# NORTH CANADIAN OILS LIMITED

annual report for the year 1981

# 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; and a 136 mile gas transmission line.

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

# the year at a glance

| Financial | 1981 | 1980 |
|---|---|---|
| Gross Revenue (before royalty) | $34,356,000 | $20,172,000 |
| Funds Provided from Operations | 9,475,000 | 8,423,000 |
| Income before extraordinary items | 11,729,000 | 4,313,000 |
| Per Share (after provision for preferred share dividends) | 2.21 | .95 |
| Net Income (Loss) after extraordinary items | 10,747,000 | (9,072,000) |
| Per Share (after provision for preferred share dividends) | 2.02 | (2.04) |
| *Exploration Expenditures* | 4,769,000 | 5,995,000 |
| Development Expenditures | 8,791,000 | 5,311,000 |
| Long-term Investments | 17,600,000 | 8,819,000 |
| Shareholders' Equity | 54,422,000 | 28,510,000 |

| Operating | 1981 | 1980 |
|---|---|---|
| *Natural Gas Production — billion cubic feet* | *17.0* | *18.0* |
| Average per day — million cubic feet | 46.6 | 49.3 |
| Pipeline - | | |
| Annual throughput, billion cubic feet | 6.6 | 7.5 |
| Oil and Natural Gas Liquids (NGL) — barrels | 50,000 | 50,000 |

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

**Estimated Gross Proved and Probable Reserves — December 31, 1981**

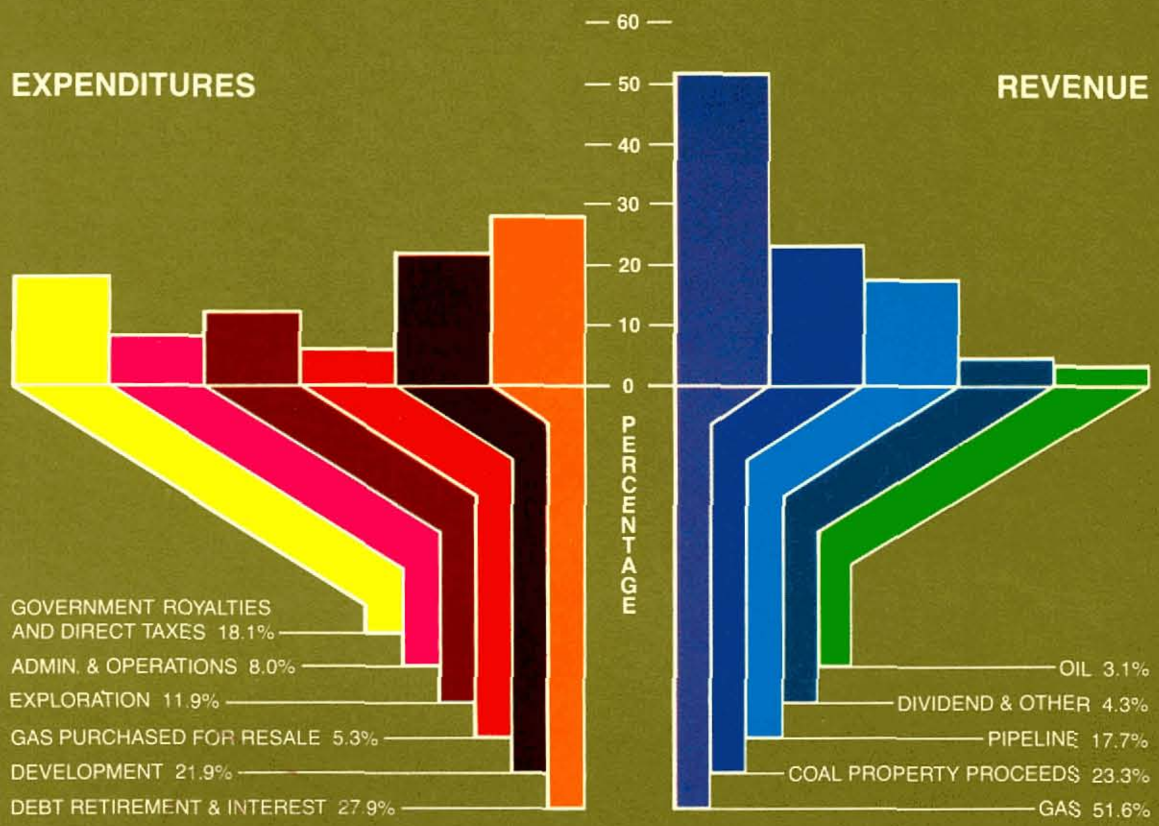
| | |
|---|---|
| NATURAL GAS | 621 Billion cubic feet |
| CRUDE OIL & NGL | 1,777 Thousand barrels |

**Undeveloped Acreage December 31,1981**

| Area | Gross | Net |
|---|---|---|
| Alberta | 699,554 | 151,628 |
| Saskatchewan | 8,700 | 8,700 |
| British Columbia | 7,996 | 2,691 |
| U.S.A. | 1,191,137 | 236,927 |
| | 1,907,387 | 399,946 |

# annual meeting

The 1982 Annual Meeting of shareholders will be held Monday, May 3, 1982, at 9:00 A.M. local time, Lake Louise Room, The *Westin Hotel, 320 - 4th Ave. S.W., Calgary,* Alberta, Canada.



# to the shareholders:

The past year was one of change for the Company and the industry. Through a reorganization, the Company divested itself of investments unrelated to the natural resource industry, consolidated its gas producing properties and increased the level of its Canadian ownership. The immediate benefit of the reorganization combined with the sale of the Company's nonproducing coal leases for $8.1 million is reflected in the positive financial results for the year.

Gross revenue in 1981, from all sources was $34.3 million versus $20.2 million in 1980. Net income before extraordinary items was $11.7 million or $2.21 per common share compared to $.95 per share or $4.3 million last year.

Natural gas production from Alberta fields was up over the previous year. Production of crude oil and natural gas liquids was 50,000 barrels, unchanged from 1980.

In anticipation of the successful and early conclusion to the present Canada/United States negotiations related to additional exports of natural gas to the United States, North Canadian has entered into several contracts committing some of the Company's shut-in gas reserves to these markets. Although no immediate benefit will be derived from these contracts they will be a source of future revenue which, if projections are met, should commence in 1984.

Development activities in 1981 were concentrated in southeastern Alberta. In total, 89 wells were drilled and placed on production to meet and maintain contract deliverability volumes from the Company's two major gas producing fields.

During 1981, the Company's exploration objective of acquiring acreage and participating in exploratory drilling in potential hydrocarbon basins of Canada and the United States resulted in a number of oil and gas discoveries in Alberta, Arkansas, Texas and Kansas, and in the addition of approximately 228,900 gross acres to the exploratory land inventory.

There was a marked improvement in the quality of plays being offered by industry during the latter half of the year and North Canadian looks forward with optimism to participation in future exploration and development opportunities, and in this regard have projected capital expenditures in excess of $15 million in 1982 which will be financed through internally generated funds.

In September the province of Alberta and the Canadian federal government reached a five year oil and gas price, tax and revenue sharing agreement. Pricing incentives have been included to encourage oil exploration in both frontier and conventional areas and the development of hydrocarbons in frontier and tar sand areas. Prices for natural gas are set at approximately 65% of crude oil to stimulate growth in new market areas for natural gas. Future semiannual price increases provided for in the agreement are indirectly related to world oil prices, therefore, it is difficult with any degree of certainty to forecast the ultimate netback to the producer over the longterm. Similar arrangements, covering oil pricing and revenue sharing, between the federal government and the producing provinces of Saskatchewan and British Columbia have also been concluded. Still to be resolved is a new revised natural gas policy for the province of Saskatchewan which the government has publicly stated is its number one priority.

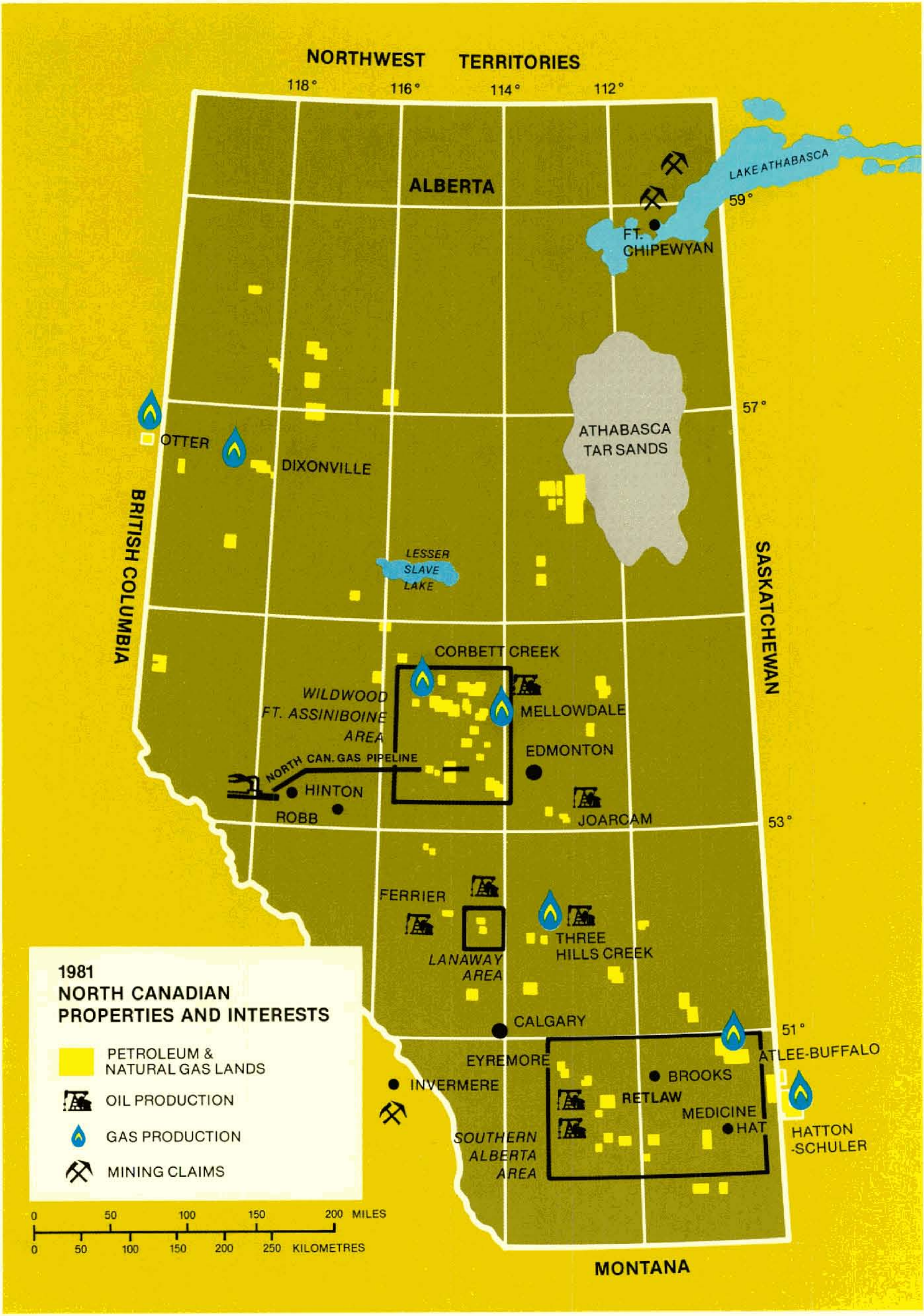
The loss of cash flow to producers, created by increased levels of revenue taken from the industry by the federal and provincial governments under terms of new agreements, has reduced the funds available for reinvestment in exploration and development. However, this loss will be offset to a modest degree by government sponsored programs designed to assist small producers and qualifying Canadian companies. For Alberta producers the maximum benefit under the existing Alberta Royalty Tax Credit was doubled. The Company will, therefore, now qualify at its current level of production for the maximum annual credit of $2.0 million. The federal government, to encourage participation by Canadians in the oil industry, will be implementing, retroactively to January 1, 1981, the previously announced Petroleum Incentive Program. Under this program North Canadian, based on the current level of Canadian ownership, will qualify for maximum cash grants which range from 20% to 35% of eligible development and exploration expenditures.

