Alberta Eastern Gas Limited

ANNUAL
REPORT

JUNE 30
1970

SUMMARY

AS AT NOVEMBER 16, 1970

TOTAL NET ACRES AVAILABLE FOR EARNING	629,487 Acres
NET ACRES EARNED TO NOVEMBER 16, 1970	355,582 Acres
NET ACRES PLANNED TO BE EARNED IN 1971	212,000 Acres
TOTAL MILK RIVER NATURAL GAS TESTED WELLS DRILLED TO DATE	89 Wells
TOTAL MILK RIVER NATURAL GAS WELLS ON PRODUCTION	43 Wells
TOTAL MILK RIVER NATURAL GAS WELLS CAPPED	38 Wells
BOW ISLAND (VIKING) WELLS DRILLED TO DATE (50% owned)	6 Wells
BOW ISLAND (VIKING) CAPPED NATURAL GAS WELLS (50% owned)	5 Wells
MEDICINE HAT NATURAL GAS WELLS DRILLED TO DATE (NET)	5.5 Wells
MEDICINE HAT NATURAL GAS WELLS CAPPED AWAITING PRODUCTION (NET)	4.5 Wells

ESTIMATED POTENTIAL (NET) NATURAL GAS RESERVES

MILK RIVER RESERVES, ALBERTA (Page 4)	872 Billion cubic feet
MILK RIVER RESERVES, SASKATCHEWAN (Page 5)	624 Billion cubic feet
BOW ISLAND RESERVES, ALBERTA (Page 3)	35 Billion cubic feet
MEDICINE HAT RESERVES, ALBERTA (Page 4)	35 Billion cubic feet
TOTAL	1.566 Trillion cubic feet

DEPTHS

MILK RIVER FORMATION	800 to 1200 feet
MEDICINE HAT ZONE	1300 to 1500 feet
BOW ISLAND ZONE	2400 to 2800 feet

November 16, 1970

DEAR SHAREHOLDER:

In this first annual report of the Company, I wish to welcome you as a shareholder and to report on past operations and future prospects. While the audited financial statements are dated June 30, 1970, all the other information has been updated to November 16, 1970.

In the progress report of March 2, 1970 to shareholders, we advised that your Company had arranged to earn lease rights to over 800,000 net acres. Based upon information available from drilling activities to date, we have selected a compact total of about 630,000 net acres which, in our opinion, represents the most promising Milk River land in the areas where we wish to concentrate our efforts. From this total of 630,000 net acres, we have either earned rights to or purchased at Crown sales over 355,000 net acres to date. Of the balance not earned at this time, we plan to earn in the next 12 months a further 212,000 net acres.

Our pilot Milk River Alderson Natural Gas Project has been producing since December 3, 1969. After the first three months of operation, James A. Lewis Engineering Co. Ltd., independent consultants, examined the production history and pressures of the wells in the unit and reported that the performance of the gas reservoir equalled or bettered their original projections. This was again confirmed by the same engineering consultants after further tests were carried out on October 17 of this year.

From the production standpoint, we have experienced some mechanical difficulties with the compressor and related equipment. However, corrective steps recently taken by management should assure production rates at or near our sales contract levels. Our daily production during the month of October averaged 9,410,000 cubic feet.

Milk River gas production continues to be our prime development objective and presently we have 43 Milk River gas wells on production in the Alderson unit and an additional 42 Milk River wells capped. A decision will be made shortly as to the location of our second Milk River gas gathering and production unit.

While Alberta Eastern Gas Limited was the first publicly-owned company to concentrate on the accumulation and development of Milk River gas bearing properties and reserves, there is now a number of oil and gas companies in the area acquiring land and developing Milk River gas reserves. Because of your Company's dominant land position to the west and south of the area reserved by the Federal Government for the Suffield Defence Research Establishment, most of these companies' activities have been necessarily confined between our two major land holdings in Alberta and Saskatchewan. Since our Company was in the Milk River play before its potential was recognized by other natural gas companies, its lands were acquired at considerably lower prices than those now being paid for similar Milk River acreage. For instance, prices paid by successful bidders at recent Crown land sales have been on the average about ten times our average cost for similar lands in the same general area.

