,000
	7,370,000	8,372,000
Expenses including minority interest	5,912,000	4,855,000
Income taxes	1,084,000	1,215,000
	6,996,000	6,070,000
Earnings before extraordinary items	374,000	2,302,000
Extraordinary items	(13,625,000)	5,700,000
Net earnings (loss)	(13,251,000)	8,002,000
Dividends on preferred shares	(1,501,000)	(1,943,000)
Net earnings (loss) accruing to common shareholders	$(14,752,000)	$ 6,059,000

	No. of Shares	Cost	Market Value
Other investments			
December 31, 1980			
Bradie Building Ltd.	132	$ 700,000	No quoted market value
December 31, 1979			
St. Regis Paper Company	168,778	$ 6,184,000	$6,192,000
Bradie Building Ltd.	132	700,000	No quoted market value
		$ 6,884,000	

3. PROPERTY, PLANT AND EQUIPMENT

	Canada	U.S.A.*	Total
Costs Capitalized			
December 31, 1980			
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon	$43,466,000	$4,350,000	$47,816,000
Accumulated depreciation and depletion	7,225,000	—	7,225,000
	36,241,000	4,350,000	40,591,000
Pipeline, other equipment and leasehold improvements	5,280,000	—	5,280,000
Accumulated depreciation and depletion	3,852,000	—	3,852,000
	1,428,000	—	1,428,000
	$37,669,000	$4,350,000	$42,019,000
December 31, 1979			
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon	$36,914,000	$1,274,000	$38,188,000
Accumulated depreciation and depletion	6,150,000	—	6,150,000
	30,764,000	1,274,000	32,038,000
Pipeline, other equipment and leasehold improvements	4,996,000	—	4,996,000
Accumulated depreciation and depletion	3,778,000	—	3,778,000
	1,218,000	—	1,218,000
	$31,982,000	$1,274,000	$33,256,000

* Accumulated costs in the U.S.A. consist of lease acquisition and drilling costs. During 1980, approximately $3,076,000 was spent on prospects located in Texas, Arkansas, Mississippi, Louisiana and Nebraska, all of which are still in the exploratory stage. Prior costs of $1,274,000 relate to properties in Wyoming and Texas on which the Company is conducting geological studies to further evaluate potential drilling prospects.

4. LONG-TERM DEBT

	December 31	
	1980	1979
Bank notes	$ 9,600,000	$16,547,000

The bank notes bear interest from 11.78% to 12.08% and are secured by 3,500,000 common shares of Hatleigh Corporation. In addition the Company has undertaken to grant to the bank, if so requested, a first charge over certain gas properties to secure a bank note of $3,600,000. The bank notes are for a 90 day period, however these notes are convertible at the Company's option to demand loans bearing interest from ½% to 1% above the bank prime rate, not callable in the first fourteen months. Because of this standby credit arrangement this loan is classified as long-term. These arrangements have been undertaken to reduce the carrying charges on the Company's debt. The Company has a $13 million line of credit. At December 31, 1980 borrowings of $6 million were outstanding under this credit facility bearing interest at the prime bank rate and the prime bank rate plus ½%.

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, 1980 the requirements had been met for June 1, 1981 and in addition, 1,715 shares applicable to June 1, 1982 have been cancelled.

Information with respect to the shares redeemed is as follows:

	December 31		
	1980	1979	1978
Amounts transferred to the capital redemption reserve fund	$ 82,000	$124,000	$104,000
Differences between the acquisition cost and the par value of the preferred shares redeemed, which have been credited to contributed surplus	$ 17,000	$ 23,000	$ 19,000
Shares redeemed	1,640	2,485	2,076

The terms of the preferred shares impose a one million dollar minimum working capital restriction on the payment of common share dividends and the distribution of assets by the Company. At December 31, 1980 the working capital deficit of the Company amounted to $487,000.

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 (retained earnings $19,332,000 and contributed surplus $2,168,000) by adding that amount to the paid-up capital attributable to the outstanding common shares of the Company.