The long-term economic environment for the oil and gas industry is still attractive despite the many changes which have occurred over the past year. North Canadian with its established proven reserves of natural gas and crude oil, strong balance sheet and projected cash flow is in a position to capitalize on future opportunities in the resource industry.

The successful operation of the Company depends to a large part on the contribution of the employees who have shown dedication and competence. The Board wishes to express their appreciation for their past efforts.

James F. Kay
Chairman of the Board

March 25, 1982


NORTHWEST TERRITORIES
118°
116°
114°
112°
ALBERTA
LAKE ATHABASCA
59°
FT. CHIPEWYAN
57°
ATHABASCA TAR SANDS
OTTER
DIXONVILLE
BRITISH COLUMBIA
SASKATCHEWAN
LESSER SLAVE LAKE
CORBETT CREEK
WILDWOOD FT. ASSINIBOINE AREA
MELLOWDALE
EDMONTON
NORTH CAN. GAS PIPELINE
HINTON
ROBB
JOARCAM
53°
FERRIER
LANAWAY AREA
THREE HILLS CREEK
CALGARY
51°
EYREMORE
INVERMERE
ATLEE-BUFFALO
BROOKS
RETLAW
MEDICINE HAT
HATTON -SCHULER
SOUTHERN ALBERTA AREA
MONTANA
1981
NORTH CANADIAN
PROPERTIES AND INTERESTS
PETROLEUM & NATURAL GAS LANDS
OIL PRODUCTION
GAS PRODUCTION
MINING CLAIMS
0 50 100 150 200 MILES
0 50 100 150 200 250 KILOMETRES

# exploration



North Canadian's exploration activity in 1981 was focused in Alberta, and in the west central and southern United States. The Company participated in 49 exploratory wells, 34 in Alberta and 15 in the United States, resulting in 19 gas wells and 8 oil wells. Four hundred and thirty five line miles of seismic data was evaluated, and 228,900 gross acres of exploratory lands were added during the year.

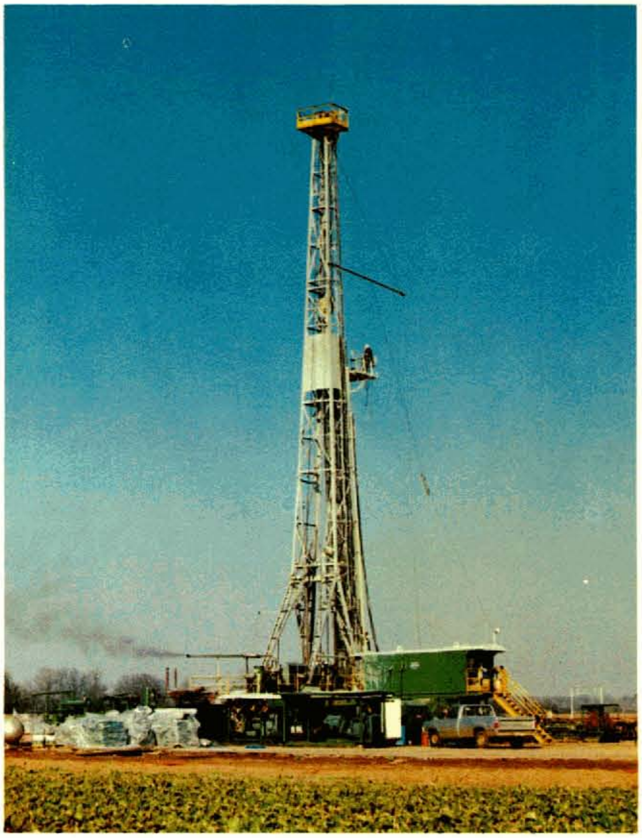
## CANADA

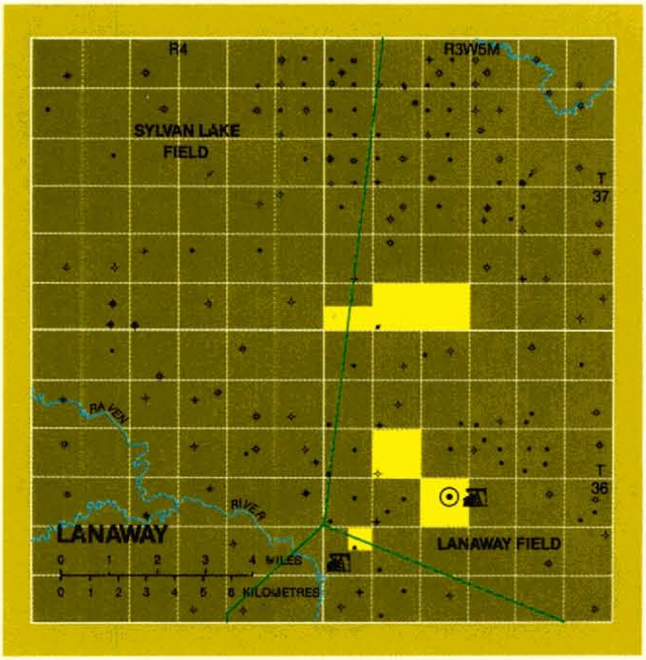
All of the Canadian exploration wells, in which the Company has an interest, were located in Alberta. Eighteen of these were drilled by others, on Company lands, under various farmout and option arrangements at no cost to North Canadian.

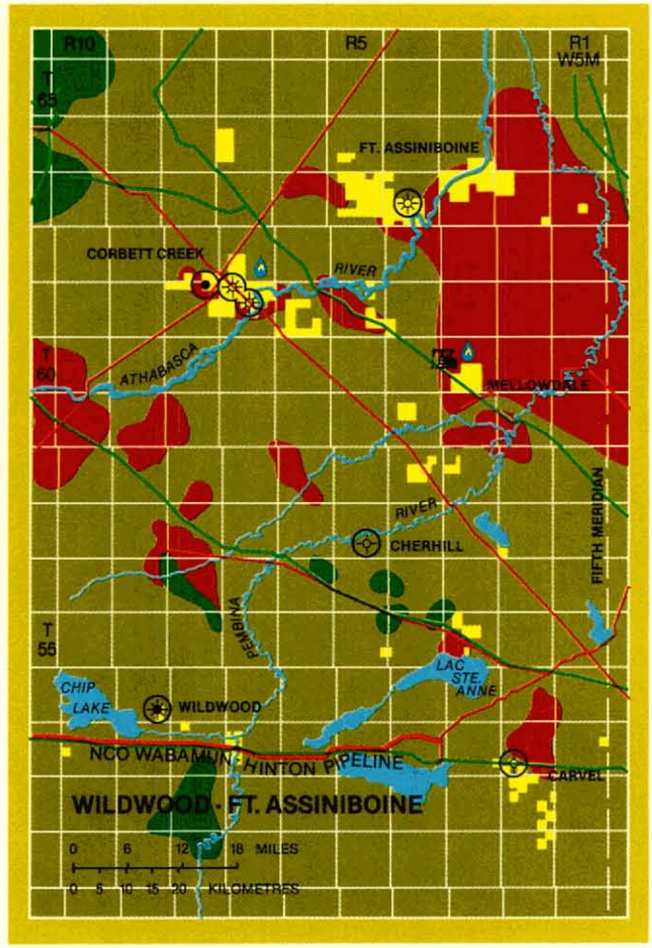
In southern Alberta, the search continued for Cretaceous bar and channel sands with the evaluation of approximately 50 miles of new seismic data and the drilling of 20 exploratory wells. Overall, drilling in this area yielded 12 gas wells, 2 oil wells and 6 dry holes. Gas discoveries were made in the Michichi, Craigmyle, Countess, Shouldice and Eyremore areas, and oil was discovered at Atlee Buffalo and Shouldice. Of particular interest is the discovery of heavy gravity oil in the "deeper" Cretaceous zones in the Company's 100% owned 51,240 acre gas producing Atlee Buffalo block, located in southeastern Alberta. A portion of this area was farmed out under a continuous drilling option agreement and four exploratory wells were drilled, including an oil discovery, which penetrated 20 feet of heavy oil pay in the lower Cretaceous. Early in 1982 a fifth exploratory well encountered a separate heavy oil bearing sand. It is planned to continue the seismic and stratigraphic evaluation of this block, by farmout, during 1982.

The Company was involved in a successful six well exploratory program in central Alberta during 1981. Oil in two zones was discovered at Lanaway; oil and gas was tested from separate zones at Chip Lake; and gas was discovered in wells at Fort Assiniboine and West Corbett Creek. Farmout wells at Cherhill and Carvel were dry and abandoned. The Company presently has interests in approximately 147,200 acres in central Alberta where industry search for oil and gas has greatly accelerated during the past year.

Seven core test wells were drilled, by industry participants at no cost to the Company, on Oil Sands Prospecting Permits located in the Pelican-Livock area of northeastern Alberta. Although the wells were purposely abandoned after coring the thick Devonian Grosmont formation, the data obtained from this experimental work will be used for developing future methods to recover the viscous, low gravity oil which saturates the Grosmont throughout the area. Your Company has residual royalty interests ranging from 1% to 3.8% in these permits, and working interests varying from 2% to 20% in 230;000 acres of Grosmont zone gas rights in the area, including the area covered by the Oil Sands Prospecting Permits.