We have previously announced the discovery in the Bow Island (Viking) zone high pressure natural gas from several sands which we share equally with a major Canadian oil and gas company. To date we have drilled and tested four excellent natural gas wells spread over approximately a seven mile distance. Negotiations are presently taking place with Trans-Canada Pipe Lines for the sale of gas from three of these wells under a long term contract. To outline the limit of this field additional wells will be drilled on a joint basis, possibly in the spring of 1971 (see page 3).

During the past few months we purchased 25,755 net acres in the Medicine Hat area of Alberta. Drilling on these lands for Medicine Hat gas has been most successful and we have completed seven wells, of which two wells are 100 per cent owned and five wells are 50 per cent owned. Discussions are now proceeding for the sale of this gas in the near future (see page 4).

In various parts of this report to shareholders we have indicated potential net saleable reserves applicable to your Company. A summary of these reserves is shown on the opposite page.

During the latter part of October, the Daily Oil Bulletin (Calgary) listed all wells drilled in Alberta in the first three quarters of 1970, and you may wish to know that Alberta Eastern Gas Limited stood fifth in the number of wells drilled and first in the number of completed productive wells in that period.

I am pleased to advise shareholders that sufficient funds are on hand or available from the Company's bankers for our various programs presently planned until this time next year.

J V Lyons.

J. V. LYONS,
President

THE ALDERSON NATURAL GAS PILOT PROJECT

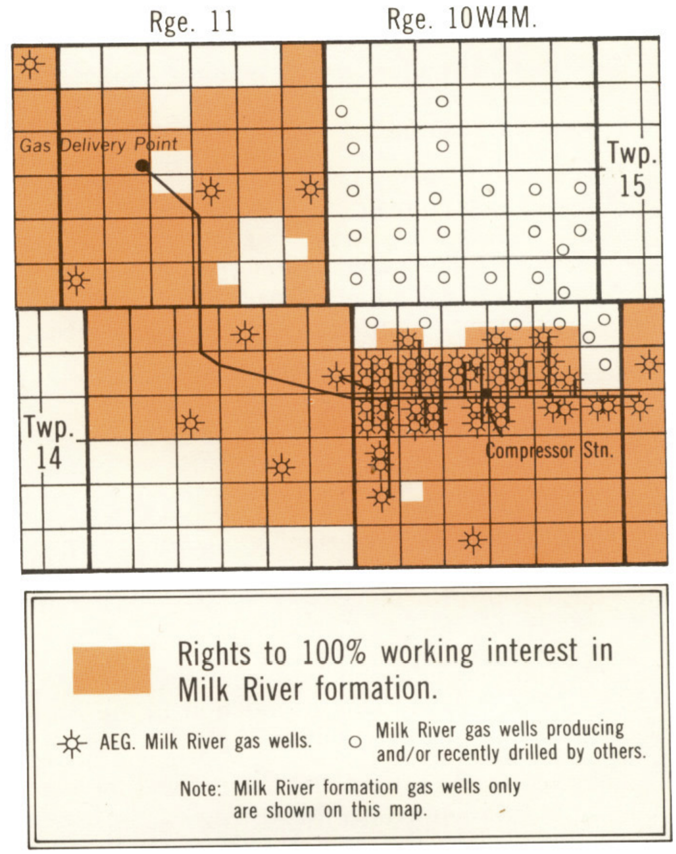
In late 1969 the Company's independent engineers advised that the 19,680 acres of Milk River formation rights in Twp. 14-10-W4 contained 91.4 billion cubic feet net marketable gas after deduction of royalties and fuel, of which 75.8 billion cubic feet are recoverable during the first 25 years of production. In the same report it was estimated that the Company's net cash flow generated by such reserves during the course of production over the next 25 years would be $10,774,100 from these lands, representing about three per cent of the Company's total land holdings.

Construction of a compressor, a transmission line to the nearby facilities of the gas buyers and the drilling of infill wells to provide the gas was commenced in September, 1969, and gas deliveries started December 3, 1969. At present 43 wells are supplying gas to this facility.

The Company has received permission from the Alberta Oil and Gas Conservation Board to drill on 160-acre spacing with respect to 22,400 acres in the area of the Company's gathering and compression system. From tests made to date, we are of the opinion that the amount of natural gas recoverable from a given area over a stated period of time from the Milk River zone will be greater from 160-acre spacing than from the usual 640-acre spacing. The anticipated larger production of recoverable reserves combined with the low cost of developing shallow natural gas wells makes the recovery of natural gas from this low pressure reservoir economically attractive.