	December 31		
	1980	1979	1978
Common Shares Issued			
Shares issued under stock option plan	23,800	17,400	6,400
Consideration (being cash and notes receivable) credited to:			
Capital stock	$209,000	$149,000	$ 2,000
Contributed surplus	—	—	24,000
	$209,000	$149,000	$ 26,000

6. INCOME TAXES

The provisions made for income taxes 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:

	December 31		
	1980	1979	1978
	(48%)	(46%)	(46%)
Computed "expected" income tax	$3,619,000	$2,593,000	$2,246,000
Increase (decrease) in income taxes resulting from:			
Non-deductibility of royalties and other payments to crown	996,000	721,000	1,442,000
Federal resource allowances	(1,262,000)	(989,000)	(1,253,000)
Allowance for earned depletion	(845,000)	(408,000)	(329,000)
Provincial taxes less federal abatement	84,000	68,000	67,000
Provincial rebates and credits	(480,000)	(310,000)	(753,000)
Other	(14,000)	(41,000)	2,000
	$2,098,000	$1,634,000	$1,422,000

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:

	December 31		
	1980	1979	1978
Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the accounts	$ 150,000	$ 146,000	$251,000
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded in the accounts	1,623,000	1,690,000	649,000
Total deferred income taxes	$1,773,000	$1,836,000	$900,000

7. STOCK OPTION PLAN

Under the terms of Employee Common Stock Option Plans, options are exercisable cumulatively in three equal installments within a five year period with the first installment exercisable one year after the date of granting the option. At December 31, 1980, 31,000 shares were still available for granting (28,000 at December 31, 1979). During 1980, 3,000 shares, which had been previously granted then withdrawn when the optionee left the Company, are available for granting in the future. Options outstanding at December 31, 1980 expire in 1983 and 1984. At December 31, 1980 there were 27,800 options outstanding (December 31, 1979 — 54,600).

Payment for shares issued under the stock option plan was accepted by the Company in the form of cash or notes receivable. Notes issued prior to 1979, which are secured by the purchased shares, are non-interest bearing until they mature, at which time they bear interest at 8%. Notes issued subsequent to 1978 bear annual interest equivalent to the annual dividends paid on the Company's common shares held by the note holders, until they mature, after which they bear interest at 1% above the banking prime rate. All notes become due at the earliest of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares and ten years from the subscription date. Notes receivable in the amount of $280,000 at December 31, 1980 and $156,000 at December 31, 1979, are due from directors and officers and are carried on the balance sheet under other assets. No charges or credits are made to income with regard to options granted under the plan.

Option information is as outlined below:

		Option price	
Options: Exercised	Number of shares	Per Share	Amount
1980	23,800	$ 8.55-12.35	$209,000
1979	17,400	8.55	149,000
1978	6,400	3.56- 4.18	26,000
Options: Exercisable			
1980	24,400	$ 8.55-12.35	$216,000
1979	17,400	8.55	149,000
1978	3,250	4.18	13,000
Options: Granted			
1980	—	—	—
1979	10,500	$10.45-18.05	$139,000
1978	61,500	8.55	526,000

8. STATUTORY INFORMATION

Directors and senior officers comprising of thirteen persons of the Company received remuneration amounting to $402,000 ($311,000 in 1979 and $275,000 in 1978), included in this amount is $27,000 for 1980 ($20,000 for 1979 and $13,000 for 1978) paid to Directors.

9. CONTINGENT LIABILITIES

(a) The holders of the Class B special shares of Hatleigh Corporation were able to exchange until September 30, 1980 ten Class B special shares into a $70 principal amount 11¼% 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 5½% cumulative redeemable preferred shares. At December 31, 1980 the maximum principal amount guaranteed is $5,768,000 (which is net of the $2,325,000 of Hatleigh debentures held by the Company).

(b) Hatleigh Corporation:
A subsidiary of Hatleigh Corporation has been named along with others as defendants in actions claiming damages arising out of quotations and tenders submitted for certain dredging projects. Management of Hatleigh Corporation and its subsidiaries involved, have no knowledge of any wrong doing or evidence in connection with such claims and accordingly no provision has been made in the consolidated financial statements of Hatleigh Corporation or the Company for any liability in this connection.

Certain legislation was introduced in the State of Maryland affecting thoroughbred racing, which if enacted would have the effect of terminating racing at a race course operated by a subsidiary of Hatleigh Corporation. It is not possible to predict whether the legislation will be approved as it has been proposed and accordingly, the outcome of such legislative activity and resultant affect, if any, on the consolidated financial statements of Hatleigh Corporation or the Company cannot be determined at this time.