1981 EXPLORATORY WELLS

NCO INTEREST LANDS

NCO GAS PRODUCTION

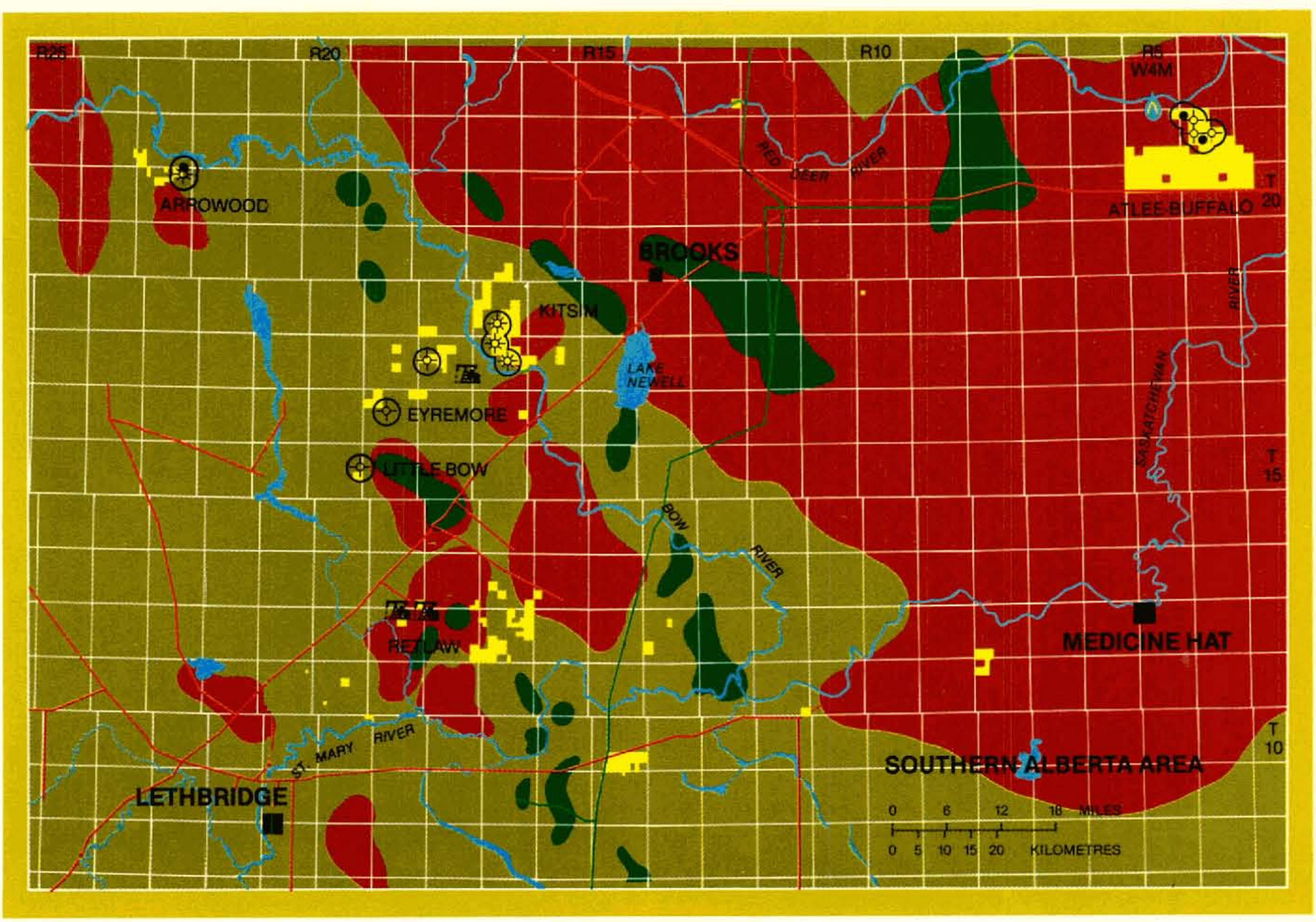
NCO OIL PRODUCTION

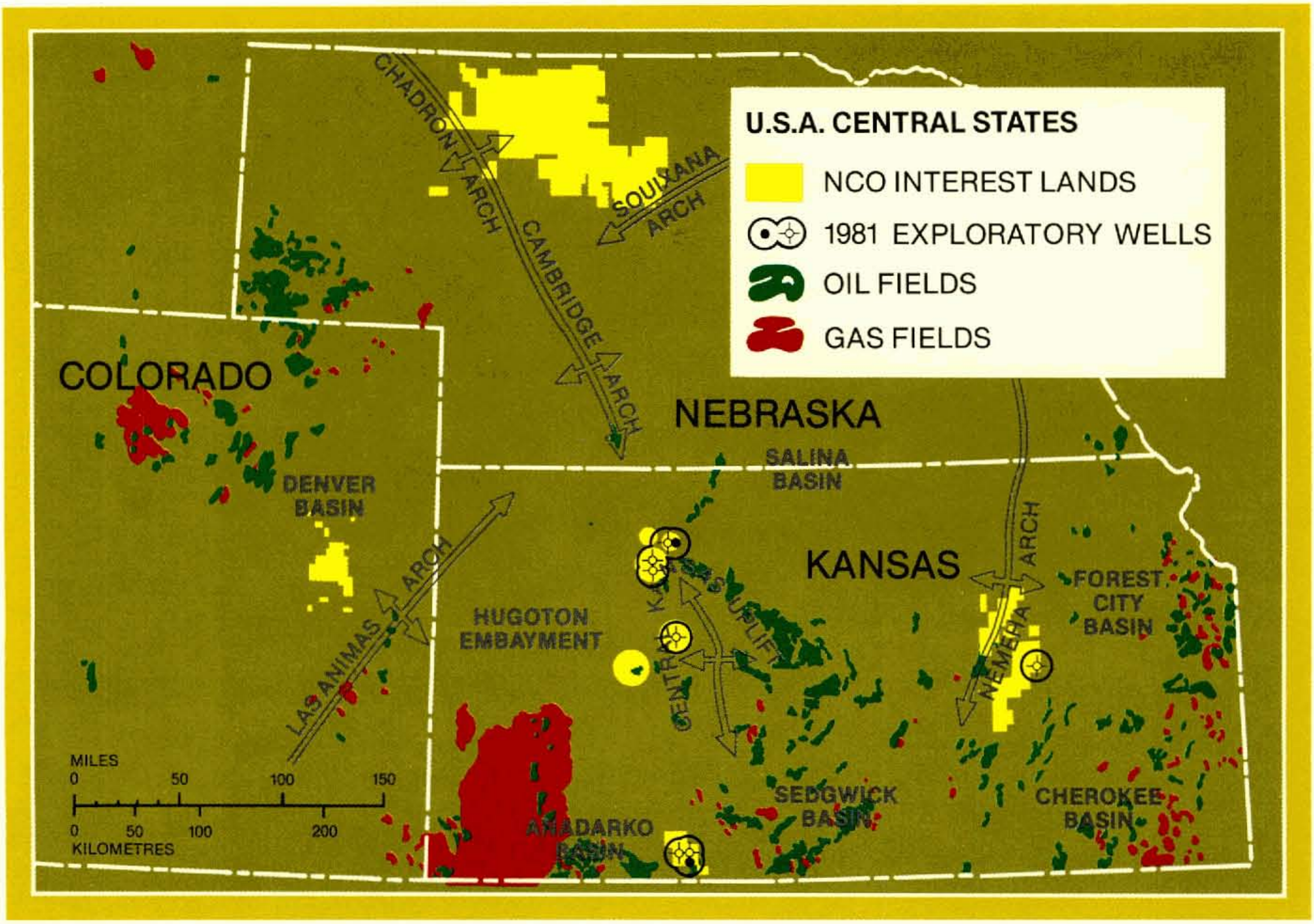
GAS FIELDS

GAS PIPELINES

OIL FIELDS

OIL PIPELINES





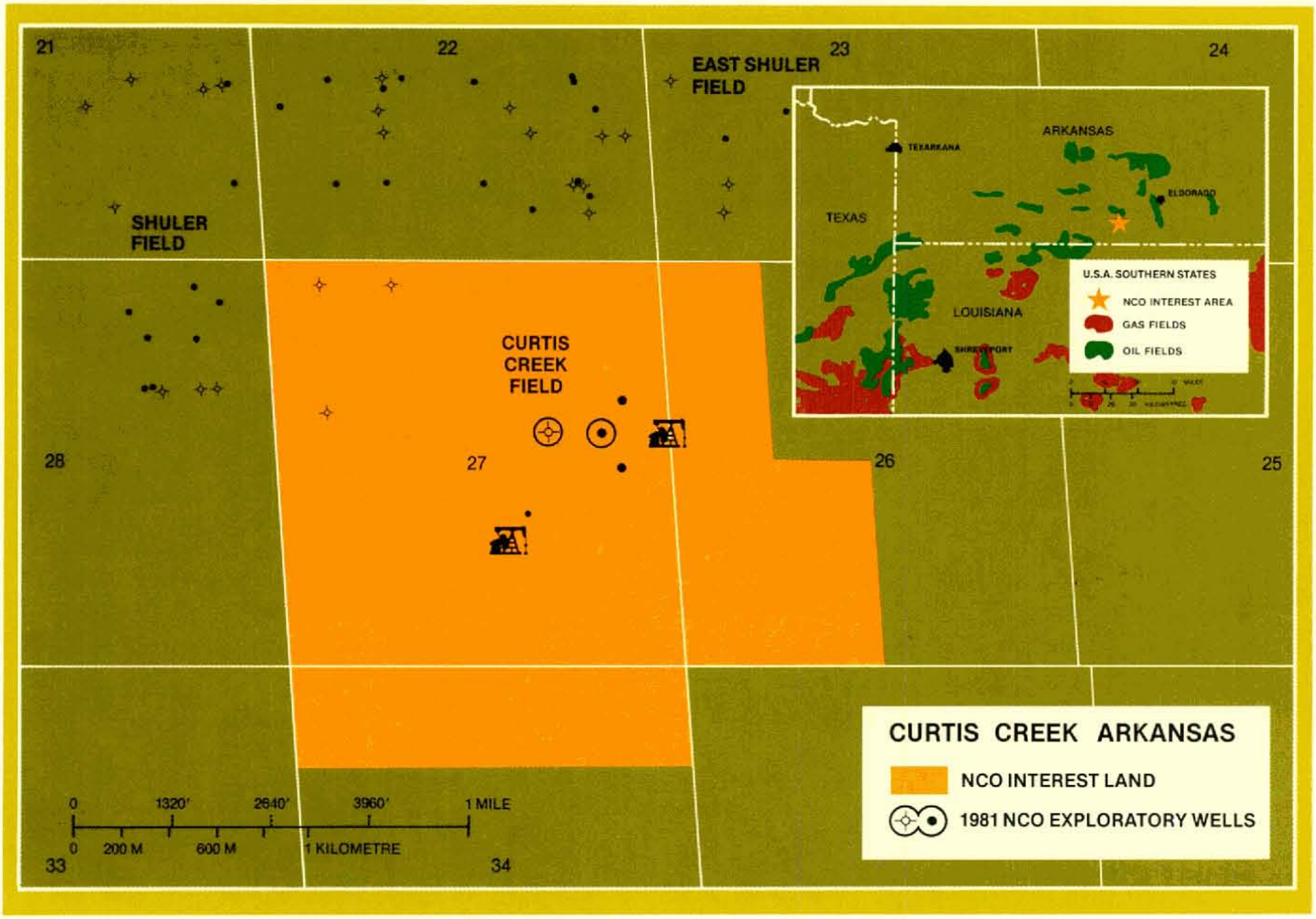

## UNITED STATES

In the United States, North Canadian participated in the drilling of 15 exploratory wells, acquired 125 miles of seismic data and added approximately 60,525 acres to its exploratory land inventory during 1981.

Late in the year the Company, as a 14% partner, joined in the drilling of a 3200′ oil well in Union County Arkansas. The well has been producing light gravity oil from the Cretaceous Hill Sand at 80 to 100 barrels per day since November 1, 1981. Development drilling of this pool on twenty acre spacing commenced at the end of the year and has resulted in two additional oil wells and one abandoned well at the end of March 1982. Two other sands, indicated to be hydrocarbon bearing on logs, will be further tested in subsequent development wells.

In west central Kansas, where North Canadian has a 15% interest in 12,400 acres, the first five wells of a 15 well exploratory drilling program were drilled during 1981. One well completed, in the Kansas City-Lansing zone, is presently being flow tested. The others were abandoned. The remaining ten exploratory prospects are to be drilled in the summer of 1982.

North Canadian holds a 13.5% interest in an extensive 138,000 acre exploratory land block, located on the eastern flank of the Nemaha Arch of eastern Kansas. One hundred and twenty miles of seismic data was acquired over a portion of this block, and the initial strat test of a projected three well exploratory program was drilled and abandoned during 1981. A drill site has been prepared for the drilling of a second exploratory well in the first quarter of 1982.

