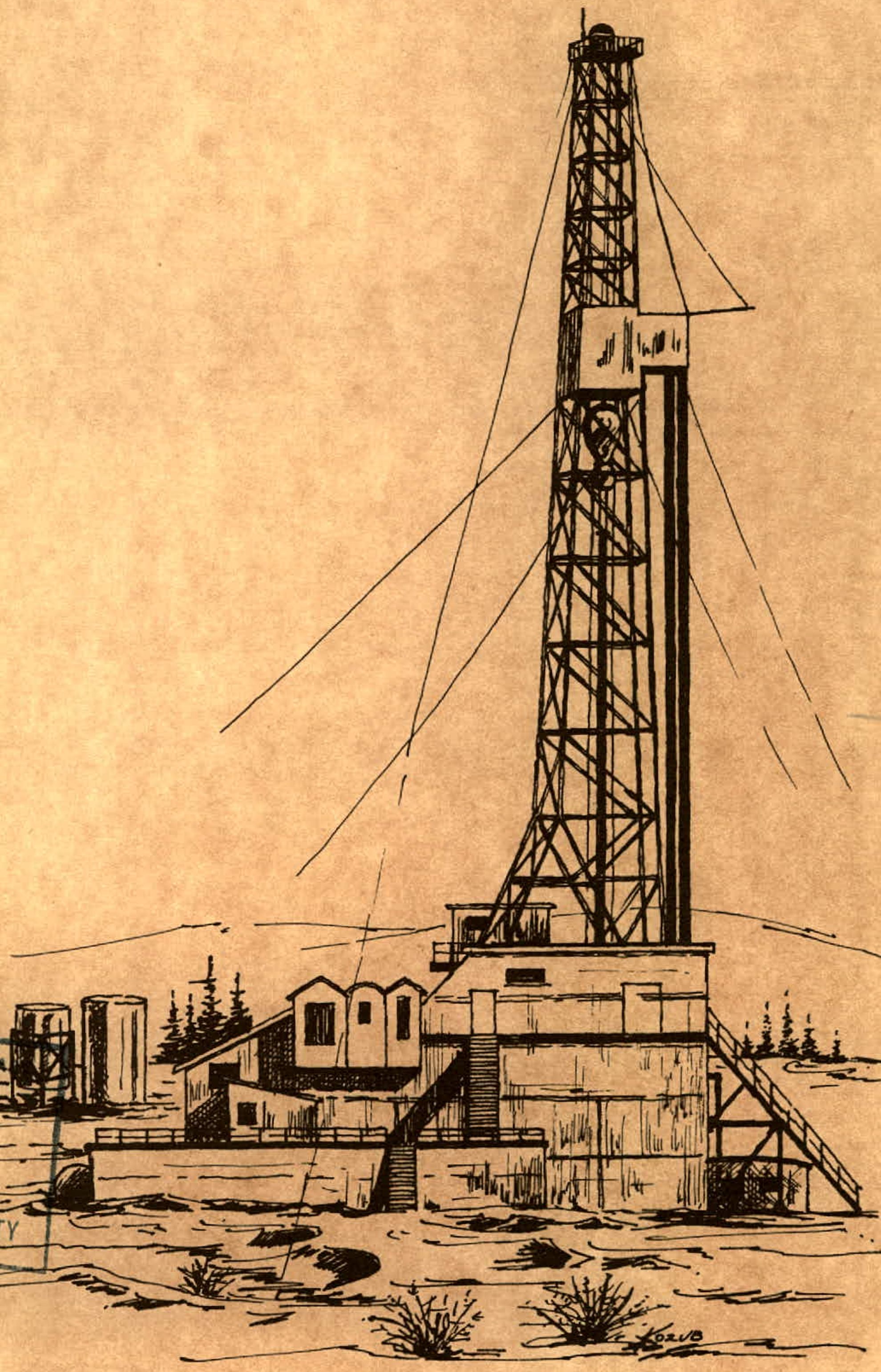
# Bridger Petroleum Corporation Ltd.
# 1976 Annual Report



# Corporate

### Directors

John A. Downing, Calgary, Alberta
James A. Millard, Calgary, Alberta
Harvey S. Robinson, Calgary, Alberta
Albert E. Whitehead, Calgary, Alberta

### Officers

Albert E. Whitehead, President
Harvey S. Robinson, Executive Vice-President
Wesley G. Ismond, Vice-President — Finance; Treasurer
James A. Millard, Secretary

### Head Office

950 Three Calgary Place, 355 - 4th Avenue, S.W., Calgary, Alberta T2P 0J1, Phone: (403) 262-1135, Telex: 03-825690

### U.S.A. Offices

445 Park Avenue, New York, New York 10022, Phone: (212) 355-4938

1330 One Energy Square, 4925 Greenville Avenue, Dallas, Texas 75206, Phone: (214) 369-9912, Telex: 00-732224

### Subsidiary Companies

Bridger Petroleum Corporation
Transalta Minerals Ltd.

### Affiliated Company

Magnorth Petroleum Ltd. (10.5% equity)

### Auditors

Collins Barrow, Calgary, Alberta

### Bankers

The Toronto-Dominion Bank, Calgary, Alberta

Republic National Bank of Dallas, Dallas, Texas

### Legal Counsel

MacKimmie Matthews, Calgary, Alberta

Passman, Jones, Andrews, Coplin, Holley & Co., Dallas, Texas

### Transfer Agent and Registrar

The Canada Trust Company, Vancouver, Calgary, Toronto, Montreal

### Stock Exchange Listings

Toronto Stock Exchange
Montreal Stock Exchange

Ticker Tape Symbol: BGP

## Contents



## Acknowledgement

During the year, Mr. Montague H. Hackett, Jr., resigned as a Director of the Company. Mr. Hackett's decision was received with regret by the Board, and on behalf of the shareholders we extend our thanks for his contribution to the Company.

# Bridger Petroleum Corporation Ltd.

**and Subsidiary Companies**

## 1976 Highlights

- **Oil and gas sales, after royalties, increased 71% to $5,972,000**
- **Cash flow from operations increased 110% to $4,615,000 or $1.17 per share**
- **Net income before extraordinary items was $1,471,000 or 37 cents per share**
- **130 gas wells and 3 oil wells completed, equivalent to 34 net wells**
- **Proven gas reserves increased 13% to 100 billion cubic feet**
- **4 gas plants completed, 1 gas plant expanded, and an additional 5 plants and 1 expansion under construction at year end.**

# Report to the shareholders:

It is gratifying to report a most successful year demonstrated by record financial results, including pronounced growth in oil and gas sales, cash flow, and net income. This report covers the first full year of operations under the name Bridger Petroleum Corporation Ltd. following the share consolidation and name change from Houston Oils Limited.

Oil and gas sales for 1976, after royalties, increased 71% to $5,972,000 and provided a cash flow from operations of $4,615,000 or $1.17 per share which is a gain of 110% over $2,196,000 or 56 cents per share last year. Net income, before extraordinary items, was $1,471,000 or 37 cents per share compared with the restated $317,000 or 8 cents per share last year. Extraordinary items in 1976 provided additional net income of $448,000 or 11 cents per share.

Net oil production for the year was 155,000 barrels for a daily average of 424 barrels. Production of oil was down 16% due to the sale of Saskatchewan producing properties as well as normal decline through reservoir depletion.