It is interesting to note that a major oil and gas company also producing from the Milk River formation immediately to the north of the Alderson unit (as shown on the accompanying map) subsequently made and had approved a similar application and their data relative to reserves of gas and deliverability of the wells was very similar to that of your Company.

As mentioned in the President's letter, after three months of production independent consultants examined our production history and well pressures and stated that the performance of the gas reservoir was then equal or better than the projections made in 1969. A further review by the Company's engineering consultants during October, 1970, also confirmed these results.



Volumes of gas produced and sold since the beginning of production in early December, 1969 have varied because of mechanical problems not related to reservoir deliverability. During August and September of this year, adjustments, revisions and repairs were made to the production unit, and production since late September has been at the average rate of 9.41 million cubic feet per day.

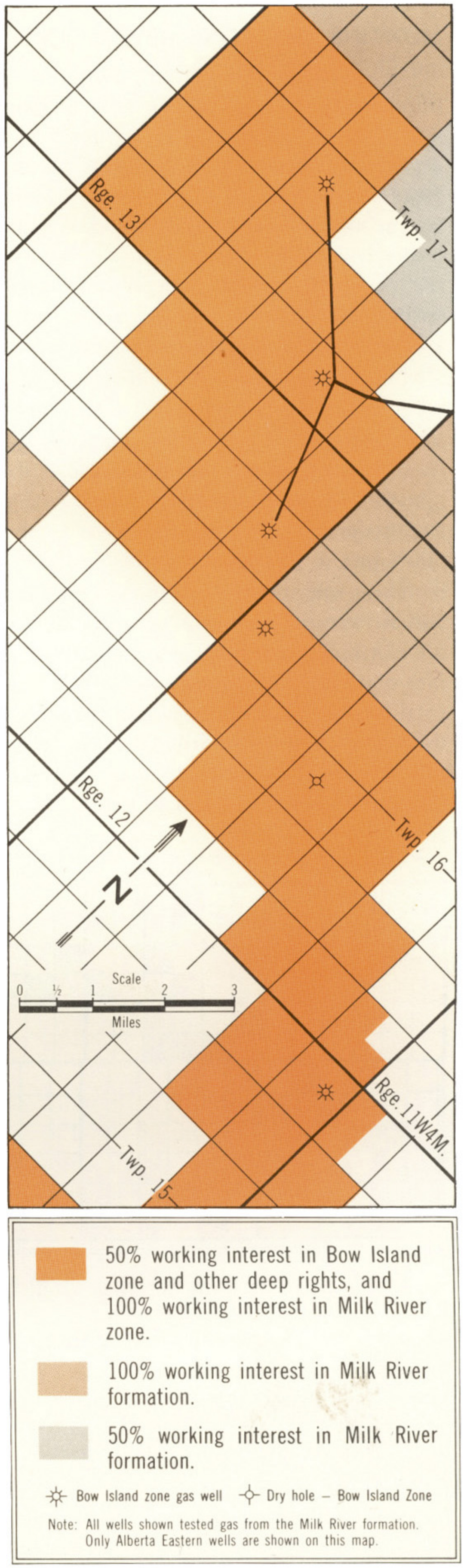
An engineering forecast made prior to actual delivery of natural gas anticipated that to maintain the volume of gas necessary to meet the Company's first 25-year gas sales contract it would be necessary to drill and connect to the compressor up to 10 additional wells each three years within the limit of the same township over and above the 43 wells that were connected initially to the first system to maintain the present contracted sales volume of up to ten million cubic feet per day. In management's opinion performance of the wells to this time has substantiated the forecast. Sufficient lease rights are held or are available to the Company in Twp. 14-10-W4 for these additional wells.

BOW ISLAND (VIKING ZONE)

Originally two most important high pressure gas discoveries approximately five miles apart were made by your Company in deep horizons in the Bantry area. These discoveries were made during the drilling of deep test wells which were carried out under one of the land-earning option agreements with a major Canadian oil and gas company. As a result of this drilling, we have earned a 50 per cent interest in these deeper horizons. In addition, we have also earned a 100 per cent interest in all Milk River natural gas lands. In one of these wells, three sand formations in the Bow Island zone and one at deeper levels in the Blairmore formation were tested extensively and showed a total absolute open flow of twenty million cubic feet of gas per day from the four sands. Only one zone has so far been tested in the second well which showed a total absolute open flow of natural gas of eight million cubic feet a day. Higher volume may be obtained as other zones are tested. Since that time four additional deep wells have been drilled resulting in three more high pressure wells and one dry hole. The most southerly well has not as yet been fully tested and evaluated.