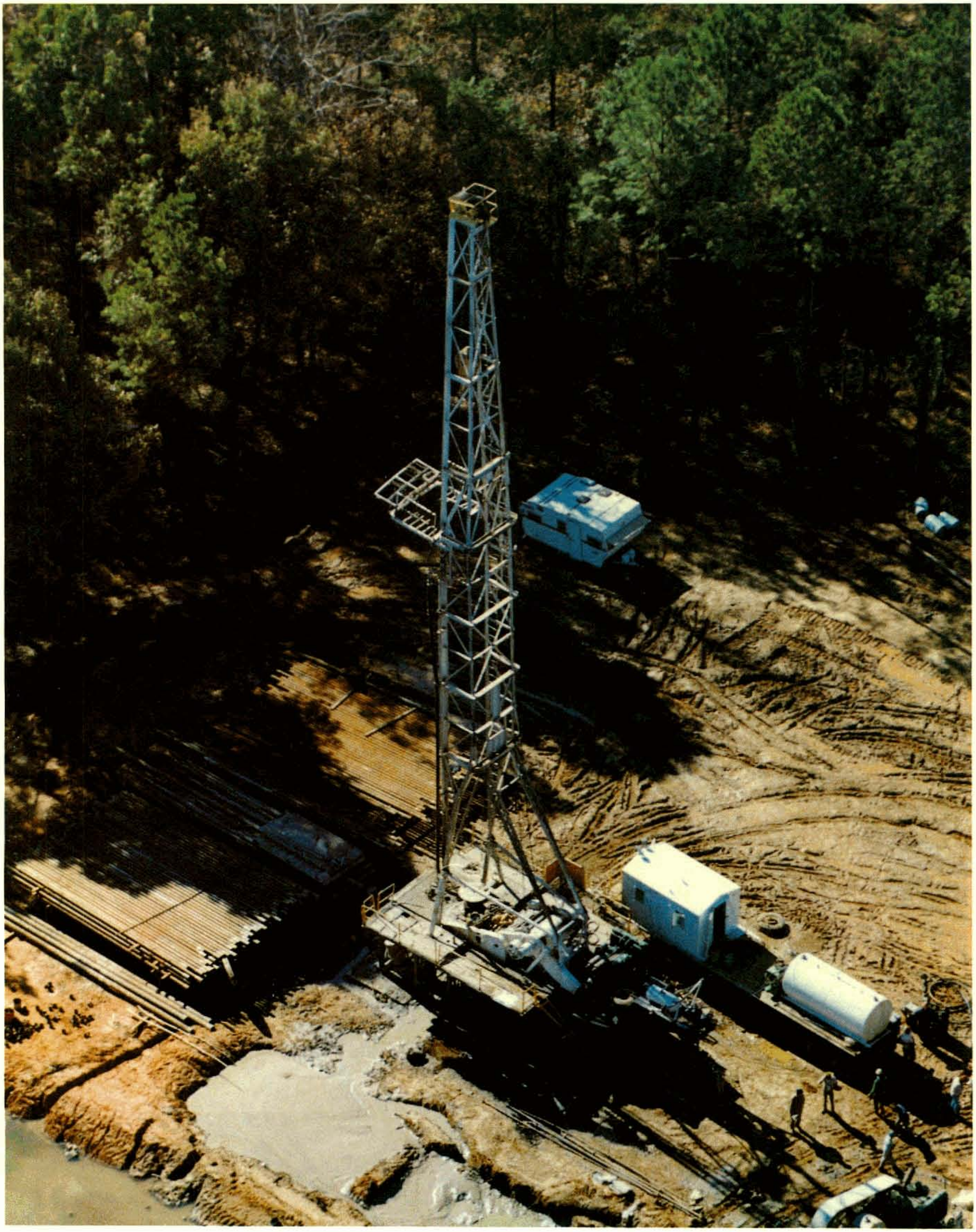


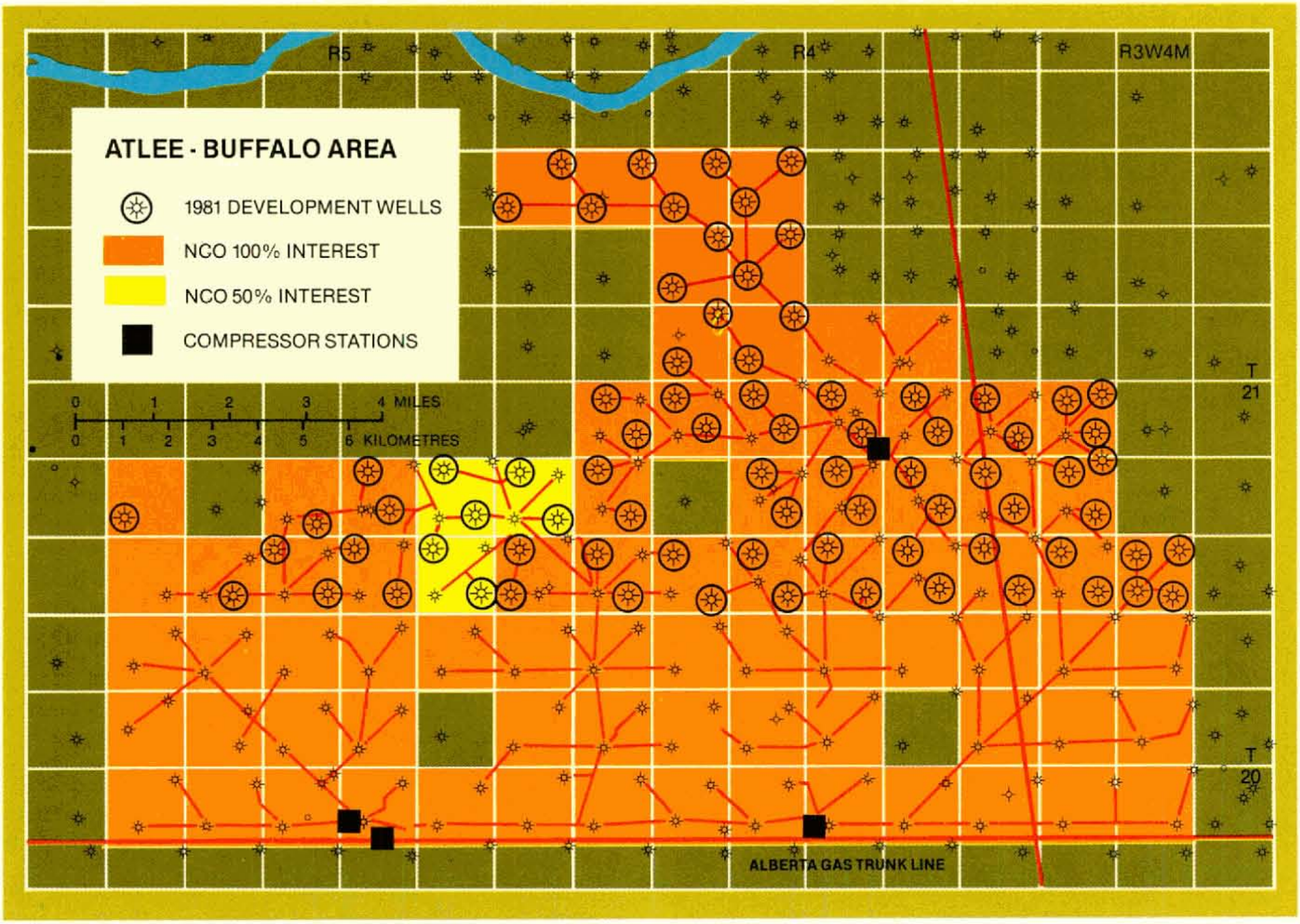

One hundred miles of new seismic data was recorded on 67,000 acres of land located along the crestal axis of the Nemaha Arch in eastern Kansas. North Canadian has a 13.5% interest in this trend acreage and is carried through the seismic exploration phase and the four well exploratory drilling phase. Drilling, which was to have taken place in 1981, has been delayed until the summer of 1982.

A four well exploratory drilling program in the northern portion of the Anadarko basin in southwestern Kansas resulted in one gas well which is presently waiting on service equipment for completion. North Canadian's interests range from 12½ to 25% in this project.

In Nebraska, where your Company holds approximately 15% interest in 770,000 acres of long-term exploratory leases, geophysical work and drilling was delayed through 1981. Negotiations are continuing with several industry companies who have expressed a desire to perform extensive work programs in order to earn an interest in this large land block.

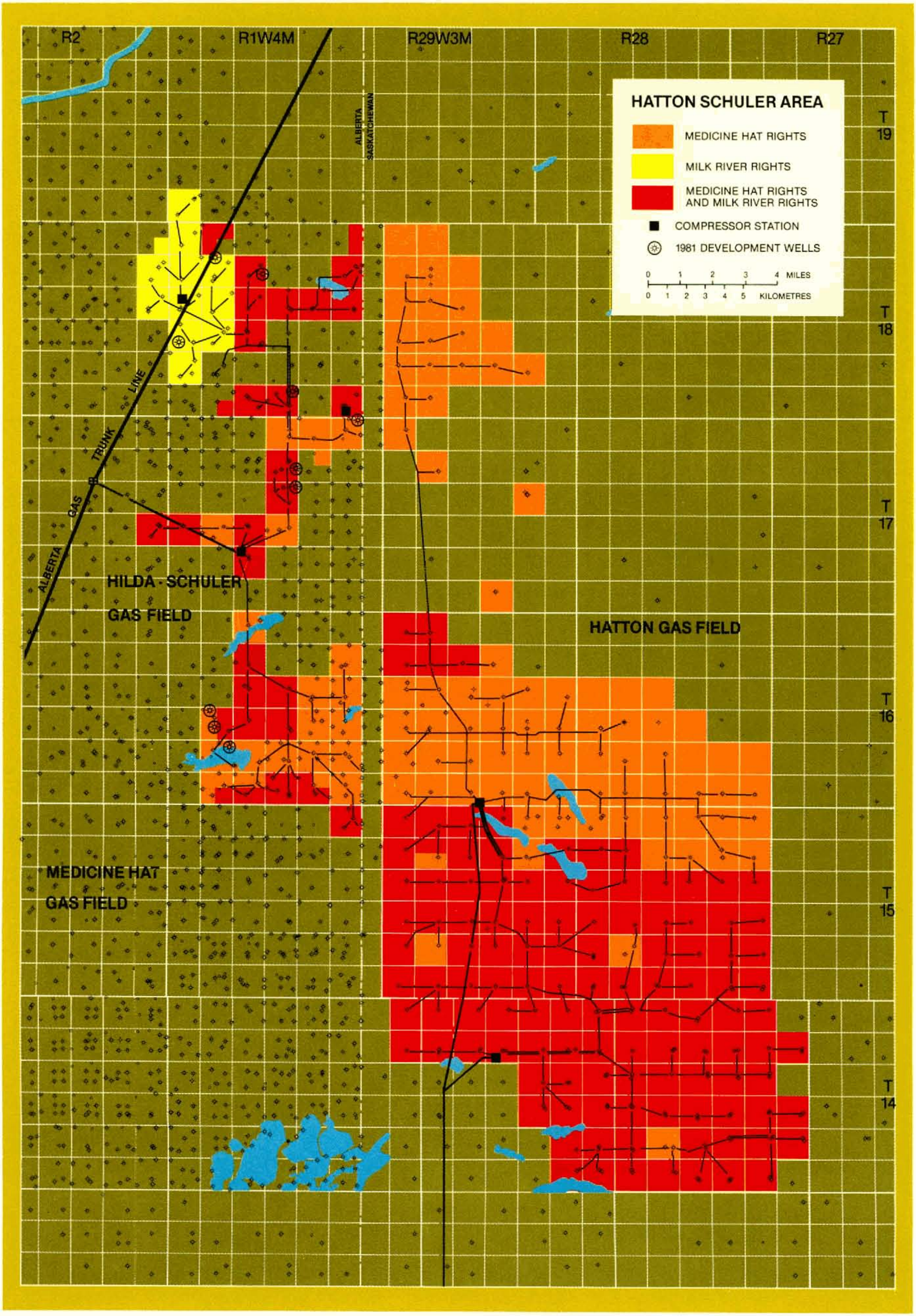
In southeastern Colorado, along the west flank of the Las Animas Arch, approximately 70,000 acres of new leases were added to the original 70,000 acres of land acquired in the previous year. A one hundred and thirty mile seismic survey of this area initiated in December 1981, was completed in February 1982. Final processing and interpretation of the seismic data is expected to lead to an exploratory drilling program in late 1982.






During 1981, the Company successfully completed the largest development program in its history. Concentrated in two areas in southeastern Alberta which are currently producing under deliverability-type gas contracts, the program was designed to improve productivity by partially developing the fields on 160 acre spacing. Seventy nine Medicine Hat gas wells were drilled and tied into production in the Atlee Buffalo area where the Company has 100% interest in 49,280 acres. In the 36,480 acre Hilda Schuler block in which the Company has a 100% interest, eight Medicine Hat and two Milk River gas wells were placed on production. North Canadian now operates 647 gas wells in southeastern Alberta and southwestern Saskatchewan. Predicated on 160 acre spacing in Atlee Buffalo and Hilda Schuler, and 320 acre spacing in Saskatchewan, there remains 580 proven locations yet to be drilled to achieve full development of these areas.

In Union County Arkansas development drilling in the Curtis Creek Field, discovered in November 1981, has resulted in three oil wells and one dry hole to the end of March 1982. Full development of this oil pool, in which the Company holds a 14% working interest, will require the drilling of six to eight additional wells early in 1982.



HATTON SCHULER AREA
MEDICINE HAT RIGHTS
MILK RIVER RIGHTS
MEDICINE HAT RIGHTS AND MILK RIVER RIGHTS
COMPRESSOR STATION
1981 DEVELOPMENT WELLS
0 1 2 3 4 MILES
0 1 2 3 4 5 KILOMETRES
R2
R1W4M
R29W3M
R28
R27
T 19
T 18
T 17
T 16
T 15
T 14
ALBERTA
SASKATCHEWAN
ALBERTA GAS TRUNK LINE
HILDA - SCHULER GAS FIELD
HATTON GAS FIELD
MEDICINE HAT GAS FIELD


11

# production



Natural gas production from the Company's two major producing fields located in southeastern Alberta increased by approximately 7% over the previous year and averaged in excess of 15.0 million cubic feet per day. During November and December extremely cold weather and mechanical operating problems restricted the production of the new wells which had been placed on stream during the fourth quarter. It is anticipated that as operating conditions improve production forecasts will be attained. In the Corbett Creek Viking Gas Unit in which the Company has a 29% working interest remedial well workovers along with the tie-in of a new well has doubled the production rate to 2.0 million cubic feet per day.