Net gas production was 5.2 billion cubic feet for an average of 14.3 million cubic feet per day which was an increase of 53%. Please note these production figures, as well as oil and gas reserves, are quoted as **net after royalty**. We believe the net figures are more meaningful numbers to you and the financial community because of variations in royalty rates throughout Canada and the U.S.A., and that this reporting practice will gradually become accepted throughout the industry.

During the year, Bridger participated in drilling a total of 93 exploratory wells in Canada and the U.S.A., of which 66 resulted in gas wells and 27 were dry holes, yielding a success ratio of 71%. The Company also drilled 76 development wells resulting in 64 completed gas wells, 3 oil wells and 9 dry holes, for a success ratio of 88%. At year end, the Company had an interest in 160 gas wells which have been completed and are awaiting connection to gas gathering systems for commencement of production.

Exploration and development costs incurred during the year amounted to $8,106,000. Of this amount, $3,553,000 was spent on exploration and development drilling which resulted in the addition to proven reserves of 25.3 billion cubic feet of gas and 116,681 barrels of oil. The exploration and development budget for the corporate year 1976-77 has been forecast at $10,000,000. A minimum of $2,200,000 will be spent in the Hairy Hill area of Alberta where in the past year the Company drilled 77 exploratory and development wells and had 63 gas completions for a success ratio of 82%.

To meet our cash requirements a line of credit was established during the year with the Toronto Dominion Bank in the amount of $11,500,000. Of this amount, $4,100,000 had been utilized at year end to assist in the financing of exploration, development and capital costs of plants and gathering lines in East Central Alberta. Subsequent to year end, an additional $5,500,000 was drawn down to retire the major portion of our advance payment agreement with Michigan Wisconsin Pipe Line Company in the United States. The remaining unused portion, together with the Company's increased cash flow, will provide the financial strength required to maintain the level of exploration and development activity projected for the coming year.

Last year, it was reported the Company would be curtailing its interest in foreign projects. At year end, only three properties remained; two in the Dutch North Sea and one in Indonesia. Expenditures will be minimal and we will continue the effort to dispose of these properties. Accordingly, we are winding up subsidiary companies in those countries where operations have ceased. Further, in keeping with the corporate policy stated in previous reports, Bridger has accomplished the objective of selling the majority of its producing and non-producing interests in Manitoba, Saskatchewan and British Columbia. The Company is now concentrating its operations in the Province of Alberta and various areas of the United States.

In summary, your Management is pleased with the results of this past year and is confident in projecting further financial growth in 1977. It is expected that oil and gas revenues, after royalty, will be an estimated $11,500,000, with a cash flow of $9,800,000, and net earnings, after income tax provision, of $3,900,000. With these increasing revenues, a significant cash flow is being established, and Bridger is emerging as a strong independent company with a promising future outlook for continued growth.

Management wishes to recognize with appreciation the excellent performance of the Company's office and field staffs which have made possible the financial results and progress this past year.

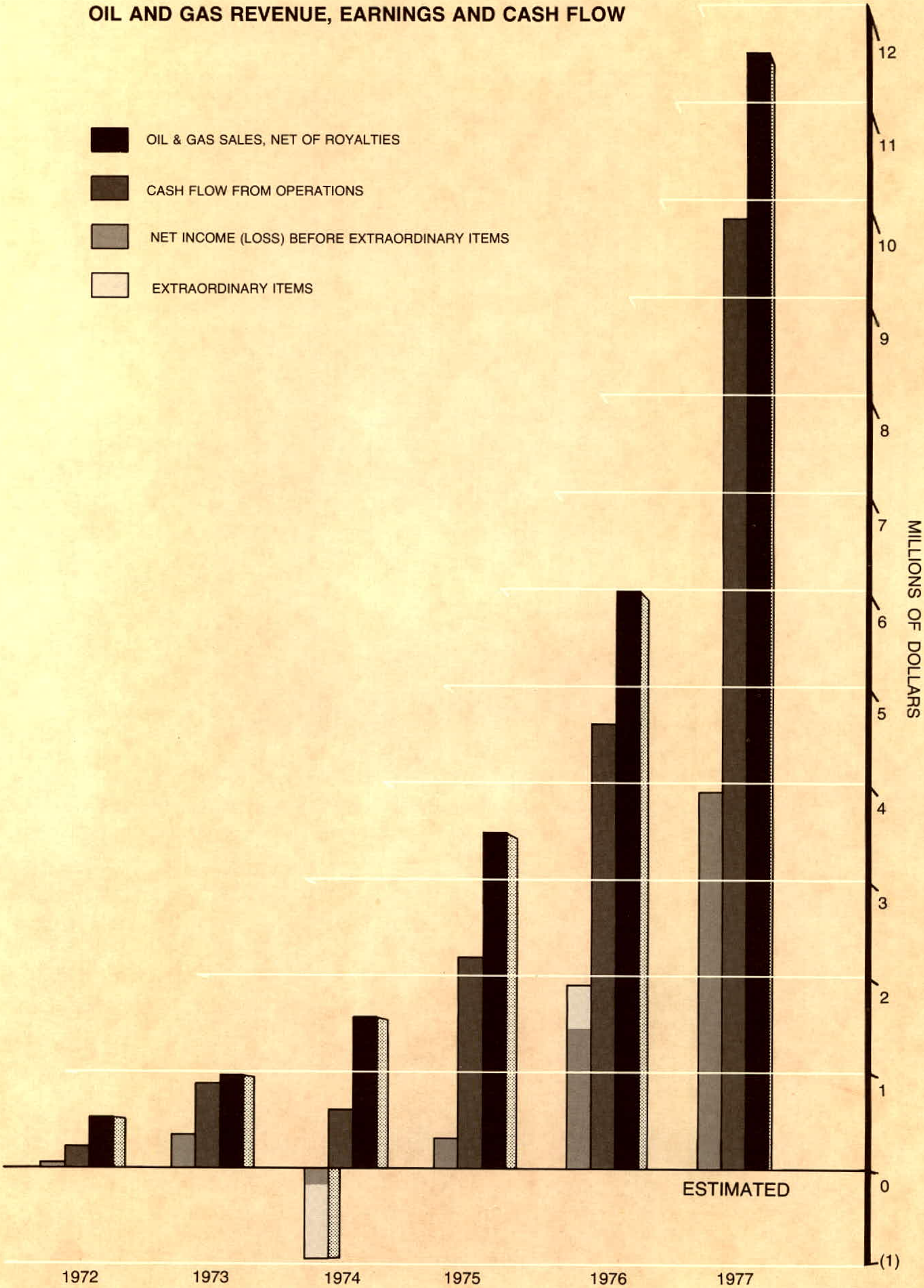
ON BEHALF OF THE BOARD,

A. E. Whitehead

December 3rd, 1976

A. E. Whitehead,
President

## OIL AND GAS REVENUE, EARNINGS AND CASH FLOW



# Exploration, Development and Production

During 1976, a total of 169 wells were drilled of which 93 were exploratory and 76 were development. This program yielded 130 gas wells, 3 oil wells and 36 dry holes. 130 of the wells or 77% were drilled in Canada and 39 wells or 23% were drilled in the United States and we anticipate that similar ratios will apply during 1977.