The joint owner, the operator of these deep wells, is presently negotiating a small initial gas sales contract with Trans-Canada Pipe Lines. The capacity of the proposed plant and lines will be about eight million cubic feet of gas per day with scheduled deliveries in 1971 to be approximately 3.6 million cubic feet of gas per day, of which our share will be 1.8 million cubic feet of gas per day. This contract is to be based on deliveries from only three wells. However, it is anticipated that after some months of production history and further drilling to ascertain the final size of the field the contract can be renegotiated to higher daily volumes.

The accompanying map showing these wells indicates the possibilities of infill drilling to provide more gas in the future from this area. Management expects that when this field is fully developed your Company's share of high pressure natural gas reserves in the area as shown in the map could be at least 35 billion cubic feet. These reserve estimates do not include Milk River natural gas already tested in these wells.

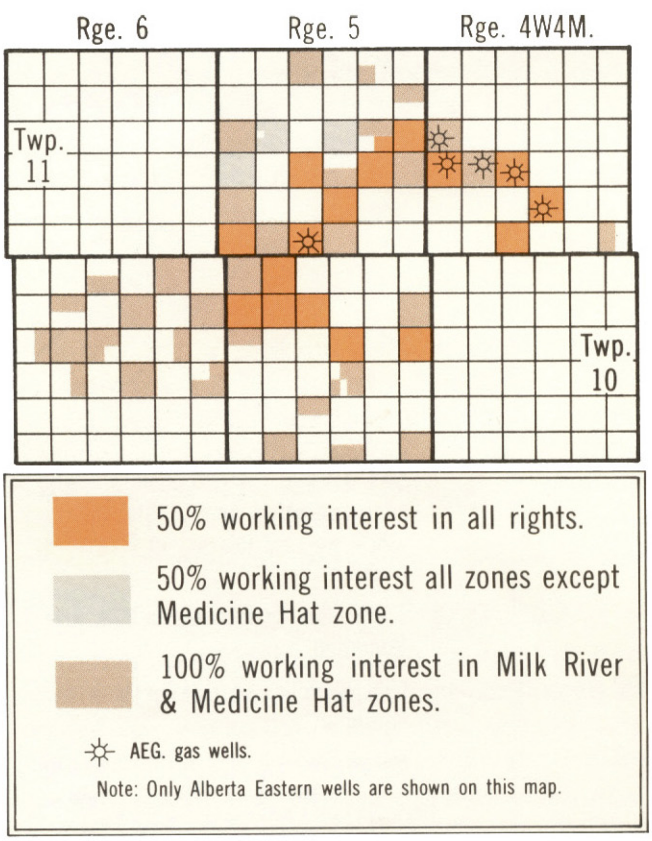


MEDICINE HAT ZONE (IRVING AREA)

In association with a joint owner, your Company purchased two parcels of Crown lands totalling 6,020 and 6,140 acres and acquired rights to earn a 100 per cent working interest in an additional 19,675 acres located approximately 15 miles southeast of the City of Medicine Hat. On the block of leases shown the Company has drilled two wholly-owned Medicine Hat gas wells and four 50 per cent owned wells, five of which are productive and one well is awaiting further evaluation.

Other operators have also drilled productive wells in the immediate vicinity and negotiations are being carried on jointly for the sale of natural gas from this area in the very near future. Under these negotiations your Company's share of natural gas to be delivered would approximate three million cubic feet of gas per day from Medicine Hat zones.

These negotiations are being conducted with the Saskatchewan Power Corporation and, while they are not finally concluded, a favorable feature is the fact that only a minimum number of acres of our total interest in the area would be dedicated under this contract. Further drilling in the coming year on this acreage is expected to materially increase your Company's Medicine Hat gas reserves.



Management presently estimates your Company's share of gas reserves in this area at about 35 billion cubic feet.

ALBERTA MILK RIVER EXPLORATION

The townships in which we have tested one or more Milk River gas wells are listed below. This table also shows the number of sections which your Company has earned or can earn. Townships where your Company has not drilled but may do so in the future are not included.