Although 1981 total natural gas production of 17.0 billion cubic feet was down from the 18.0 billion produced in 1980, overall revenue from gas sales was up because the increased price received for Alberta gas more than offset the reduction caused by the decline in Saskatchewan volume.

Production of crude oil and natural gas liquids at 50,000 barrels, including 3,600 barrels attributable to the Company's initial U.S. production, was comparable to 1980. The installation of the waterflood program in the Company's major oil property, Joarcam Unit #2, has been completed. Based on projections, production from this field will more than double in the next two years.

# pipeline

Average daily throughput for the 136 mile long Wabamun-Hinton natural gas pipeline was 18.2 million cubic feet per day in 1981, versus 20.0 million cubic feet in 1980.

The principal customer of the line is the St. Regis (Alberta) Ltd. bleached sulphate pulp mill and forest products complex at Hinton. Natural gas is also sold to smaller industrial customers and Gas Alberta, the government agency that services rural systems along the pipeline. Revenue from transporting gas for a utility company and a transmission company was unchanged from that earned in 1980.

The majority of the gas purchased for resale was provided by Alberta and Southern Gas Company Ltd. under a long term contract which ensures a supply of up to 30 million cubic feet per day. This arrangement is now under review and depending on the outcome of present negotiations with other suppliers, new sources of gas may be secured which in turn would improve future operating results.

# reserves

The crude oil and natural gas reserves of the Company, before royalties, were estimated by James A. Lewis Engineering Co. Ltd., petroleum reservoir consultants, as of October 1981. The following table summarizes the estimated reserves adjusted for actual production to December 31, 1981.

| | Proved Developed | | Probable | Total |
|---|---|---|---|---|
| | Producing | Non-Producing | | |
| **Natural Gas** (Billion cubic feet) | | | | |
| Canada .... | 576 | 28 | 17 | 621 |
| U.S.A. ...... | — | — | — | — |
| | 576 | 28 | 17 | 621 |
| **Crude Oil*** (Barrels - 000's) | | | | |
| Canada .... | 1,168 | 35 | 440 | 1,643 |
| U.S.A. ...... | 15 | — | 119 | 134 |
| | 1,183 | 35 | 559 | 1,777 |

* Includes Natural Gas Liquids

Classification of reserves, as used in the above table, is as follows:

PROVED RESERVES are those established by existing production, by adequate tests and by other information on zones behind pipe in existing wells, or those existing beneath undeveloped tracts offsetting or between producing wells where geological control confirms the presence of these reserves.

PROBABLE RESERVES are those estimated for locations or areas beyond proved control, where geological and seismic data reasonably confirm satisfactory structural and formation characteristics; for those in zones behind pipe in existing wells where data reasonably confirm the presence of these reserves, but where such data are inadequate to establish proof of the productivity of the reserves.

# financial review

## RESULTS OF OPERATIONS

*Comparison of 1981 to 1980*

Gas and oil revenue, net of royalties, was $15.2 million in 1981 versus $10.5 million for the previous year. Seventy-eight percent of the increase was attributable to the gas properties assumed in the reorganization and the balance from slightly higher volume of gas produced in Alberta and improved oil revenue. Revenue from oil production, representing 6% of the Company's operating revenue, was up approximately 56%. This increase is directly related to higher prices in Canada and to new oil production in the United States. Pipeline revenue remained constant with the previous year.

Production expenses related to the properties acquired from Hatleigh on April 30, 1981, the added cost of operating new wells, higher wellsite rentals and taxes, and escalating labor, fuel and material costs all contributed to the increase in operating expenses during the year. Operating cash flow was reduced $1,228,000 as a result of the Petroleum and Gas Revenue Tax which became effective January 1, 1981, under the provisions of the National Energy Program. Administrative expenses increased due to greater corporate activities, increased consulting fees and a generally higher cost of doing business.

In 1981 the Company sold its nonproducing coal properties for $8.1 million resulting in a gain of $4.1 million after provision for deferred taxes. Dividends of $1.1 million were received on the Company's long term investment in securities acquired at mid year. Depreciation and depletion increased $610,000, as a result of continued investment in exploration, development and the investment in the producing properties acquired from Hatleigh. The current tax provision increase of $1.3 million relates to increased earnings, whereas the change in the provision for deferred taxes is attributable to the tax on the sale of the coal properties and the effects of certain provisions of the National Energy Program.

*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. Pipeline revenue increased as a result of greater demand for gas and increased tariffs.

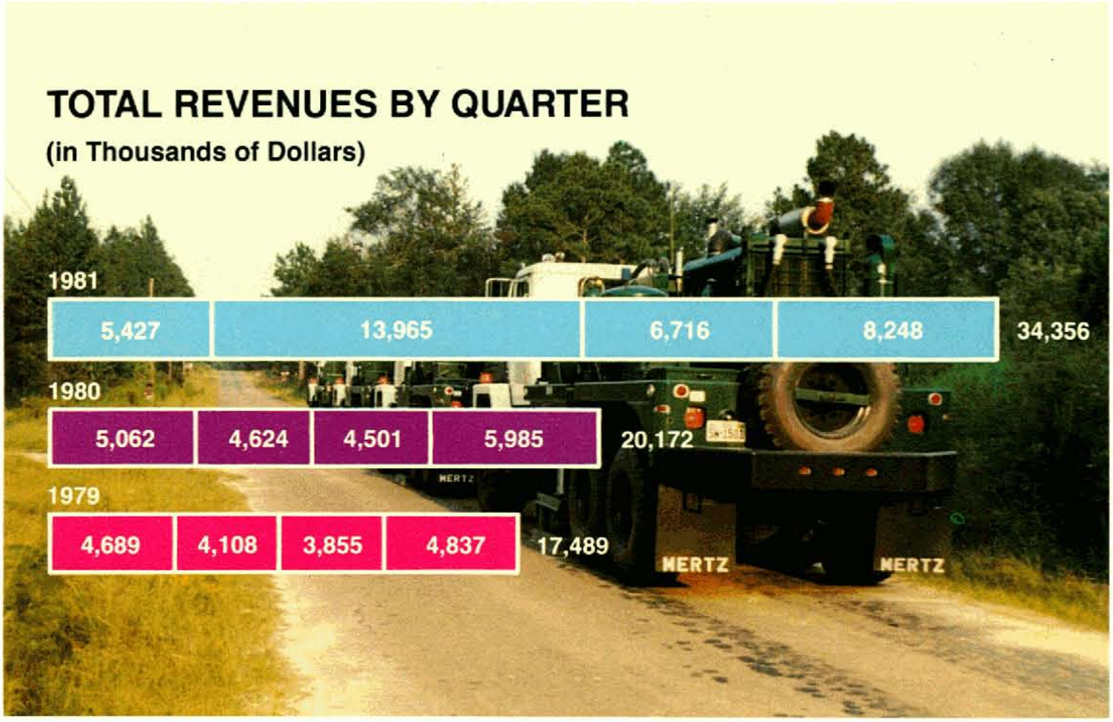
The continued pressure of inflation throughout 1980 and higher costs of operating mature fields resulted in an 18% increase in operating expenses although administration costs were virtually unchanged.

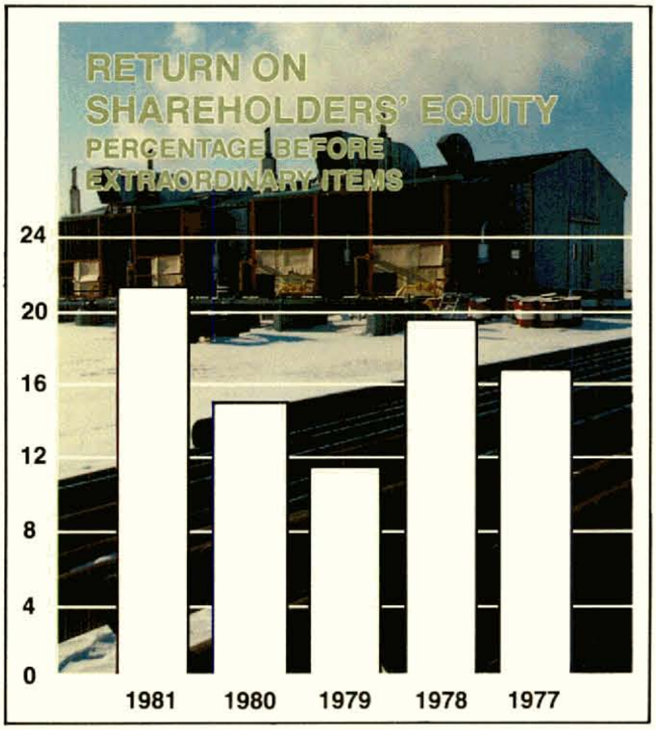
In December 1980, the directors of Hatleigh determined that the investment in Foodex was not intended to be held indefinitely and the carrying value of the investment was written down in Hatleigh's accounts to an amount not exceeding its estimated realizable value. As a result, the Company wrote down 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.

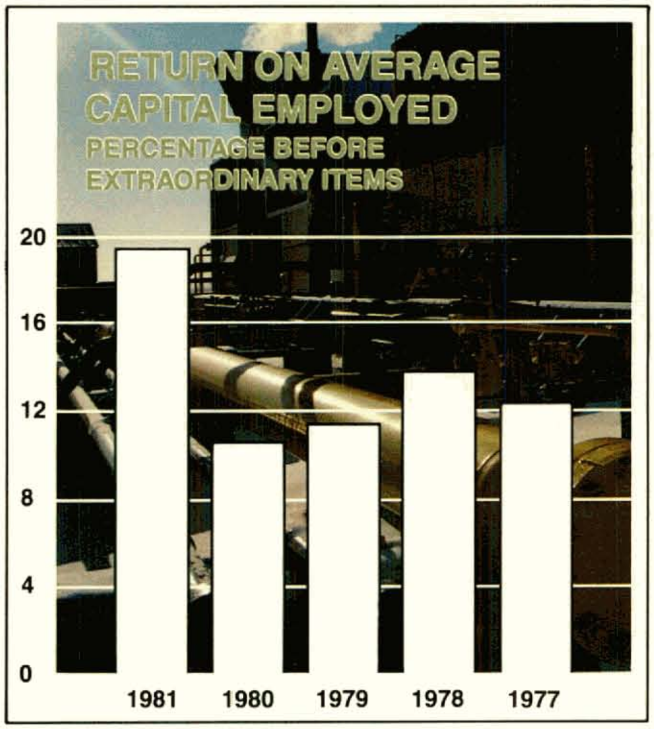
## CAPITAL RESOURCES AND LIQUIDITY

The Company over the last three years has been able to finance its exploration and development programs through internally generated funds. The 1982 capital expenditures, which have been projected at $15.0 million, will be provided for as in prior years. Although the Company has no current plans to undertake any major capital investments, established lines of credit and substantial borrowing capacity are available from bank sources.

The Company's liquidity has improved substantially as a result of the completed reorganization (refer to Note 2 - Consolidated Financial Statements) and the sale of the Company's nonproducing coal properties for proceeds exceeding $8 million. No material change is anticipated in the Company's liquidity position during 1982. Future cash flow depends to a significant degree on world crude oil prices, government policies in regard to domestic oil and gas pricing and taxation, expanded domestic markets, additional exports of natural gas and the success of the Company's exploration and development activites. If adverse material changes in the aforementioned were introduced, the Company's liquidity could be temporarily affected. Management is confident, however, that its present established resources provides a firm base for a continuing long-term natural resource investment program.






## 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, | | | | |
|---|---|---|---|---|---|
| | 1981 | 1980 | 1979 | 1978 | 1977 |
| | (Stated in thousands of Canadian dollars except for per share data) | | | | |
| Net operating revenues | $22,786 | $17,704 | $15,600 | $16,423 | $14,505 |
| Income from continuing operations (a) | $ 5,929 | $ 5,440 | $ 4,002 | $ 3,461 | $ 5,828 |
| Income from continuing operations per common share (Canadian GAAP) (a) | $ 1.12 | $ 1.22(b) | $ .89 | $ .74 | $ 1.03 |
| Income from continuing operations per common share (U.S. GAAP) (a) | $ 1.12 | $ 1.25 | $ .92 | $ .72 | $ 1.15 |
| Total assets (at end of period) | $84,440 | $56,156 | $69,656 | $62,152 | $69,998 |
| Long-term obligations (including redeemable preferred shares) (at end of period) | $ 6,854 | $10,814 | $17,843 | $21,420 | $23,050 |

(a) Before equity in operating income (loss) of Hatleigh Corp., extraordinary items and gain on disposal of coal properties.
(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.