Oil and gas revenues for 1976 were substantially increased due to new gas production in Alberta, Montana and Oklahoma, and price increases in all areas. Average daily gas deliveries from Canada and the U.S. for 1976 were 14.3 million cubic feet per day and it is estimated this will be increased to approximately 21 million cubic feet of gas per day for 1977. Oil production in 1976 was an average of 424 barrels per day and a slight increase to an average of 460 barrels per day is forecast for 1977. These production figures are all expressed as **net after royalty**.

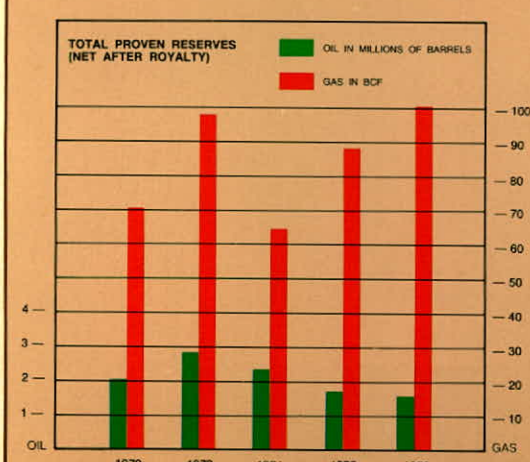
The Company's oil and gas reserves at year end were updated by the same two engineering firms that evaluated them last year. D & S Petroleum Consultants Ltd. of Calgary calculated the Canadian reserves while DeGolyer and McNaughton of Dallas calculated the reserves in the U.S.A. Combined proven oil reserves were down from 1,722,287 to 1,596,854 barrels, a decrease of 7% while combined proven gas reserves were up from 88.6 to 100.4 billion cubic feet of gas, an increase of 13%, all expressed as net after royalty. The combined net proven reserve position as stated for 1976, and compared with that of 1975, accounts for both the addition of 25.3 billion cubic feet of new gas and 116,681 barrels of new oil and the reduction of 13.5 billion cubic feet of gas and 242,114 barrels of oil attributable to 1976 production, evaluation adjustments and property sales. Future undiscounted cash flow from the Company's combined proven oil and gas reserves at year end is projected by these consultants to be $151,270,395 after royalties and operating expenses, but before income tax. Using a 12% discount factor, this cash flow has a present worth of $71,409,408. A combined value of $7,673,260 was assigned to undeveloped leasehold interests.

## DRILLING ACTIVITY

| | 1976 | 1975 | 1974 |
|---|---|---|---|
| Gross Wells | 169 | 109 | 105 |
| Net Wells | 42.9 | 37.4 | 38 |
| Net Gas Wells | 33.1 | 21.9 | 15.8 |
| Net Oil Wells | 0.9 | 2.0 | — |

## PRODUCTION (NET AFTER ROYALTY)

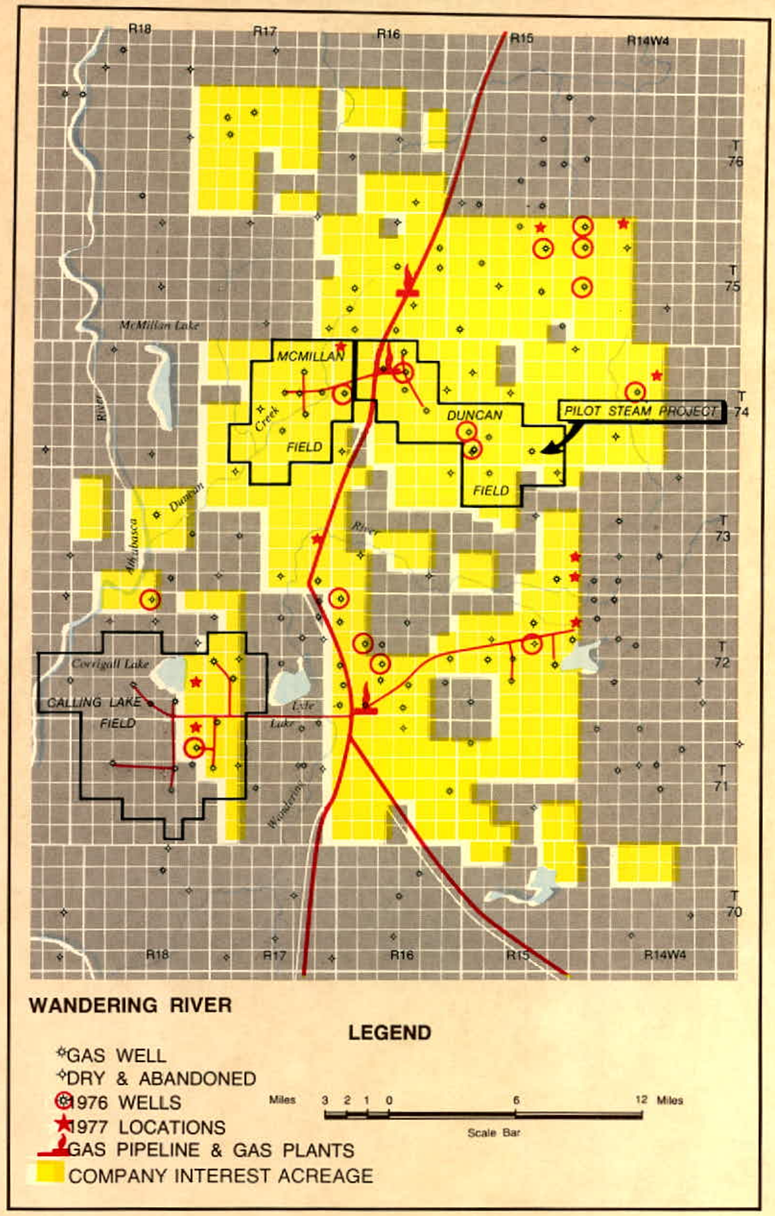
| | 1976 | 1975 | 1974 |
|---|---|---|---|
| Daily Oil (Bbls.) | 424 | 510 | 727 |
| Yearly Oil (Bbls.) | 155,000 | 186,259 | 265,494 |
| Daily Gas (Mcf*) | 14,300 | 9,348 | 5,494 |
| Yearly Gas (Mcf*) | 5,215,000 | 3,412,288 | 2,005,410 |




## TOTAL RESERVES (NET AFTER ROYALTY)

| | 1976 | 1975 | 1974 |
|---|---|---|---|
| **PROVEN** | | | |
| Oil (Bbls) | 1,596,854 | 1,727,287 | 2,313,585 |
| Gas (Mcf*) | 100,405,000 | 88,647,360 | 64,323,000 |
| **PROBABLE** | | | |
| Oil (Bbls) | 1,450,865 | 1,570,392 | 1,546,000 |
| Gas (Mcf*) | 19,815,000 | 31,250,000 | 26,464,000 |
| **TOTALS** | | | |
| Oil (Bbls) | 3,047,719 | 3,292,679 | 3,859,585 |
| Gas (Mcf*) | 120,220,000 | 119,897,360 | 90,787,000 |

** Mcf (Thousand Cubic Feet)*




## CANADA — ALBERTA

The Company again emphasized shallow gas exploration and development in Eastern Alberta.