Subsequent to December 31, 1980 a subsidiary of Hatleigh Corporation sold certain of its investments for a profit of approximately $4,800,000. Subsequent to the sale, an action was commenced against Hatleigh Corporation to recover approximately $666,000 U.S. of such profit under certain United States securities legislation. In addition an action has been commenced against the officers of Hatleigh Corporation along with others, claiming damages in connection with the sale of the investment. As both of these actions are in their preliminary stages, the Company and Hatleigh Corporation are unable to predict their effect on their respective financial statements.

10. PENSION AND EMPLOYEE PROFIT SHARING PLAN

(a) Pension Plan
The Company maintains a contributory pension plan which is available to all regular employees of the Company, including officers. The plan provides for a pension at age 65 based on average salary from April 1, 1960, to retirement date and the pension payable thereunder is calculated at the rate of 1% per year for service prior to April 1, 1960, 1½% per year for service between April 1, 1960 and December 31, 1965, and 2% per year for service after January 1, 1966. During 1976, the Company amended the plan to increase benefits for participants by deeming their past "average annual salaries" to be the amount of their then present salaries. Under the plan, each participant contributes 5% of his salary and the balance of the cost is contributed by the Company. Since January 1, 1966, the Canadian Government Pension Plan has been integrated with the Company plan. At December 31, 1980, there was no unfunded liability in the plan. The charges to income with respect to the plan are as follows:

Year ended December 31		
1980	1979	1978
$22,000	*$19,000*	*$18,000*

(b) Employee Profit Sharing Plan
The Company adopted in 1979 an Employee Profit Sharing Plan which is available to technical and other personnel directly involved in exploration and development. Contributions to the plan by the Company may be made in cash or as a royalty interest in petroleum, natural gas and related hydrocarbons attributable to the Company's interest in certain non-producing exploration lands. During 1980, the Company's contributions to the plan consisted of a gross overriding royalty interest having a fair market value of approximately $95,000 (1979 — $22,000) at the time of contribution. The royalty interest vests in each participant at the rate of 20% per year until fully vested; however, all amounts received in respect of the contingently vested portion of any royalty interest is fully vested as and when received.

11. EXTRAORDINARY ITEMS

	Year ended December 31 1980	1979	1978
Gain on sale of investments	$ 240,000	$ 170,000	$ —
Net proceeds from settlement of shareholder's action	—	196,000	—
Equity in extraordinary items of Hatleigh Corporation:			
Write down of investment in Foodex Inc.	(14,501,000)	—	—
Reduction of income taxes on application of losses brought forward	65,000	1,051,000	769,000
Gain on sale of investments	811,000	1,720,000	—
Gain on sale of Peel-Elder Developments Limited	—	2,929,000	—
	$(13,385,000)	$6,066,000	$769,000

12. OIL AND GAS — Costs incurred and revenues (000's)

Costs Incurred	Canada	U.S.A.	India	Hatleigh Corporation	Total
1980					
Property Acquisition Costs	$ 721	$1,438	$ —	$ —	$2,159
Exploration Costs	2,199	1,637	—	—	3,836
Development Costs	4,094	—	—	1,217	5,311
Production Costs	1,815	—	—	440	2,255
Depreciation and Depletion	1,210	—	—	234	1,444
1979					
Property Acquisition Costs	4,863	2	—	—	4,865
Exploration Costs	2,010	42	—	—	2,052
Development Costs	1,016	—	—	1,196	2,212
Production Costs	1,544	—	—	308	1,852
Depreciation and Depletion	830	—	—	232	1,062
1978					
Property Acquisition Costs	1,012	208	—	—	1,220
Exploration Costs	1,825	709	—	—	2,534
Development Costs	810	—	—	145	955
Production Costs	1,756	—	—	126	1,882
Depreciation, Depletion and Amortization	786	—	341	—	1,127
Valuation Accounting	—	—	1,520	—	1,520
Net Revenue					
1980	8,707	—	—	5,149	13,856
1979	7,349	—	—	3,906	11,255
1978	8,406	—	—	1,171	9,577

Amortization per equivalent physical unit of production (Mcf):