## COMMON STOCK PRICE RANGE

| | Toronto Stock Exchange (Can.) | | | | American Stock Exchange (U.S.) | | | |
|---|---|---|---|---|---|---|---|---|
| | 1981 | | 1980 | | 1981 | | 1980 | |
| Quarter | | | | | | | | |
| First | $20.50 | $16.00 | $28.00 | $14.00 | $17.13 | $13.25 | $24.75 | $10.38 |
| Second | 21.00 | 17.50 | 20.25 | 15.50 | 16.63 | 14.00 | 16.75 | 12.38 |
| Third | 35.25 | 17.63 | 22.50 | 17.88 | 29.38 | 14.25 | 19.63 | 14.75 |
| Fourth | 34.25 | 23.25 | 23.25 | 16.50 | 28.88 | 19.50 | 21.00 | 13.75 |

# five year summary of operations



(Stated in thousands of dollars except for per share data)

| | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Gas and oil | $18,788 | $12,989 | $10,782 | $13,589 | $13,783 |
| Less royalties | 3,560 | 2,468 | 1,889 | 3,427 | 3,839 |
| | 15,228 | 10,521 | 8,893 | 10,162 | 9,944 |
| Pipeline operations | 6,076 | 6,113 | 5,561 | 5,543 | 3,712 |
| Dividends from long-term investment | 1,075 | — | — | — | — |
| Other income | 407 | 1,070 | 1,146 | 718 | 849 |
| | 22,786 | 17,704 | 15,600 | 16,423 | 14,505 |
| Expenses | | | | | |
| Operating and administrative | 3,970 | 2,554 | 2,274 | 2,462 | 2,012 |
| Gas purchase for resale | 4,910 | 4,723 | 4,408 | 4,410 | 2,392 |
| Interest | 1,523 | 1,679 | 2,320 | 1,903 | 547 |
| Income tax — current (recovery) | 1,680 | 325 | (202) | 522 | 1,344 |
| Petroleum and gas revenue tax | 1,228 | — | — | — | — |
| | 13,311 | 9,281 | 8,800 | 9,297 | 6,295 |
| Funds Provided from Operations | 9,475 | 8,423 | 6,800 | 7,126 | 8,210 |
| Per common share | 1.79 | 1.88 | 1.46 | 1.53 | 1.45 |
| Depreciation, depletion | 1,820 | 1,210 | 962 | 904 | 886 |
| Amortization and write-off of foreign exploration | — | — | — | 1,861 | 455 |
| Gain on sale of coal properties | 8,010 | — | — | — | — |
| Equity in operating income (loss) of affiliate | 1,699 | (1,127) | 359 | 1,808 | 106 |
| Income before undernoted | 17,364 | 6,086 | 6,197 | 6,169 | 6,975 |
| Income tax — deferred | 5,635 | 1,773 | 1,836 | 900 | 1,041 |
| Net income before undernoted | 11,729 | 4,313 | 4,361 | 5,269 | 5,934 |
| Per common share | 2.21 | 0.95 | 0.96 | 1.11 | 1.04 |
| Extraordinary items | (982) | (13,385) | 6,066 | 769 | 689 |
| Net income (loss) | $10,747 | $ (9,072) | $10,427 | $ 6,038 | $ 6,623 |
| Per common share | 2.02 | (2.04) | 2.32 | 1.28 | 1.16 |
| Working capital — (deficit) | $ 2,703 | (487) | 4,166 | 451 | (462) |
| Long-term investments | $17,600 | 8,819 | 27,430 | 29,446 | 36,689 |
| Property and equipment - net | $57,756 | 42,019 | 33,256 | 26,278 | 29,689 |
| Long-term debt | $ 5,769 | 9,600 | 16,547 | 20,000 | 21,526 |
| Shares outstanding | | | | | |
| Common - no par value | 5,304 | *4,477 | *4,453 | *4,435 | 5,649 |
| Preferred - par value $50 per share | 22 | 24 | 26 | 28 | 30 |
| Shareholders' equity | $54,422 | 28,510 | 37,506 | 27,104 | 36,321 |
| Cost of finding and developing reserves | | | | | |
| Exploration | $ 4,769 | 5,995 | 2,800 | 4,200 | 4,300 |
| Development | $ 8,791 | 5,311 | 5,100 | 500 | 2,700 |

*Excludes shares owned by Hatleigh Corp.

| Production and Sales | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---|---|---|---|---|
| Natural Gas Production — billion cubic feet | *17.0 | *18.0 | *18.1 | *18.7 | 19.3 |
| Average per day — million cubic feet | 46.6 | 49.3 | 49.6 | 51.3 | 52.8 |
| Pipeline — | | | | | |
| Annual throughput, billion cubic feet | 6.6 | 7.5 | 7.5 | 7.6 | 6.0 |
| Oil Production — barrels | 50,000 | 50,000 | 47,700 | 40,000 | 43,000 |

*Includes Hatleigh Corp. production

# consolidated balance sheets



**ASSETS**

| | 1981 | 1980 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and short-term deposits | $ 1,095,000 | $ 136,000 |
| Accounts receivable | 4,899,000 | 4,433,000 |
| Petroleum incentive payments receivable | 1,452,000 | — |
| Current portion of long-term investments | 1,000,000 | — |
| Prepaid expenses | 41,000 | 160,000 |
| Total current assets | 8,487,000 | 4,729,000 |
| LONG-TERM INVESTMENTS (Note 3) | | |
| Hatleigh Corporation | 16,900,000 | 8,119,000 |
| Other security investment | 700,000 | 700,000 |
| | 17,600,000 | 8,819,000 |
| PROPERTY, PLANT AND EQUIPMENT (Note 4) | | |
| At cost | 71,800,000 | 53,096,000 |
| Accumulated depreciation and depletion | 14,044,000 | 11,077,000 |
| | 57,756,000 | 42,019,000 |
| OTHER ASSETS AT COST | 597,000 | 589,000 |
| | $84,440,000 | $56,156,000 |

On behalf of the Board:

Director

Director

*See accompanying notes.*

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1981 | 1980 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 4,229,000 | $ 3,824,000 |
| Income taxes payable | 1,555,000 | 61,000 |
| Due to Hatleigh Corporation | — | 1,331,000 |
| Total current liabilities | 5,784,000 | 5,216,000 |
| **LONG-TERM DEBT (Note 5)** | 5,769,000 | 9,600,000 |
| **DEFERRED INCOME TAXES (Note 6)** | 18,465,000 | 12,830,000 |
| **SHAREHOLDERS' EQUITY (Note 7)** | | |
| 5½% cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares, issued 21,651 shares (1980 - 24,285 shares) | 1,082,000 | 1,214,000 |
| Common shares, without nominal or par value; authorized 7,500,000 shares, issued 5,719,865 shares (1980 - 5,696,165) | 23,483,000 | 23,272,000 |
| | 24,565,000 | 24,486,000 |
| Capital redemption reserve fund | 2,418,000 | 2,286,000 |
| Contributed surplus | 72,000 | 40,000 |
| Retained earnings | 27,367,000 | 16,814,000 |
| | 54,422,000 | 43,626,000 |
| Less cost of shares of North Canadian held by Hatleigh Corporation (Note 2) | — | 15,116,000 |
| | 54,222,000 | 28,510,000 |
| | $84,440,000 | $56,156,000 |

# consolidated statements of income

| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| Revenue | | | |
| Gas and oil | $18,788,000 | $12,989,000 | $10,782,000 |
| Less royalties | 3,560,000 | 2,468,000 | 1,889,000 |
| | 15,228,000 | 10,521,000 | 8,893,000 |
| Pipeline operations | 6,076,000 | 6,113,000 | 5,561,000 |
| Dividends from long-term investment | 1,075,000 | — | — |
| Other income | 407,000 | 1,070,000 | 1,146,000 |
| | 22,786,000 | 17,704,000 | 15,600,000 |
| Expenses | | | |
| Operating | 2,899,000 | 1,815,000 | 1,544,000 |
| Gas purchased for resale | 4,910,000 | 4,723,000 | 4,408,000 |
| Petroleum and gas revenue tax | 1,228,000 | — | — |
| Administrative | 1,071,000 | 739,000 | 730,000 |
| Interest on long-term debt | 1,523,000 | 1,679,000 | 2,320,000 |
| Depreciation | 464,000 | 318,000 | 295,000 |
| Depletion | 1,356,000 | 892,000 | 667,000 |
| | 13,451,000 | 10,166,000 | 9,964,000 |
| Income before the undernoted | 9,335,000 | 7,538,000 | 5,636,000 |
| Gain on sale of coal properties | 8,010,000 | — | — |
| Income before the undernoted | 17,345,000 | 7,538,000 | 5,636,000 |
| Income taxes (Note 6) | | | |
| Current (recovery) | 1,680,000 | 325,000 | (202,000) |
| Deferred | 5,635,000 | 1,773,000 | 1,836,000 |
| | 7,315,000 | 2,098,000 | 1,634,000 |
| Income before the undernoted | 10,030,000 | 5,440,000 | 4,002,000 |
| Equity in operating income (loss) of Hatleigh Corporation (Note 3) | 1,699,000 | (1,127,000) | 359,000 |
| Income before extraordinary items | 11,729,000 | 4,313,000 | 4,361,000 |
| Extraordinary items (Note 8) | (982,000) | (13,385,000) | 6,066,000 |
| Net income (loss) | $10,747,000 | $ (9,072,000) | $10,427,000 |
| Income (loss) per common share | | | |
| Income before extraordinary items | $ 2.21 | $ .95 | $ .96 |
| Extraordinary items | (.19) | (2.99) | 1.36 |
| Net income | $ 2.02 | $ (2.04) | $ 2.32 |

*See accompanying notes.*

# consolidated statements of changes in financial position



| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| SOURCE OF FUNDS | | | |
| Funds provided from operations | 9,475,000 | 8,423,000 | 6,800,000 |
| Proceeds on sale of investment in Hatleigh Corporation (less related costs of disposal $727,000 and income taxes $226,000) | 22,447,000 | — | — |
| Assumption of long-term debt from Hatleigh Corporation | 8,093,000 | — | — |
| Proceeds on sale of coal properties | 8,135,000 | — | — |
| Proceeds on sale of property, plant and equipment | 483,000 | 205,000 | 249,000 |
| Proceeds on issue of common shares | 211,000 | 209,000 | 149,000 |
| Proceeds on sale of other investments | — | 6,685,000 | 5,663,000 |
| Reduction of note receivable from Hatleigh Corporation | — | — | 3,282,000 |
| Proceeds on redemption and current portion of Hatleigh Corporation second preference shares | 1,500,000 | — | — |
| Proceeds from settlement of shareholders' action | — | — | 196,000 |
| Increase in long-term debt | — | 221,000 | 4,710,000 |
| Proceeds on disposition of other assets | — | 41,000 | — |
| Total funds provided | 50,344,000 | 15,784,000 | 21,049,000 |
| USE OF FUNDS | | | |
| Purchase of Hatleigh Corporation second preference shares | 18,400,000 | — | — |
| Expenditures for property, plant and equipment | 18,165,000 | 10,178,000 | 8,189,000 |
| Reduction of long-term debt | 9,600,000 | 7,168,000 | 8,163,000 |
| Redemption of preferred shares | 100,000 | 65,000 | 101,000 |
| Dividends on preferred shares | 62,000 | 68,000 | 73,000 |
| Additions to other investments | — | — | 700,000 |
| Additions to other assets | 8,000 | 372,000 | 108,000 |
| Investment in Hatleigh Corporation | 819,000 | 2,586,000 | — |
| Total funds used | 47,154,000 | 20,437,000 | 17,334,000 |
| Increase (decrease) in working capital | 3,190,000 | (4,653,000) | 3,715,000 |
| Working capital (deficit), beginning of year | (487,000) | 4,166,000 | 451,000 |
| Working capital (deficit), end of year | $ 2,703,000 | $ (487,000) | $ 4,166,000 |
| Increase (decrease) accounted for as follows: | | | |
| Cash and short-term deposits | $ 959,000 | $ (2,502,000) | $ 2,032,000 |
| Accounts receivable | 466,000 | (603,000) | 882,000 |
| Petroleum incentive payments receivable | 1,452,000 | — | — |
| Current portion of long-term investments | 1,000,000 | — | — |
| Due from Receiver General for Canada | — | (950,000) | (541,000) |
| Prepaid expenses | (119,000) | 72,000 | 61,000 |
| Accounts payable | (405,000) | 722,000 | (1,480,000) |
| Due to Hatleigh Corporation | 1,331,000 | (1,331,000) | 967,000 |
| Income taxes payable | (1,494,000) | (61,000) | — |
| Long-term debt due within one year | — | — | 1,794,000 |
| Increase (decrease) in working capital | $ 3,190,000 | $ (4,653,000) | $ 3,715,000 |