Four gas plants with a total peak load capacity of 53 million cubic feet of gas per day (MMCF) were completed and placed on production during 1976. Bridger's share of production from these plants is a maximum of 10 MMCF and a minimum of 8 MMCF. At year end, an additional five plants with total capacity of 56 MMCF were under construction, of which Bridger's share of production will be a daily maximum of 8 MMCF and a minimum of 6.4 MMCF. With a substantial unexplored land position in this area, which has yielded an excellent success ratio, the Company will continue its exploration and development of these shallow gas properties in 1977.

Negotiations are currently under way for the placement of additional gas on stream November 1, 1977. At year end, the Company had an interest in 145 shut in gas wells awaiting connection to gas gathering facilities of which 62 will be on stream by mid 1977. Looking to the future, we are evaluating other areas and completing plans on exploration prospects having large, and long life reserve potential.

**Wandering River** — Two gas plants were completed during the year on this property in northeastern Alberta. At year end, these plants were processing an average of 22.0 million cubic feet of gas per day with the Company's share of production being 3.1 MMCF. Some 230,000 acres in this prospect remain to be developed or explored, and during the current winter drilling season we expect to drill about 16 development and exploratory wells in order to meet contract volumes.

One area of this project has indicated a large, low gravity oil reservoir, and plans have been completed to carry out a pilot steam project in 1977 to determine if this oil can be recovered on an economical basis.

**Wimborne** — A 30,000 acre lease block (27,000 net acres) has been acquired in the Wimborne area of Central Alberta. Subsurface geological and geophysical studies have been completed which indicate gas potential in shallow sands and oil potential in deeper carbonates. A multi-well exploration program is being planned with drilling scheduled for 1977. The Company plans to bring in partners to explore this wildcat prospect, however, we plan to retain a significant interest.

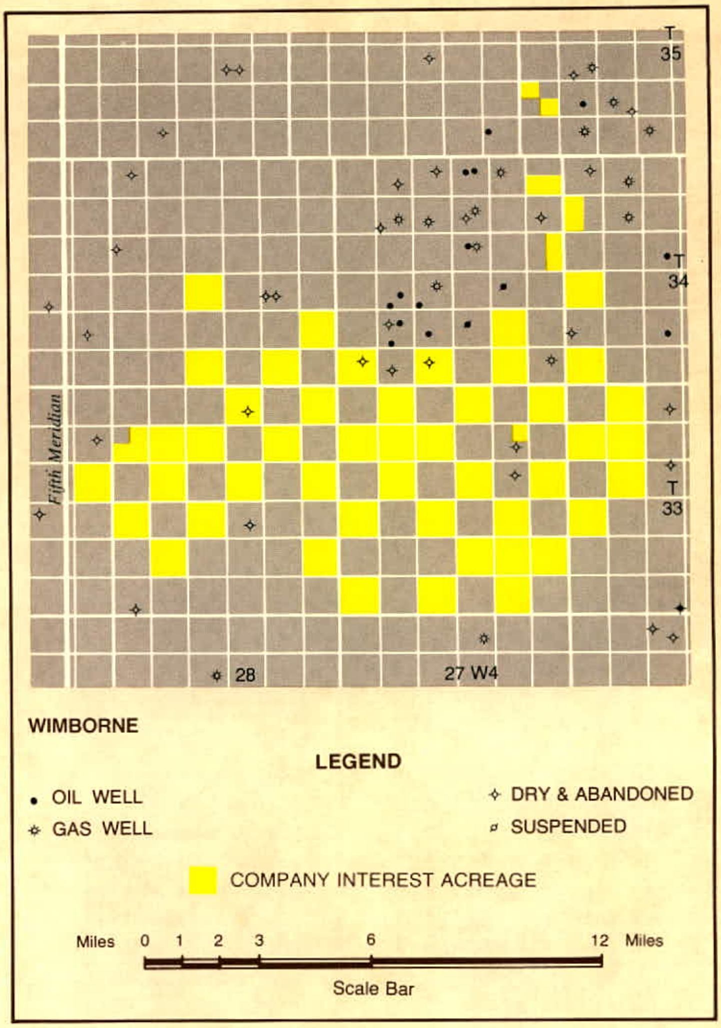
**Matziwin — Verger** — In January, a plant was completed and production at the rate of 5 million cubic feet of gas per day was commenced from this shallow gas prospect in Southern Alberta. The Company has a 23.125% working interest, and during the year we participated in drilling 37 development wells in order to meet the contract volume of 5 MMCF. Well production performance in this field to date indicates low volume producing rates but a long life type reservoir.

**Hairy Hill — Hollow Cossack** — Seventy-seven wells were drilled in the area in 1976 of which 62 were exploratory and 15 were development. Bridger has a working interest in 350,000 undeveloped acres in this area and drilling options on 125,000 acres. It is anticipated that a further 50 wells will be drilled on these holdings during 1977. As shown on the map, (see pages 10 and 11), Bridger has an interest in 7 gas plants in the area. At year end, the plants at Hairy Hill and South Bellis (known as the Sunland plant) were on stream while a Sunland expansion and five new plants at Myrnam, Whitford, Victoria, Cossack and Craigend were under construction. Total peak load capacity for all plants in this area, at completion in late 1976 and early 1977, will be 140 million cubic feet of gas per day of which Bridger's share will be a maximum of 14.0 MMCF and a minimum of 11.2 MMCF.

At Hairy Hill, 12 Bridger interest wells are now producing through the gas plant which has been expanded to handle 60 MMCF during the peak load winter months. In 1976, the Company's average daily production from this plant was 2.02 MMCF.

In the South Bellis area, the Sunland plant was completed with a maximum capacity of 12 MMCF and placed on production in July. At year end, an expansion of 12 MMCF was being built to raise total capacity to 24 MMCF of which Bridger's daily share will be a maximum of 4.5 MMCF and a minimum of 3.6 MMCF.

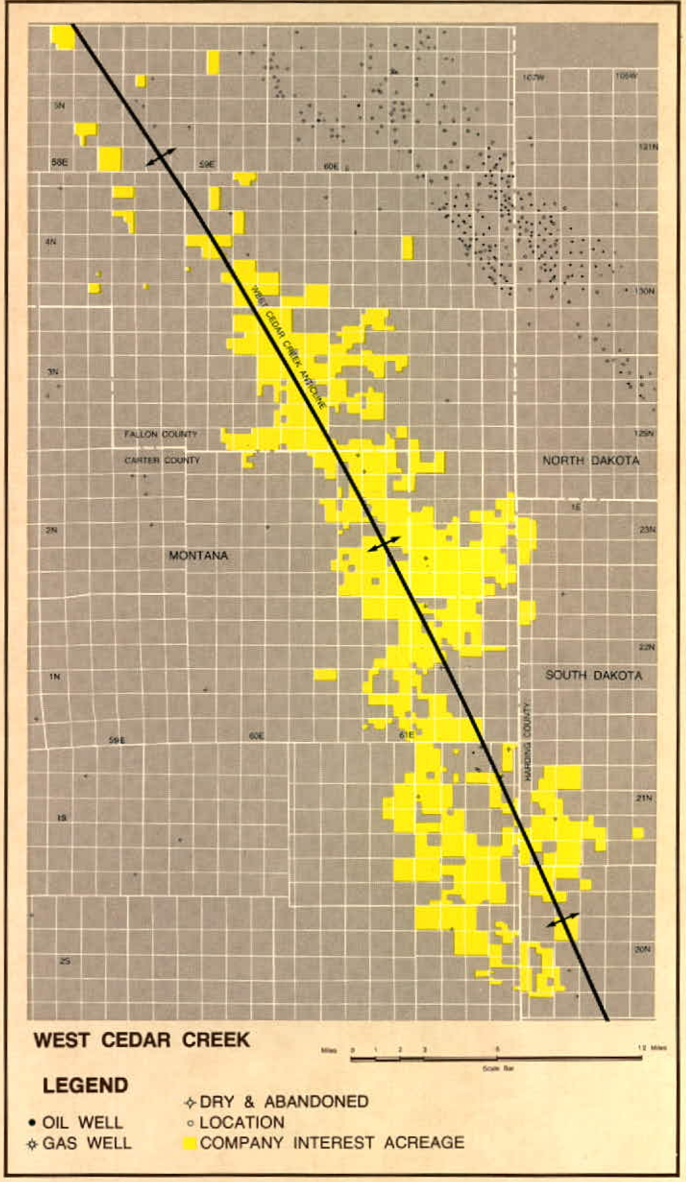
At Myrnam, Whitford, Victoria, Cossack and Craigend, a combined capacity of 56 MMCF will be completed late in 1976 and early 1977. Bridger's share of production from these plants will be a maximum of 7.0 and a minimum of 5.6 MMCF.