	Year ended December 31 1980	1979
Depreciation and depletion	$.07	$.06

13. RESERVE RECOGNITION ACCOUNTING INFORMATION (Unaudited)

Quantities of Oil and Gas Reserves as at December 31, 1980*

	Canada		Foreign Geographic Area I	
	Oil**	Gas***	Oil	Gas
Proved Developed and Undeveloped Reserves:				
Beginning of Year	539,118	574.6	—	—
Revision of Previous Estimates	272	.2	—	—
Improved Recovery	—	—	—	—
Purchases of Minerals-in-Place	—	—	—	—
Extensions, Discoveries, and Other Additions	79,732	—	—	—
Production	(50,129)	(14.8)	—	—
Sales of Minerals-in-Place	—	—	—	—
End of Year	568,993	560.0	NIL	NIL
Proved Developed Reserves:				
Beginning of Year	539,118	574.6	NIL	NIL
End of Year	568,993	560.0	NIL	NIL
Reserves Applicable to Long-Term Supply Agreements with Foreign Governments in which the Company Acts as Producer:				
Proved Reserves at End of Year	—	—	—	—
Received During the Year	—	—	—	—
Company's Proportional Interest in Reserves of Hatleigh Corporation Accounted for by the Equity Method, End of the Year	—	70.5	—	—

Quantities of Oil and Gas Reserves as at December 31, 1979*

	Canada		Foreign Geographic Area I	
	Oil**	Gas***	Oil	Gas
Proved Developed and Undeveloped Reserves:				
Beginning of Year	317,577	587.7	—	—
Revision of Previous Estimates	142,443	—	—	—
Improved Recovery	—	—	—	—
Purchases of Minerals-in-Place	—	—	—	—
Extensions, Discoveries, and Other Additions	126,811	1.6	—	—
Production	(47,713)	(14.7)	—	—
Sales of Minerals-in-Place	—	—	—	—
End of Year	539,118	574.6	NIL	NIL
Proved Developed Reserves:				
Beginning of Year	317,577	587.7	NIL	NIL
End of Year	539,118	574.6	NIL	NIL
Reserves Applicable to Long-Term Supply Agreements with Foreign Governments in which the Company Acts as Producer:				
Proved Reserves at End of Year	—	—	—	—
Received During the Year	—	—	—	—
Company's Proportional Interest in Reserves of Hatleigh Corporation Accounted for by the Equity Method, End of the Year	—	73.0	—	—

* Before a deduction for royalties

** Oil stated in Barrels

*** Gas stated in Billion Cubic Feet

Future Net Revenue From Proved Reserves of Oil and Gas as of December 31, 1980 (000's)

	Proved Developed and Undeveloped	Proved Developed	Long-Term Supply Agreements with Foreign Governments (Company Operated)	Hatleigh Corporation (Proportional Share)
1981	$ 6,686	$ 6,686	$ —	$ 988
1982	10,763	10,763	—	6,544
1983	10,427	10,427	—	6,734
Remainder	71,733	71,733	—	62,212
Total	$99,609	$99,609	$ —	$76,478

Future Net Revenue From Proved Reserves of Oil and Gas as of December 31, 1979 (000's)

	Proved Developed and Undeveloped	Proved Developed	Long-Term Supply Agreements with Foreign Governments (Company Operated)	Hatleigh Corporation (Proportional Share)
1980	$ 6,303	$ 6,303	$ —	$ 2,666
1981	6,496	6,496	—	3,662
1982	6,358	6,358	—	5,148
Remainder	108,115	108,115	—	53,797
Total	$127,272	$127,272	$ —	$65,273

Present Value of Estimated Future Net Revenue Discounted at 10% From Proved Reserves of Oil and Gas

	December 31		
	1980	1979	1978
		(000's)	
Proved Developed and Undeveloped Reserves	$57,543	$60,880	$44,239
Proved Developed Reserves	$57,543	$60,880	$44,239
Long-term Supply Agreements with Foreign Governments (Company Operated)	—	—	—
Equity Investees (Proportional Share)	$38,164	$32,529	$22,398

The above reported projections of estimated future net revenue and present value of estimated future net revenue were based on reserve reports prepared by John D. Hale Consulting Ltd.

(1) Estimated future net revenue has been computed by applying current prices to the production estimated to be produced from proved oil and gas reserves over the next thirty years. Revenues have been reduced by royalties and estimated expenditures (based on current costs) required to develop and produce the estimated production.

(2) The foregoing tables do not reflect the reserves remaining beyond the forecast period nor the possible effect on the forecast which might occur if existing economic conditions change.