*See accompanying notes.*

# consolidated statements of retained earnings



| | Year ended December 31 | | |
|---|---|---|---|
| | **1981** | **1980** | **1979** |
| Balance, beginning of year | $16,814,000 | $26,036,000 | $15,806,000 |
| Net income (loss) | 10,747,000 | (9,072,000) | 10,427,000 |
| | 27,561,000 | 16,964,000 | 26,233,000 |
| Deduct: | | | |
| Transfer to capital redemption reserve fund (Note 7) | 132,000 | 82,000 | 124,000 |
| Dividends on preferred shares | 62,000 | 68,000 | 73,000 |
| | 194,000 | 150,000 | 197,000 |
| Balance, end of year | $27,367,000 | $16,814,000 | $26,036,000 |

*See accompanying notes.*

# auditors' report to the shareholders

We have examined the consolidated balance sheets of North Canadian Oils Limited as at December 31, 1981 and 1980 and the consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1981, 1980 and 1979. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of North Canadian Oils Limited as at December 31, 1981 and 1980, and the results of its. operations and the changes in its financial position for the years ended December 31, 1981, 1980 and 1979 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 16 to the consolidated financial statements) applied on a consistent basis.

Calgary, Canada
March 5, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

# notes to consolidated financial statements



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Canadian Oils Limited is incorporated under the provisions of the Companies Act of Alberta and is principally engaged in the exploration for oil and gas in North America.

These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which conform in all material respects with International Accounting Standards and, except as indicated in Note 16, with accounting policies generally accepted in the United States. A summary of the Company's significant accounting policies is described below.

### Principles of Consolidation

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

### 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 after deducting related government grants. All such costs are being amortized on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers.

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

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

Renewals or replacements which improve or extend the life of existing properties are capitalized. Those of a routine nature as well as maintenance and repairs are charged to income.

### 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 depletion and depreciation which are translated at the rates applicable to the related assets, are translated at the average exchange rates in effect during the year. On December 31, 1981, the Canadian dollar was quoted at $0.84 U.S. = $1.00 Canadian.

### 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 was reduced by 1,219,296 shares, acquired in 1978 by a subsidiary of Hatleigh Corporation, for the period from January 1, 1981 to the date of sale of the Company's investment in Hatleigh Corporation, April 30, 1981 and for the years ended December 31, 1980 and 1979.

2. REORGANIZATION

Effective May 1, 1981 the Company sold its investments in Hatleigh Corporation (Hatleigh) for a consideration of $23,400,000 to a corporation holding 1,488,286 common shares of the Company. Such Corporation is wholly owned by Mr. James F. Kay, a director of the Company. Immediately prior to the sale, the Company reacquired from Hatleigh certain gas property interests for a consideration of $8,093,000 and assumed Hatleigh's 11¼% debentures in the amount of $8,093,000 (including $2,325,000 of such debentures held by the Company) secured by the gas property interests. The gas properties were assigned a carrying value of $7,274,000 being the Company's cost assigned to such properties prior to the sale. The excess of the consideration over the carrying value has been included in the Company's cost of investment in Hatleigh at the date of the sale.

The Company, from the proceeds of the sale, purchased 736,000 redeemable second preference shares of Hatleigh having an aggregate par value of $18,400,000.

3. LONG-TERM INVESTMENTS

| | December 31 | |
|---|---|---|
| | 1981 | 1980 |
| Hatleigh Corporation: | | |
| 716,000 redeemable second preference shares, par value $25 per share, at cost | $17,900,000 | $ — |
| Investment in common shares, at equity | — | 12,692,000 |
| Note receivable, at cost | — | 8,218,000 |
| Debentures receivable, at cost (Note 5) | — | 2,325,000 |
| | 17,900,000 | 23,235,000 |
| Less: | | |
| Mandatory redemption of 40,000 redeemable second preference shares due in 1982 | 1,000,000 | — |
| Cost of 1,219,296 shares of North Canadian held by Hatleigh Corporation | — | 15,116,000 |
| Total | $16,900,000 | $ 8,119,000 |

The Hatleigh second preference shares bear a cumulative quarterly dividend payable on the par value at a floating annual rate equal to one-half of the prime lending rate of a Canadian chartered bank as in effect from time to time plus 1½%. Hatleigh has the right at any time to redeem the second preference shares, in whole or in part, at par value. Mandatory redemption of 20,000 second preference shares is required semi-annually commencing December 31, 1981 to June 30, 1984 and 40,000 second preference shares semi-annually thereafter to June 30, 1987 and the remainder of the outstanding shares on June 30, 1988.

Under certain conditions, the Company will have the right to require the purchaser of the common shares of Hatleigh to purchase the second preference shares owned by the Company at a purchase price equal to $25 per share plus all dividends accrued to the date of purchase. This obligation and the shares are secured, subject to substitute security acceptable to the Company, by a security interest in a bankers acceptance of $18,107,000.

At December 31, 1980 the Company owned 100% of the common shares of Hatleigh which carried 49.3% of the votes at shareholders' meetings. The Company, therefore, accounted for its investment on the equity basis. Hatleigh in turn owned 1,219,296 shares of the Company.

Other security investment, which is carried at cost, consists of 132 common shares of the Bradie Building Limited. This investment has no quoted value.

4. PROPERTY, PLANT AND EQUIPMENT

| | Canada | U.S.A. | Total |
|---|---|---|---|
| December 31, 1981 | | | |
| Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon | $60,280,000 | $6,543,000 | $66,823,000 |
| Accumulated depreciation and depletion | 9,917,000 | 159,000 | 10,076,000 |
| | 50,363,000 | 6,384,000 | 56,747,000 |
| Pipeline, other equipment and leasehold improvements | 4,977,000 | — | 4,977,000 |
| Accumulated depreciation and depletion | 3,968,000 | — | 3,968,000 |
| | 1,009,000 | — | 1,009,000 |
| | $51,372,000 | $6,384,000 | $57,756,000 |

| | Canada | U.S.A. | Total |
|---|---|---|---|
| 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 |

Grants under the Canadian government's Petroleum Incentive Program, aggregating $1,452,000, have been accrued in accordance with the proposed regulations and treated as a reduction in the cost of the related exploration and development expenditures. The legislation and regulations in respect of this program have not been enacted by Parliament.

5. LONG-TERM DEBT

Long-term debt consists of 11¼% debentures secured by certain gas properties redeemable at the option of the Company (other than for sinking fund purposes) at 108.75% of the principal amount to August 31, 1981 declining by 1.25% annually to 100% in the year ending August 31, 1988.

The Company may purchase debentures in the market or by tender or private contract at prices not exceeding the foregoing percentages of the principal amount thereof together in each case with accrued and unpaid interest. In addition, the Company is required to make sinking fund payments sufficient to retire, on August 31 in each of the years 1981 to 1987 inclusive, $809,000 principal amount of debentures. The Company retired $2,325,000 of such debentures that it owned thereby satisfying the sinking fund requirements of 1981, 1982, and of $707,000 for 1983.

At December 31, 1980 the Company had outstanding bank notes aggregating $9,600,000 bearing interest at rates from 11.78% to 12.08% which were secured by 3,500,000 common shares of Hatleigh.

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:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| | (48%) | (48%) | (46%) |
| Computed "expected" income tax | $8,325,000 | $3,619,000 | $2,593,000 |
| Increase (decrease) in income taxes resulting from: | | | |
| Non-deductibility of royalties and other payments to the crown | 2,119,000 | 996,000 | 721,000 |
| Federal resource allowances | (1,654,000) | (1,262,000) | (989,000) |
| Allowance for earned depletion | (105,000) | (845,000) | (408,000) |
| Provincial taxes less federal abatement | 246,000 | 84,000 | 68,000 |
| Provincial rebates and credits | (1,179,000) | (480,000) | (310,000) |
| Non-taxable Canadian dividends | (515,000) | — | — |
| Other | 78,000 | (14,000) | (41,000) |
| | $7,315,000 | $2,098,000 | $1,634,000 |

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:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Excess of capital cost allowances deducted for income tax purposes over depreciation recorded in the accounts | $ 800,000 | $ 150,000 | $ 146,000 |
| Excess of exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion and amortization recorded in the accounts | 4,835,000 | 1,623,000 | 1,690,000 |
| Total deferred income taxes | $5,635,000 | $1,773,000 | $1,836,000 |

Certain property, plant and equipment having an aggregate net book value of $2,940,000 is not available for any future income tax benefits.

## 7. 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 value from the holders on 30 days notice or purchased on the market. At December 31, 1981 the requirements had been met for the years ended June 1, 1982 and 1983, in addition, 349 shares applicable for the year ended June 1, 1984 have been cancelled.

Information with respect to the shares redeemed is as follows:

| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| Amounts transferred to the capital redemption reserve fund | $132,000 | $ 82,000 | $124,000 |
| Differences between the acquisition cost and the par value of the preferred shares redeemed, which have been credited to contributed surplus | $ 32,000 | $ 17,000 | $ 23,000 |
| Shares redeemed | 2,634 | 1,640 | 2,485 |

### Common shares issued

| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| Shares issued under stock option plan | 23,700 | 23,800 | 17,400 |
| Consideration credited to capital stock | $211,000 | $209,000 | $149,000 |

## 8. EXTRAORDINARY ITEMS

| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| Loss on sale of investment in Hatleigh (including related income taxes of $226,000) | $(2,336,000) | $ — | $ — |
| Gain on sale of other investments | — | 240,000 | 170,000 |
| Net proceeds from settlement of shareholders' action | — | — | 196,000 |
| Equity in extraordinary items of Hatleigh: | | | |
| Write down of investment in Foodex Inc. | — | (14,501,000) | — |
| Reduction of income taxes on application of losses brought forward | 942,000 | 65,000 | 1,051,000 |
| Gain on sale of investments | 412,000 | 811,000 | 1,720,000 |
| Gain on sale of Peel-Elder Developments Limited | — | — | 2,929,000 |
| | $ (982,000) | $(13,385,000) | $6,066,000 |

## 9. STOCK OPTION PLAN

Under the terms of the Employee Common Stock Option Plan, 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, 1981, 7,100 shares were still available for granting (21,000 at December 31, 1980), which includes 1,100 shares, which had been previously granted then withdrawn when the optionee left the Company. Options outstanding at December 31, 1981 expire in 1983, 1984 and 1986. At December 31, 1981 there were 28,000 options outstanding (December 31, 1980 - 27,800).