**Other Areas** — Bridger is conducting a joint exploration program in West Central Alberta with another company. To date, one test well has been drilled resulting in a small gas discovery in the Gilby area. Several other projects are in the lease acquisition stage. We expect to drill additional test wells in this program during the year, retaining a minimum 25% participation.

Plans are being finalized to test a reef prospect in the Pinedale area of East Central Alberta during the year where we have assembled a 3,000 acre lease block. The Company will maintain a minimum 50% interest in this prospect.

Development of the Countess lease block in Southern Alberta, containing 45,984 acres, will be undertaken with the view to placing the property on production in 1978. Bridger's working interest is 12.5%.




## UNITED STATES

Bridger Petroleum Corporation, the Company's wholly-owned U.S. subsidiary, participated in the drilling of 39 wells during the year of which 16 were gas wells, 3 were oil wells and 20 were dry holes for a success ratio of 49%. Net average daily production for the year was 10.3 MMCF and 188 barrels of oil per day and 10 gas wells were awaiting hookup to gas gathering systems. Leases have been acquired on new projects in Oklahoma, Texas, Montana and North Dakota, on which wells may be drilled in 1977.

**Oklahoma** — The Beaver County project was completed during this past year. Over the three year life of the project, the Company participated in 52 gross wells (40 net wells), resulting in 27 gas wells and 2 oil wells. This gas was dedicated to the interstate market through Michigan Wisconsin Pipe Line Company. The Federal Power Commission recently issued an order that gas discovered by small producers such as Bridger between January 1, 1973 and December 31, 1974 will sell for $1.21 per thousand cubic feet or $1.42 per thousand cubic feet for gas placed on production after January 1, 1975. Most of Bridger's Oklahoma production will be entitled to the $1.42 per thousand cubic feet.

The Company also participated in the drilling of 10 additional wells in other areas of Oklahoma which resulted in 4 gas wells, 3 oil wells and 3 dry holes.

**Gulf Coast Area** — Geological studies led to the outlining of several prospects in the Gulf Coast areas of Texas. Leases have been purchased and farmins negotiated, and several wells will be drilled on these prospects in 1977.

We were disappointed this past year with the abandonment of the Hunt et al R. E. Smith No. 1, drilled on the Harlem Prospect in Texas. You will recall this test was programmed to be drilled to 22,000 feet, however, due to mechanical problems, it was only drilled to 18,040 feet, where casing was set and testing carried out, but it was subsequently abandoned as a dry hole. Two other tests drilled on this prospect to evaluate prospective sands at the 9,300 foot level were also abandoned, as the reservoirs were limited and therefore uneconomic.

### Rocky Mountain Area

**Montana** — In the Tiger Ridge Field the Company participated in 7 development wells of which 2 resulted in gas wells and 5 were abandoned as dry holes. At year end, a 25 well development and exploratory drilling program was commenced in the Sherard Field area. As this report went to press, 6 wells had been completed as gas wells and 11 abandoned as dry holes.

The West Cedar Creek prospect in Southwestern Montana, comprises a 68,000 acre lease block on a long structural anticline that is prospective for Ordovician oil. At year end, Bridger had a 50% interest in the prospect; subsequently, 60% of Bridger's interest was sold for cash and a seismic exploration commitment to better define potential drillsites. We have therefore retained a 20% interest and expect to drill at least two deep wildcats during 1977.

**North Dakota** — A 3,320 acre lease block was acquired near the Sand Creek Oil Field on which a seismic program will be carried out during the forthcoming winter to determine the oil and gas potential.

**Colorado** — The Company has a 50% interest in two shallow gas discoveries drilled on a 13,177 acre lease block in Phillips and Yuma Counties, which are located in Southeastern Colorado. A gas company has indicated it will lay 12 miles of pipeline if 3 more gas wells are completed on this prospect and we therefore anticipate doing development drilling during the coming year.

**Kansas** — Bridger has a 12.5% interest in a small gas discovery on its N.W. St. Francis Prospect in Southwestern Kansas. This gas has been contracted to Kansas Nebraska Natural Gas Co. and further development work is expected to be carried out in 1977.

**California** — The Kettleman City prospect containing approximately 9,000 acres in Kings County was acquired subsequent to year end. Bridger has a 17.5% drillsite interest and a 6.25% interest in the surrounding lands. The prospect will be tested by a 12,000 foot re-entry and 1,500 foot deepening, to evaluate the oil potential of the Temblor Sandstone at 13,500 feet.

## MINERAL EXPLORATION

In keeping with corporate policy, we again kept our mineral exploration to a minimum. Our equity position in Aquarius Mines was increased by virtue of the exercise of certain rights we had to acquire additional shares. Aquarius is now in the process of completing a public underwriting to raise outside funds with which to further its exploration program on certain uranium and gold prospects held in Western Canada.

The Company's position in the Southern Ventures Mining Syndicate, which held certain mining prospects in Australia, has been exchanged for shares in Cultus Pacific NL, an Australian public company. Cultus plans to raise additional funds through share offerings. These funds will be used to explore the Company's uranium prospects.

The limited partnership with The Nakota Company and Louis Dreyfus Corporation was terminated during the year, however, the partnership of Bridger-Nakota-Bruce is continuing to explore for minerals with current projects in Bolivia, Mexico, U.S.A. and Indonesia. The Company's investment in this program over the past three years amounts to $90,000 and expenditures for 1977 should not exceed $25,000. The partnerships' primary objective at the present is to interest other companies in doing additional exploration on several of its prospects.

Bridger has joined Marline Oil Corporation in a coal project located in North and South Dakota. We have an option to acquire up to 60% of coal reserves estimated to be 700 million tons. Bridger's share will be 10% if all options are exercised and the cost for said interest would be approximately $100,000. Our initial commitment is $5,000, which is our share of a delineation drilling program.