Location	Sections Earned and Earnable	Milk River Wells Drilled
Twp. 20 Rge. 13	3 sections	1
Twp. 20 Rge. 12	23½ sections	1
Twp. 19 Rge. 12	20 sections	1
Twp. 19 Rge. 11	16 sections	1
Twp. 18 Rge. 13	26½ sections	2
Twp. 18 Rge. 12	16¾ sections	2
Twp. 17 Rge. 13	28½ sections	2
Twp. 17 Rge. 12	29½ sections	1
Twp. 17 Rge. 10	9 sections	2
Twp. 16 Rge. 13	21 sections	1
Twp. 16 Rge. 12	22¾ sections	3
Twp. 16 Rge. 11	18 sections	2
Twp. 15 Rge. 12	13 sections	1
Twp. 15 Rge. 11	27 sections	3
Twp. 14 Rge. 11	24 sections	5
Twp. 14 Rge. 10	30½ sections	44
Twp. 14 Rge. 9	33 sections	6
Twp. 14 Rge. 8	31 sections	6
Twp. 14 Rge. 7	30 sections	2
Twp. 14 Rge. 6	13 sections	1
	436 sections	87

Certain of the above were deep test exploratory wells and proved Milk River natural gas but were continued to deeper horizons to earn land and were either not completed for Milk River production due to that formation being invaded by fluids during the deeper drilling or were completed as producers in other horizons. Such wells are not included in the total of Milk River capped gas wells shown on the summary page. We plan at some future date to re-drill these locations when this natural gas is needed for production.

In the original independent engineering report dated August 1, 1969, our consultants estimated the Company's net marketable Milk River natural gas reserves under each section in Township 14-10-W4 as 2.97 billion cubic feet.

By taking a conservative estimate of 2.0 billion cubic feet for each of the sections mentioned above, the Company's Milk River net marketable gas could be 872 billion cubic feet.

SASKATCHEWAN MILK RIVER EXPLORATION

We reported to you in our last progress report that we had acquired a further 190,000 acres in Saskatchewan making our total permit acreage in that province 284,000 acres. To date, by successfully drilling two Milk River natural gas wells, your Company has earned the rights to apply for gas leases on 97,440 net acres. Under the permit provisions we have over three years to earn the gas lease rights to the balance of the acreage.

Considerable drilling activity has been taking place immediately adjoining the eastern boundary of our permit lands. A group of companies, composed of two majors and one independent, have to date successfully completed 16 Milk River natural gas wells and in a recent publication, the operator for this group estimated their natural gas reserves on 300,000 acres at approximately two billion cubic feet of gas per section. While these estimates are somewhat below the estimate for the Milk River acreage in the Alderson unit, the price received for this gas in Saskatchewan will probably be 40 per cent higher and, therefore, these lands are unquestionably attractive.

To the southwest of our Saskatchewan acreage, in Alberta, more than 35 Milk River gas wells have been completed by other companies during the past 12 months. From information available, a considerable number of new wells will be drilled in the future. All this activity on both sides of our 284,000 permit acres in Saskatchewan is indirectly proving our lands without your Company incurring drilling expenditures at this time.

To assess our potential natural gas reserves in Saskatchewan, we assume that of the presently held 284,000 permit acres, about 200,000 are likely to be productive. This is equivalent to approximately 312 sections. Using the figure of two billion cubic feet of gas per section as indicated above, the potential net saleable Milk River natural gas reserves in the Saskatchewan acreage of your Company would be approximately 624 billion cubic feet.

AUDITORS' REPORT

To the Shareholders
Alberta Eastern Gas Limited

We have examined the balance sheet of Alberta Eastern Gas Limited as at June 30, 1970 and the statements of earnings and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at June 30, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
August 21, 1970

RIDDELL, STEAD & CO.,
Chartered Accountants

Alberta Eastern Gas Limited

BALANCE SHEET

AS AT JUNE 30, 1970

ASSETS

CURRENT ASSETS	1970	1969
Cash	$ 58,755	$ 73,496
Short-term deposits	650,000	–
Accounts receivable	160,048	9,337
	868,803	82,833
FIXED ASSETS, at cost (Note 1)		
Natural gas and petroleum leases, reservations and rights including development and equipment thereon		
Producing natural gas properties	1,300,218	134,264
Accumulated depletion and depreciation	21,709	–
	1,278,509	134,264
Capped gas wells and undeveloped properties	1,391,008	431,971
	2,669,517	566,235
Other equipment less accumulated depreciation	4,722	476
	2,674,239	566,711
DEPOSITS, at cost	38,602	18,041
	$3,581,644	$667,585