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 bank 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 $363,000 at December 31, 1981 and $200,000 at December 31, 1980 are due from directors, officers and a retired director 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 follows:

| | Number of shares | Option Per Share | Option Amount |
|---|---|---|---|
| **Options exercised** | | | |
| 1981 | 23,700 | $ 8.55-12.35 | $211,000 |
| 1980 | 23,800 | 8.55-12.35 | 209,000 |
| 1979 | 17,400 | 8.55 | 149,000 |
| **Options exercisable** | | | |
| 1981 | 26,700 | $ 8.55-12.35 | $239,000 |
| 1980 | 24,400 | 8.55-12.35 | 216,000 |
| 1979 | 17,400 | 8.55 | 149,000 |
| **Options granted** | | | |
| 1981 | 25,000 | $16.63-29.68 | $612,000 |
| 1980 | — | — | — |
| 1979 | 10,500 | 10.45-18.05 | 139,000 |

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

Costs incurred

| | Canada | U.S.A. | Hatleigh | Total |
|---|---|---|---|---|
| **1981** | | | | |
| Property acquisition costs | $ 904 | $ 974 | $ — | $ 1,878 |
| Exploration costs | 894 | 988 | — | 1,882 |
| Development costs | 4,747 | — | 146 | 4,893 |
| Production costs | 2,832 | 67 | 159 | 3,058 |
| Depreciation and depletion | 1,661 | 159 | 74 | 1,894 |
| **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 |

Costs incurred in 1981 in Canada do not include the reacquisition of oil and gas properties from Hatleigh referred to in Note 2.

| Net revenue | Canada | U.S.A. | Hatleigh | Total |
|---|---|---|---|---|
| 1981 | $12,651 | $ 40 | $1,724 | $14,415 |
| 1980 | 8,707 | — | 5,149 | 13,856 |
| 1979 | 7,349 | — | 3,906 | 11,255 |

Amortization per equivalent physical unit of production (Mcf):

| | Year ended December 31 1981 | 1980 | 1979 |
|---|---|---|---|
| Depreciation and depletion | $.09 | $.07 | $.06 |

11. PENSION AND EMPLOYEE PROFIT SHARING PLAN

Pension Plan

The Company maintains a contributory pension plan which is restricted 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, 1981, there was no unfunded liability in the plan. The charges to income with respect to the plan are as follows:

| Year ended December 31 | | |
|---|---|---|
| 1981 | 1980 | 1979 |
| $23,000 | $22,000 | $19,000 |

### Employee Profit Sharing Plan

The Company adopted an Employee Profit Sharing Plan in 1979 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 and natural gas and related hydrocarbons attributable to the Company's interest in certain non-producing exploration lands. During 1981, the Company's contributions to the plan consisted of a gross overriding royalty interest having a nominal fair market value 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.

## 12. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions:

The Company accrued or paid professional service fees aggregating $517,000, $187,000 and $197,000 to three legal firms in which certain directors of the Company are partners for the years ended December 31, 1981, 1980 and 1979 respectively.

The Company received $100,000, $300,000 and $300,000 from Hatleigh in respect of management fees for the operation of gas properties for four months ended April 30, 1981 and the years ended December 31, 1980 and 1979 respectively.

The Company received $87,000 and $232,000 in respect of interest on debentures of Hatleigh for the years ended December 31, 1981 and 1980 respectively.

The Company received $1,075,000 of dividends and $500,000 in respect of a redemption during 1981 of its long-term investment in second preference shares of Hatleigh.

## 13. DEPENDENCE UPON LIMITED CUSTOMERS

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

| | Year ended December 31, 1981 | | Year ended December 31, 1980 | |
|---|---|---|---|---|
| **Company** | **$(000's)** | **% of Total Revenue** | **$(000's)** | **% of Total Revenue** |
| TransCanada Pipelines Limited | $11,530 | 46 | $ 5,918 | 31 |
| Saskatchewan Power Corporation | 5,397 | 22 | 5,483 | 29 |
| St. Regis (Alberta) Ltd. | 4,557 | 18 | 4,711 | 24 |
| Total | $21,484 | 86 | $16,112 | 84 |

## 14. STATUTORY INFORMATION

Directors and senior officers comprising of sixteen persons of the Company received remuneration amounting to $449,000 ($402,000 in 1980 and $311,000 in 1979). Included in this amount is $32,000 for 1981 ($27,000 for 1980 and $20,000 for 1979) paid to Directors.

## 15. QUARTERLY FINANCIAL INFORMATION (Unaudited)

| | Three months ended | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| 1981 | | | | |
| Net revenue | $4,777,000 | $5,226,000 | $5,833,000 | $ 6,950,000 |
| Income before extraordinary items | $2,680,000 | $4,324,000 | $1,707,000 | $ 3,018,000 |
| Net income | $4,033,000 | $1,947,000 | $1,996,000 | $ 2,771,000 |
| Income per common share after preferred share dividends | | | | |
| Income before extraordinary items | $ .60 | $ .88 | $ .32 | $ .57 |
| Net income | $ .90 | $ .39 | $ .39 | $ .52 |

| | 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) |

16. 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) 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, 1981, 1980 and 1979 are as follows:

Statement of Income (U.S. GAAP)

| Year ended December 31 | As Reported | Adjustments | As Adjusted |
|---|---|---|---|
| **1981** | | | |
| Income before the following | $10,030,000 | $(2,336,000) | $ 7,694,000 |
| Equity in operating income of Hatleigh | 1,699,000 | 1,354,000 | 3,053,000 |
| Income before extraordinary items | 11,729,000 | (982,000) | 10,747,000 |
| Extraordinary items | (982,000) | 982,000 | — |
| Net income | $10,747,000 | $ — | $10,747,000 |
| **1980** | | | |
| Income before the following | $ 5,440,000 | $ 240,000 | $ 5,680,000 |
| Equity in operating loss of Hatleigh | (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 | 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 |

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

| | Year ended December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| Net income (loss) | $10,747,000 | $ (9,608,000) | $ 8,591,000 |
| Add (deduct) items not requiring an outlay of funds: | | | |
| Gain on sale of coal properties | (8,010,000) | — | — |
| Depreciation, depletion and amortization | 1,820,000 | 1,210,000 | 962,000 |
| Deferred income taxes | 5,635,000 | 1,773,000 | 1,836,000 |
| Equity in operating (income) loss of Hatleigh | (3,053,000) | 787,000 | (4,223,000) |
| Writedown of Foodex Inc. | — | 14,501,000 | — |
| Gain on sale of investments | 2,336,000 | (240,000) | (170,000) |
| Funds provided from operations | $9,475,000 | $ 8,423,000 | $ 6,996,000 |

## 17. RESERVE RECOGNITION ACCOUNTING INFORMATION (Unaudited)

### Quantities of Oil & Gas Reserves as at December 31, 1981*

| | Canada | |
|---|---|---|
| | Oil** | Gas*** |
| Proved Developed and Undeveloped Reserves: | | |
| Beginning of Year | 568,993 | 560.0 |
| Revision of Previous Estimates | 125,437 | (9.3) |
| Improved Recovery | 559,000 | — |
| Purchase of Minerals-in-Place | — | 69.5 |
| Extensions, Discoveries, and Other Additions | — | — |
| Production | (43,148) | (15.8) |
| Sales of Minerals-in-Place | — | — |
| End of Year | 1,210,282 | 604.4 |
| Proved Developed Reserves: | | |
| Beginning of Year | 568,993 | 560.0 |
| End of Year | 1,210,282 | 604.4 |

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

| | 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 |
| Proved Developed Reserves: | | |
| Beginning of Year | 539,118 | 574.6 |
| End of Year | 568,993 | 560.0 |
| 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 Year | — | 70.5 |

* Before a deduction of royalties
** Oil stated in Barrels
*** Gas stated in Billion Cubic Feet

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

| | 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 |

| | Canada | |
|---|---|---|
| | Oil** | Gas*** |
| Proved Developed Reserves: | | |
| Beginning of Year | 317,577 | 587.7 |
| End of Year | 539,118 | 574.6 |
| 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 Year | — | 73.0 |

* Before a deduction of royalties
** Oil stated in Barrels
*** Gas stated in Billion Cubic Feet

There were no foreign geographic reserves shown in the above two tables as a result of no figures to report.

Future Net Revenue From Proved Reserves of Oil and Gas as at December 31, 1981 (000's)

| | Proved Developed and Undeveloped | Proved Developed | Hatleigh Corporation (Proportional Share) |
|---|---|---|---|
| 1982 | $ 16,101 | $ 16,101 | $ — |
| 1983 | 14,927 | 14,927 | — |
| 1984 | 17,139 | 17,139 | — |
| Remainder | 359,161 | 359,161 | — |
| Total | $407,328 | $407,328 | $ — |

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

| | Proved Developed and Undeveloped | Proved Developed | 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 at December 31, 1979 (000's)

| | Proved Developed and Undeveloped | Proved Developed | 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 |

There were no long-term supply agreements with foreign governments.

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

| | December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (000's) | |
| Proved Developed and Undeveloped Reserves | $150,597 | $57,543 | $60,880 |
| Proved Developed Reserves | 150,597 | 57,543 | 60,880 |
| Equity Investee (Proportional Share) | — | 38,164 | 32,529 |

The above reported projections of estimated future net revenue and present value of estimated future net revenue were based on reserve reports prepared by James A. Lewis Engineering Co. Ltd. for 1981 and John D. Hale Consulting for 1980 and 1979.

(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 their economic life. Revenues have been reduced by royalties and estimated expenditures (based on current costs) required to develop and produce the estimated production.

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

| | December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (000's) | |
| Increases: | | | |
| Additions and Revisions (net of future costs) | $ 69,304 | $16,426 | $38,027 |
| Purchases of Reserves-in-Place | — | — | — |
| Expenditures that Reduced Estimated Future Development Costs | — | — | — |
| Subtotal | 69,304 | 16,426 | 38,027 |
| Decreases: | | | |
| Sales of Oil and Gas and Value of Transfers, Net of Production Costs of $3,058 - 1981; $2,255 - 1980; $1,852 - 1979 | 14,414 | 14,128 | 11,255 |
| Sales of Reserves-in-Place | — | — | — |
| Subtotal | 14,414 | 14,128 | 11,255 |
| Net Increase | 54,890 | 2,298 | 26,772 |
| Beginning of Year | 95,707 | 93,409 | 66,637 |
| End of Year | $150,597 | $95,707 | $93,409 |

## Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting

| | December 31 | | |
|---|---|---|---|
| | 1981 | 1980 | 1979 |
| | | (000's) | |
| Additions and Revisions to Estimated Oil and Gas Reserves: | | | |
| Additions to Estimated Proved Reserves Net | $ 691 | $ 514 | $ 1,364 |
| Revisions to Estimates of Reserves Proved in Prior Years: | | | |
| Changes in Prices | 5,790 | 49,247 | 23,672 |
| Other | 53,316 | (42,676) | 6,327 |
| Accretion of Discount | 9,507 | 9,341 | 6,664 |
| Subtotal | 69,304 | 16,426 | 38,027 |
| Costs Incurred | 8,653 | 11,306 | 6,741 |
| Additions and Revisions to Proved Reserves over Evaluated Costs | 60,651 | 5,120 | 31,286 |
| Provision for Income Taxes @ 35% | 21,228 | 1,792 | 10,950 |
| Results of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting | $ 39,423 | $ 3,328 | $20,336 |

Investee's proportional share included in above tables for the years 1980 and 1979.

Pre-tax net income contribution reflected in the primary financial statements for the oil and gas producing activities amounts to $11,015,000, $7,903,000 and $6,779,000 for the years ended December 31, 1981, 1980 and 1979 respectively.

The tables set forth in this note for the current year have been presented with the inclusion of those reserves acquired under the terms of the reorganization, as described in Note 2. For 1980 and 1979 these reserves have been combined unless otherwise noted. Reserves at December 31, 1981 amounted to approximately 14,000 barrels of oil which have not been included in these tables because they were considered immaterial.

**DIRECTORS**

DONALD F. CHRISTENSEN
Senior Vice President, Operations
of the Company
Calgary, Alberta

J. TREVOR EYTON, Q.C.
President of Brascan Limited
Toronto, Ontario

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

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

CHARLES K. LOUGH
Senior Vice President, Finance &
Administration and Secretary of the Company
Calgary, Alberta

▪★ ROSS A. MacKIMMIE, Q.C.
Counsel, 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

▪* JOHN A. PLAXTON
President, Hatleigh Corporation
Toronto, Ontario

JOHN A. STEWART
Partner, MacKimmie Matthews
Calgary, Alberta
(Appointed December 10, 1981)

* Member of Executive Committee

▪ Member of Compensation Committee

★ Member of Audit Committee

**OFFICERS & KEY PERSONNEL**

DONALD F. CHRISTENSEN
Senior Vice President, Operations

BENJAMIN L. COOK
Vice President, Land

NATHAN GOODMAN
Vice President Production

BILL A. KURUCZ
Controller

CHARLES K. LOUGH
Senior Vice President, Finance and
Administration

JEFFREY P. MACKENZIE
Land Manager

W. KEITH MILLER
Manager, Gas Transmission and Supply

**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**
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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