## REAL ESTATE

During the year we reported to you that a decision had been made to file a law suit against Xerox Corporation and its agency corporation, XP-Lewisville Site Inc. This suit claims breach of contract, among many other counts, in Xerox's failure to immediately undertake construction of a manufacturing facility on the property contiguous with Bridger's and Marline's property at Lewisville, Texas. Various hearings and depositions "Examination for Discovery" relating to this law suit have been conducted over the past six months and we now anticipate trial to commence in the State Court of Denton, Texas in early 1977.

Bridger management is of the opinion, despite the recent slow trend in the real estate market, as well as the necessity for the law suit against Xerox, et al that the Lewisville investment was and remains a reasonable investment. In so far as the litigation is concerned, a jury verdict will clarify whether or not Xerox will be compelled to honour its commitments which would of course enhance the value of the property in keeping with the decision to make the purchase in December, 1973. This land was placed in our investment portfolio and there will be additional carrying charges due on this property in December, 1976, and in years thereafter. We anticipate that prior to December, 1977, we shall have a more clear cut picture of the then real estate market and the results of the litigation which will help determine the advisability of the continuing ownership of this property.

## BRIDGER 1976 PLANTS

All plant capacities are quoted at 300 psig suction and 1200 psig discharge. Bridger net capacity of 21.16 MMCF is based on plant working interest, to result in net daily gas production, after royalties, of a maximum of 14 MMCF and a minimum of 11.2 MMCF.

① **Hairy Hill**
Expanded from 48 to 60 MMCF in August. Bridger capacity is 3.67 MMCF.

② **Sunland**
Capacity of 12 MMCF completed in July and an expansion of 12 MMCF will be completed in January. Bridger capacity, after expansion, will be 7.13 MMCF.

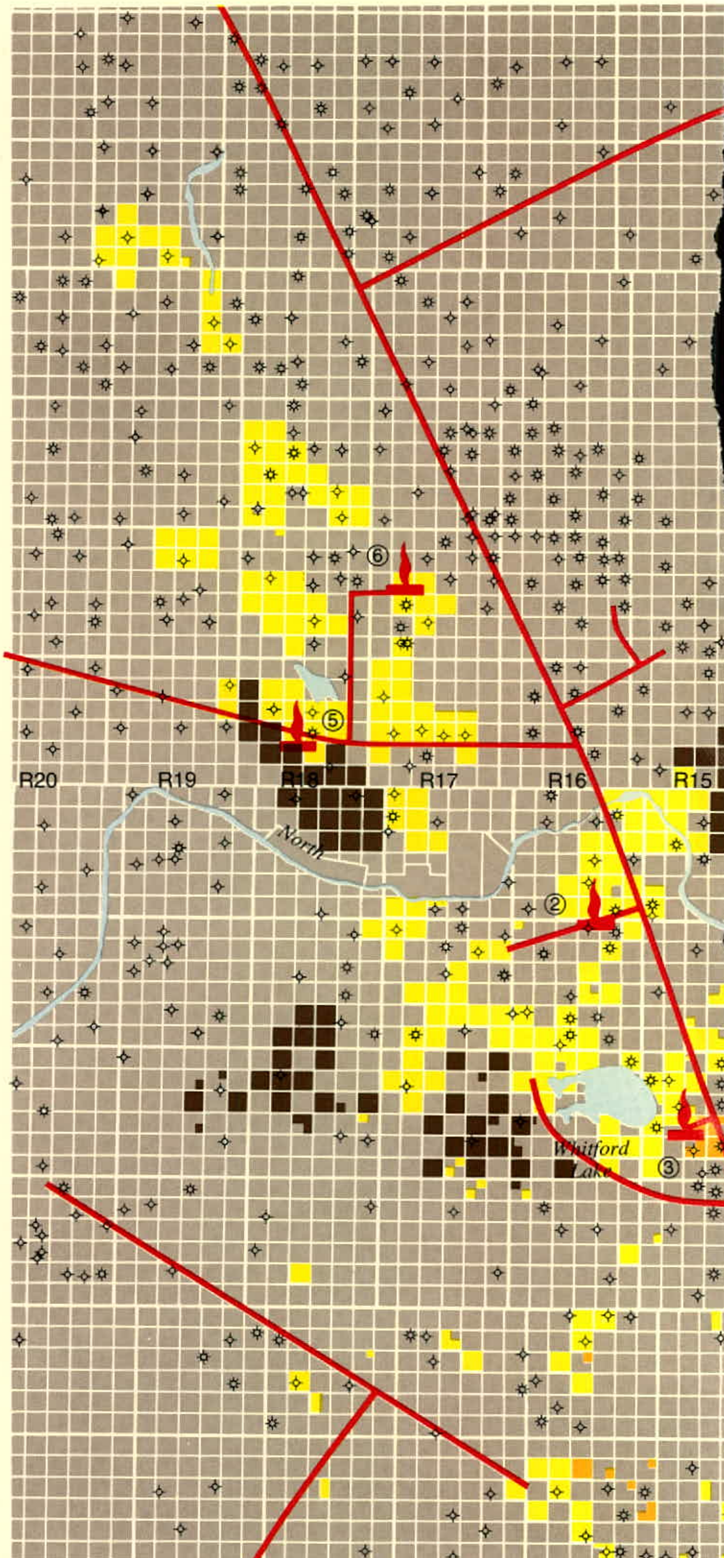
③ **Whitford**
Completion of this 12 MMCF capacity plant will be November. Bridger capacity is 2.09 MMCF.

④ **Myrnam**
This 24 MMCF facility will be completed in December. Bridger capacity is 3.90 MMCF.

⑤ **Victoria**
Capacity of 2 MMCF will be completed in December. Bridger capacity is .65 MMCF.

⑥ **Cossack**
Capacity of 6 MMCF will be completed in December. Bridger capacity is 2.0 MMCF.

⑦ **Craigend**
Capacity of 12 MMCF is scheduled for completion in late January. Bridger capacity is 1.72 MMCF.