Changes in Present Value of Estimated Future Net Revenue from Proved Oil and Gas Reserves

	Year ended December 31	
	1980	1979
	(000's)	
Increases:		
Additions and Revisions (net of future costs)	$16,426	$38,027
Purchases of Reserves-in-Place	—	—
Expenditures that Reduced Estimated Future Development Costs	—	—
Subtotal	16,426	38,027
Decreases:		
Sales of Oil and Gas and Value of Transfers, Net of Production Costs of $2,255 — 1980; $1,852 — 1979	14,128	11,255
Sales of Reserves-in-Place	—	—
Subtotal	14,128	11,255
Net increase	2,298	26,772
Beginning of Year	93,409	66,637
End of Year	$95,707	$93,409

Summary of Oil and Gas Producing Activities On The Basis of Reserve Recognition Accounting

	Year ended December 31	
	1980	1979
	(000's)	
Additions and Revisions to Estimated Oil and Gas Reserves:		
Additions to Estimated Proved Reserves Net	$ 514	$ 1,364
Revisions to Estimates of Reserves Proved in Prior Years:		
Changes in Prices	49,247	23,672
Other	(42,676)	6,327
Accretion of Discount	9,341	6,664
Subtotal	16,426	38,027
Costs Incurred	11,306	6,741
Additions and Revisions to Proved Reserves over Evaluated Costs	5,120	31,286
Provision for Income Taxes @35%	1,792	10,950
Results of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting	$3,328	$20,336

Investees proportional share included in above tables.

Pre-tax net income contribution reflected in the primary financial statements for the oil and gas producing activities amounts to $7,903,000 and $6,779,000 for the year ended December 31, 1980 and 1979 respectively.

14. QUARTERLY FINANCIAL INFORMATION (Unaudited)

	Three months ended			
	March 31	June 30	September 30	December 31
1980				
Net Revenue	$4,497,000	$4,071,000	$3,990,000	$ 5,146,000
Income before extraordinary items	$ 327,000	$1,316,000	$1,439,000	$ 1,231,000
Net Income (loss)	$1,349,000	$ 896,000	$1,818,000	$(13,135,000)
Income per common share after preferred share dividends				
Income before extraordinary items	$ .07	$ .29	$ .32	$ .27
Net Income (loss)	$ .30	$ .19	$ .41	$ (2.94)

	Three months ended			
	March 31	June 30	September 30	December 31
1979				
Net Revenue	$4,206,000	$3,645,000	$3,442,000	$ 4,307,000
Income before extraordinary items	$ 401,000	$1,043,000	$1,364,000	$ 1,553,000
Net Income	$3,973,000	$1,357,000	$2,636,000	$ 2,461,000
Income per common share after preferred share dividends				
Income before extraordinary items	$ .09	$ .23	$ .30	$ .34
Net Income	$ .89	$ .30	$ .58	$ .55

15. RELATED PARTY TRANSACTIONS

The following is a summary of the related party transactions:

(a) The Company accrued or paid professional service fees aggregating $187,000, $197,000 and $204,000 to three legal firms in which certain directors of the Company are partners for the years ended December 31, 1980, 1979 and 1978 respectively.

(b) The Company received $300,000, $300,000 and $100,000 in respect of management fees for the operation of gas properties from Hatleigh Corporation for the years ended December 31, 1980, 1979 and 1978 respectively.

(c) The Company in 1980 received $232,000 in respect of interest on debentures of Hatleigh Corporation.

(d) The Company entered into an agreement with Hatleigh Corporation whereby Hatleigh transferred its interest in the "deep zones" to the Company of certain oil and gas leases in return for a 15% carried interest in the net profit therefrom. The Company is responsible for the development and operation of these properties.

16. DEPENDENCE UPON LIMITED CUSTOMERS:

Three customers to whom the Company sold natural gas accounted for individually more than 10% of gross revenue were as follows:

	Year ended December 31, 1980		Year ended December 31, 1979	
Company	$ Contribution (000's)	% of Total Revenue	$ Contribution (000's)	% of Total Revenue
TransCanada Pipelines Limited	$ 5,918	31	$ 4,560	28
Saskatchewan Power Corporation	5,483	29	4,730	30
St. Regis (Alberta) Ltd.	6,113	32	3,780	23
Total	$17,514	92	$13,070	81

17. SUBSEQUENT EVENTS

During 1980 the Board of Directors of the Company (the "Board") decided to seek shareholder approval for a corporate reorganization designed to: (i) separate the investments currently held by Hatleigh Corporation from the essentially unrelated oil and gas business of the Company and (ii) increase the effective level of Canadian ownership of the Company and Hatleigh Corporation. Subsequent to December 31,1980, the Board decided that to achieve such reorganization the Company should sell its investment in Hatleigh Corporation to 403372 Ontario Limited (a corporation wholly-owned by James F. Kay, a director of the Company) for an aggregate consideration (net of related expenses of $700,000) of $22,700,000 and invest $18,400,000 in redeemable second preference shares of Hatleigh Corporation.