LIABILITIES

CURRENT LIABILITIES	1970	1969
Accounts payable and accrued charges	$ 249,361	$158,830
NOTES PAYABLE	–	570,000

SHAREHOLDERS' EQUITY

	1970	1969
CAPITAL STOCK (Note 2)		
Authorized		
5,000,000 common shares of no par value		
Issued		
4,000,000 (1969 – 1,000,000) shares	3,730,000	100,000
DEFICIT	(397,717)	(161,245)
	3,332,283	(61,245)
	$3,581,644	$667,585

Signed on behalf of the Board:

J. V. LYONS, Director

R. A. McCULLOUGH, Director

The accompanying notes are an integral part of this financial statement.

Alberta Eastern Gas Limited

STATEMENT OF EARNINGS AND DEFICIT
FOR THE YEAR ENDED JUNE 30, 1970

	1970	1969
Revenue		
Sale of gas production*, net of royalty of $17,489	$ 181,561	$ –
Interest	63,641	1,442
	245,202	1,442
Expenses		
Production	49,483	–
General and administrative	85,517	32,878
Lease rentals	137,123	70,058
Unproductive development and exploration	57,001	35,888
Engineering and consulting	59,783	23,863
Depletion and depreciation	22,889	–
	411,796	162,687
Loss for the year	166,594	161,245
Deficit at beginning of year	161,245	–
Share issue expense	69,878	–
Deficit at end of year	$ 397,717	$161,245

*The company's properties commenced production in December, 1969.

The accompanying notes are an integral part of this financial statement.

Alberta Eastern Gas Limited

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30, 1970

	1970	1969
SOURCE OF FUNDS		
Issue of shares for cash (Note 2)	$3,000,000	$100,000
Issue of notes payable (Note 2)	60,000	570,000
	3,060,000	670,000
APPLICATION OF FUNDS		
In operations		
Loss for the year	166,594	161,245
Less non-cash charges		
Depletion and depreciation	22,889	–
	143,705	161,245
Fixed assets		
Producing natural gas properties including development and equipment thereon	1,165,954	134,264
Capped gas wells	518,875	145,639
Undeveloped properties	440,162	286,332
Other	5,426	476
Other assets	20,561	18,041
Share issue expense	69,878	–
	2,364,561	745,997
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	695,439	(75,997)
Working capital deficiency at beginning of year	(75,997)	–
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ 619,442	$ (75,997)

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

AS AT JUNE 30, 1970

NOTE 1 ACCOUNTING POLICIES

The company follows the practice of charging exploration expenses and the carrying costs applicable to non-producing properties to income as incurred. Property acquisition costs are capitalized and charged to income if the property is subsequently surrendered. The costs of productive wells are capitalized and the costs of non-productive wells are charged to income when the wells are determined to be dry. The cost of producing properties and producing development costs are amortized on a unit of production method based upon estimated recoverable reserves of gas as determined by the company and its consulting engineers.

NOTE 2 CAPITAL STOCK

During the year ended June 30, 1970, the company issued shares of no par value as follows:

	Number of Shares	Consideration
Balance, June 30, 1969	1,000,000	$ 100,000
September, 1969		
On conversion of notes payable (of which $60,000 were issued in September, 1969)	2,000,000	630,000
November, 1969		
For cash on sale of shares to the public	1,000,000	3,000,000
Balance, June 30, 1970	4,000,000	$3,730,000

NOTE 3 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid during the year ended June 30, 1970 to directors and senior officers totalled $39,650. No directors' fees were paid.

Alberta Eastern Gas Limited

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237 - 7 Ave. S.W.
Calgary 2, Alberta
Phone 264-2945

LISTED

Toronto Stock Exchange
Calgary Stock Exchange

OFFICERS AND DIRECTORS

J. Verne Lyons, President and Director, Calgary
R. A. McCullough, Vice-President and Director, Calgary
John T. Wood, Director, Calgary
W. J. Bushnell, Director, Toronto
G. Chester Bell, Director, Calgary

TRANSFER AGENTS

Montreal Trust Co.
Toronto Calgary

Scotia BANK

BANKERS

The Bank of Nova Scotia

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LITHOGRAPHED IN CANADA