## Legend

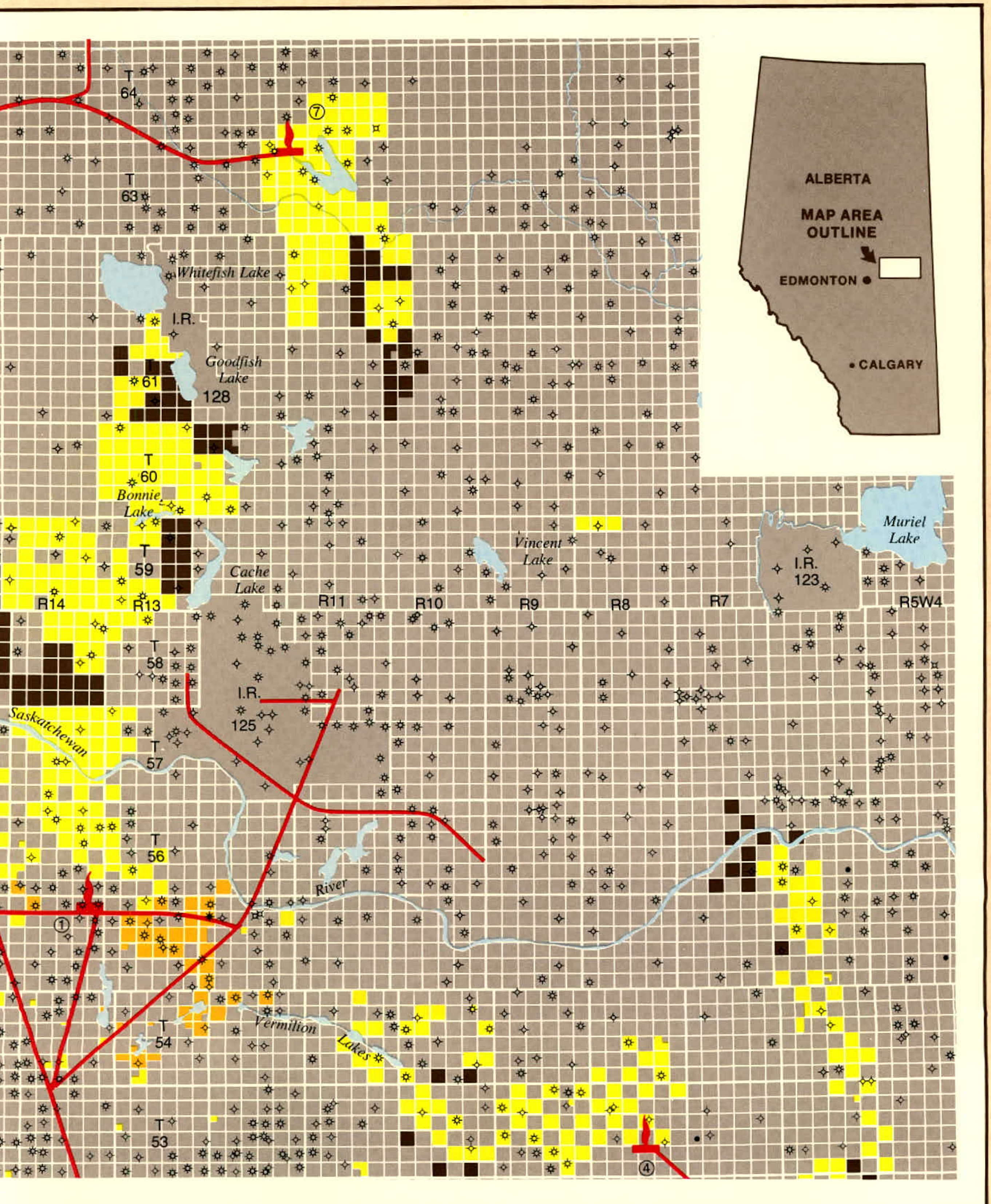
- COMPANY INTEREST ACREAGE
- COMPANY OVERRIDING ROYALTY ACREAGE
- AMOCO FARMOUT ACREAGE
- OIL WELL
- GAS WELL
- DRY & ABANDONED
- GAS PLANTS (COMPANY INTEREST)
- MAIN TRANSMISSION LINES

Scale Bar

Miles 6 3 0 6 12 18 Miles

## LLOW COSSACK

NTRAL ALBERTA



# Land Holdings Summary

## WORKING INTEREST IN OIL & GAS RIGHTS

| | Gross Acres | Net Acres |
|---|---|---|
| **CANADA** | | |
| Alberta | 943,416 | 272,263 |
| British Columbia | 1,027 | 345 |
| Saskatchewan | 640 | 160 |
| Ontario | 1,475 | 491 |
| | 946,558 | 273,259 |
| **USA** | | |
| Alaska | 34,593 | 10,562 |
| Colorado | 18,207 | 7,566 |
| Kansas | 10,224 | 2,274 |
| Louisiana | 51 | 51 |
| Mississippi | 1,901 | 1,901 |
| Montana | 495,393 | 84,755 |
| Nevada | 25,297 | 12,648 |
| New Mexico | 957 | 557 |
| North Dakota | 4,134 | 3,452 |
| Oklahoma | 43,838 | 33,236 |
| South Dakota | 8,077 | 4,038 |
| Texas | 18,212 | 7,860 |
| Utah | 5,080 | 2,223 |
| Wyoming | 79,957 | 40,611 |
| | 745,921 | 211,734 |
| **INTERNATIONAL** | | |
| Dutch North Sea | 138,000 | 11,635 |
| Indonesia | 4,941,003 | 212,463 |
| | 5,079,003 | 224,098 |
| Total Working Interest in Oil & Gas Properties | 6,771,482 | 709,091 |

## OTHER HOLDINGS

| | Gross Acres | Net Acres |
|---|---|---|
| **Net Carried Interests** | | |
| Northwest Territories | 55,167 | 2,069 |
| Arctic Islands | 737,286 | 11,059 |
| | 792,453 | 13,128 |
| **Royalty Interests** | | |
| Arctic Islands | 6,159,911 | (0.25% GORR) |
| Various Canadian and U.S. Lands | 532,575 | (GORR varying from 0.5%-15%) |
| **Mineral Titles Owned** | | |
| Alberta | 39,705 | 39,705 |
| Montana | 320 | 160 |
| | 40,025 | 39,865 |
| **Working Interest in Mining Rights** | | |
| Northwest Territories | 8,120 | 3,064 |
| **Lease Applications** | | |
| Alaska | 75,479 | 20,790 |
| **Equity Interests** | | |
| Magnorth Petroleum Ltd. (10.5% equity) | 4,259,889 | 447,288 |

# Financial Review

Oil and gas revenues were $5,972,000 for the year, an increase of 71% over 1975, which provided a cash flow from operations of $4,615,000 or $1.17 per share and net income, before extraordinary items of $1,471,000 or 37 cents per share. Extraordinary items, as detailed by Note 10 to the financial statements, provided additional net income of $448,000 or 11 cents per share. Twenty-four percent of the increase in revenues for the year was attributable to increased production while the remainder resulted from higher prices in both Canada and the United States. The U.S. operations contributed $3,937,000 or 66% of the revenue, while $2,035,000 or 34% was Canadian revenue.

Revenue from production, as expressed in equivalent MCF's (gas production plus oil production converted to gas in the ratio of .08 barrels of oil per MCF of gas) averaged 84 cents per MCF for the year. Currently announced price increases in Canada and the United States are expected to provide an equivalent MCF price of $1.15 for the year ending September 30, 1977. This price together with increased gas production from Canada, is estimated to provide $11.5 million in oil and gas revenue for 1977, and, based on the presently outstanding 3,961,000 shares of capital stock, is expected to provide $2.45 per share cash flow from operations and $1.00 per share in net income after taxes.

During the year, the Company realized $1,750,000 from the sale of a majority of its portfolio on marketable securities resulting in an extraordinary gain of $986,000. A portion of this gain is the recovery of the previous write down to market value of our portfolio in 1974. As previously reported to you, the Company surrendered two parcels of its real estate holdings in Lewisville, Texas, in early 1976. In accordance with the Company's accounting policy relative to real estate, the net investment of $748,000 attributable to the surrendered properties was charged against income as an extraordinary item during the year.

During the past year, the Company realized $2,062,000 from the sale of various oil and gas properties. Subsequent to year end, two additional sales occurred yielding proceeds of $367,000. Bank loans were established during the year in the amount of $11,500,000. Of this amount, $4,100,000 in Canadian funds had been utilized at year end. Subsequent to year end, $5,500,000 in U.S. funds were drawn down to retire all but $421,000 of the development loan from Michigan Wisconsin Pipe Line. The $421,000 is repayable over a three year period from proceeds of production, and the bank loans are repayable over a five year period at rates of 1% over the Canadian and $1\frac{1}{2}$% over the U.S. prime rates, respectively.