18. UNITED STATES ACCOUNTING PRINCIPLES DIFFERENCES

The accounting principles followed in the preparation of the financial statements of the Company and the company accounted for on the equity method (Hatleigh Corporation) differ in certain respects from accounting principles generally accepted (GAAP) in the United States. Such differences relate to: amortization of goodwill, depreciation, accrued taxes on undistributed earnings of subsidiaries, development costs, foreign exchange translation, financing leases and the criteria for disclosure as extraordinary items. The aggregate effect of the adjustments on reported income and on changes in financial position for the years ended December 31, 1980, 1979 and 1978 are as follows:

Statement of Income (U.S. GAAP)

Year ended December 31	As Reported	Adjustments	As Adjusted
1980			
Income before the following	$ 5,440,000	$ 240,000	$ 5,680,000
Equity in operating loss of Hatleigh Corporation	(1,127,000)	(14,161,000)	(15,288,000)
Income before extraordinary items	4,313,000	(13,921,000)	(9,608,000)
Extraordinary items	(13,385,000)	13,385,000	—
Net loss	$ (9,072,000)	$ (536,000)	$ (9,608,000)
1979			
Income before the following	$ 4,002,000	$ 170,000	$ 4,172,000
Equity in operating income of Hatleigh Corporation	359,000	3,864,000	4,223,000
Income before extraordinary items	4,361,000	4,034,000	8,395,000
Extraordinary items	6,066,000	(5,870,000)	196,000
Net income	$ 10,427,000	$ (1,836,000)	$ 8,591,000
1978			
Income before the following	$ 3,461,000	$ —	$ 3,461,000
Equity in operating income of Hatleigh Corporation	1,808,000	(748,000)	1,060,000
Income before extraordinary items	5,269,000	(748,000)	4,521,000
Extraordinary items	769,000	(769,000)	—
Net income	$ 6,038,000	$ (1,517,000)	$ 4,521,000

Statement of Changes in Financial Position (U.S. GAAP)

	Year ended December 31		
	1980	1979	1978
Net income (loss)	$ (9,608,000)	$ 8,591,000	$ 4,521,000
Add (deduct) items not requiring an outlay of funds			
Gain on disposal of fixed assets	(7,000)	—	—
Depreciation, depletion and amortization	1,210,000	962,000	2,765,000
Deferred income taxes	1,773,000	1,836,000	900,000
Equity in operating (income) loss of Hatleigh Corporation	787,000	(4,223,000)	(1,060,000)
Write-down of Foodex	14,501,000	—	—
Gain on sale of investments	(240,000)	(170,000)	—
Funds provided from operations	$ 8,416,000	$ 6,996,000*	$ 7,126,000

* In addition to the changes set out above, net proceeds from settlement of shareholder's action in the amount of $196,000 included in the sources of funds for 1979 would be deleted as under U.S. GAAP it is included in net income.

DIRECTORS

J. TREVOR EYTON, Q.C.
President of Brascan Limited
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
Senior Vice President, Finance and
Secretary of the Company
Calgary, Alberta

▪ ROSS A. MacKIMMIE, Q.C.
Counsel to law firm — MacKimmie Matthews
Calgary, Alberta

FREDERIC Y. McCUTCHEON
President of Arachnae 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 Executive Committee

▪ Member of Compensation Committee, and
Audit Committee

OFFICERS & KEY PERSONNEL

ROBERT F. RUBEN
President & Chief Executive Officer

D. F. CHRISTENSEN
Vice President, Exploration

B. L. COOK
Vice President, Land

NATHAN GOODMAN
Vice President, Production

B. A. KURUCZ
Controller

CHARLES K. LOUGH
Senior Vice President, Finance

J. P. MACKENZIE
Land Manager

W. K. MILLER
Manager, Gas Transmission

R. T. SWINTON
Treasurer

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

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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.

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