Exploration and development expenditures amounted to $8,106,000 for the year. Sixty-six percent of these expenditures were made in Canada with the remaining 34% in the United States. Seventy-five percent of the budgeted $10,000,000 exploration and development costs for 1977 are projected to be spent in Canada with the remaining 25% in the United States. The planned increase in Canadian expenditures from $5,322,000 to $7,478,000 for 1977 is primarily the result of the capital expenditures required for gas plant and gathering facilities.

B.P.C. *Bridger Petroleum Corporation Ltd.*

and Subsidiary Companies

# Consolidated Balance Sheet

**September 30, 1976**

| ASSETS | 1976 | 1975 (Restated) |
|---|---|---|
| Current assets | | |
| Cash and deposit certificates | **$ 577,000** | $ 241,000 |
| Accounts receivable | **3,706,000** | 3,012,000 |
| Marketable securities, at cost, less provision for loss (market value: 1976 — $76,000; 1975 — $892,000) | **57,000** | 821,000 |
| Inventory of drilling and production equipment | **1,112,000** | 718,000 |
| Other | **16,000** | 104,000 |
| | **5,468,000** | 4,896,000 |
| Property and equipment (note 2) | **25,854,000** | 21,804,000 |
| Undeveloped land held for investment (note 3) | **8,577,000** | 10,028,000 |
| Other assets, at cost | **618,000** | 656,000 |
| | **$40,517,000** | $37,384,000 |

| LIABILITIES | 1976 | 1975 (Restated) |
|---|---|---|
| Current liabilities | | |
| Accounts payable | **$ 1,581,000** | $ 2,727,000 |
| Accrued interest payable | **65,000** | 373,000 |
| | **1,646,000** | 3,100,000 |
| Long term debt | | |
| Notes payable on land held for investment (note 4) | **6,273,000** | 7,106,000 |
| Production and development loans (note 5) | **11,314,000** | 9,011,000 |
| Convertible subordinated note (note 6) | **5,000,000** | 5,000,000 |
| | **22,587,000** | 21,117,000 |
| Deferred income taxes | **1,560,000** | 620,000 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock (note 7) | | |
| Authorized | | |
| 20,000,000 shares, no par value | | |
| Issued | | |
| 3,961,401 shares (1975 — 3,908,770 shares) | **13,362,000** | 13,104,000 |
| Retained earnings (deficit) | **1,362,000** | (557,000) |
| | **14,724,000** | 12,547,000 |
| | **$40,517,000** | $37,384,000 |

Approved on behalf of the Board,

G. E. [signature], Director

J. O. [signature], Director

B P C ***Bridger Petroleum Corporation Ltd.***

**and Subsidiary Companies**

# Consolidated Statement of Income

**Year Ended September 30, 1976**

| | 1976 | 1975 (Restated) |
|---|---|---|
| Income | | |
| Oil and gas sales, net of royalties | **$5,972,000** | $3,492,000 |
| Other | **321,000** | 246,000 |
| | **6,293,000** | 3,738,000 |
| Expenses | | |
| Production | **594,000** | 474,000 |
| Interest | **482,000** | 553,000 |
| General and administrative | **756,000** | 660,000 |
| Depletion and amortization | **1,392,000** | 976,000 |
| Depreciation | **602,000** | 347,000 |
| | **3,826,000** | 3,010,000 |
| Income before income taxes and extraordinary items | **2,467,000** | 728,000 |
| Income taxes (note 8) | **996,000** | 411,000 |
| Income before extraordinary items | **1,471,000** | 317,000 |
| Extraordinary items (note 10) | **448,000** | — |
| Net income | **$1,919,000** | $ 317,000 |
| Earnings per share | | |
| Net income before extraordinary items | **$ 0.37** | $ 0.08 |
| Net income | **$ 0.48** | $ 0.08 |

# Consolidated Statement of Retained Earnings

**Year Ended September 30, 1976**

| | 1976 | 1975 (Restated) |
|---|---|---|
| Retained earnings (deficit), beginning of the year | | |
| As previously reported | **$ (285,000)** | $ (874,000) |
| Adjustment to prior year's income taxes (note 11) | **(272,000)** | — |
| As restated | **(557,000)** | (874,000) |
| Net income for the year | **1,919,000** | 317,000 |
| Retained earnings (deficit), end of the year | **$ 1,362,000** | $ (557,000) |

B.P.C. *Bridger Petroleum Corporation Ltd.*

**and Subsidiary Companies**

# Consolidated Statement of Changes in Financial Position

**Year Ended September 30, 1976**

| | 1976 | 1975 (Restated) |
|---|---|---|
| Source of funds | | |
| Funds provided by operations | **$ 4,615,000** | $2,196,000 |
| Funds provided by extraordinary items (note 10) | **986,000** | — |
| Capital stock issued (note 7) | **258,000** | 1,000 |
| Long term financing proceeds | **2,835,000** | 5,033,000 |
| Proceeds on disposal of property and equipment | **2,062,000** | 1,415,000 |
| Adjustment to carrying costs of undeveloped land | **281,000** | 473,000 |
| | **11,037,000** | 9,118,000 |
| Use of funds | | |
| Repayments and reclassification of long term debt | **534,000** | 9,000 |
| Acquisition of property and equipment | **8,106,000** | 8,585,000 |
| Carrying costs of undeveloped land | **367,000** | 642,000 |
| Increase in other assets and sundry items | **4,000** | 125,000 |
| | **9,011,000** | 9,361,000 |
| Increase (decrease) in working capital | **2,026,000** | (243,000) |
| Working capital, beginning of the year | **1,796,000** | 2,039,000 |
| Working capital, end of the year | **$ 3,822,000** | $1,796,000 |

# Auditors' Report

To the Shareholders
Bridger Petroleum Corporation Ltd.

We have examined the consolidated balance sheet of Bridger Petroleum Corporation Ltd. and subsidiary companies as at September 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position 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 consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
November 15, 1976

COLLINS BARROW
Chartered Accountants

# Notes to Consolidated Financial Statements

**September 30, 1976**

## 1. ACCOUNTING POLICIES

### (a) PRINCIPLES OF CONSOLIDATION

(i) The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Any excess of initial cost of shares in subsidiaries over the underlying net book value at dates of acquisition has been allocated to the property and equipment accounts and depletion is provided thereon.

(ii) The accounts of foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the year end. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the year.

### (b) INVENTORY OF DRILLING AND PRODUCTION EQUIPMENT

Inventory of drilling and production equipment is stated at the lower of cost (as determined on an average cost basis) and net realizable value.

### (c) FULL COST METHOD OF ACCOUNTING

The Company follows the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with overhead and interest directly related to exploration and development activities. Interest capitalized for the years 1976 and 1975 was $329,000 and $107,000 respectively. Proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss.

Exploration and development costs are allocated to the following cost centres:

(i) North America
(ii) Foreign

Costs capitalized in the North America cost centre are depleted on the unit of production method based on estimated proven oil and gas reserves as determined by independent and Company engineers. The depletion rate per equivalent net mcf of gas produced was $.17 for both 1976 and 1975.

Costs capitalized in the Foreign cost centre are presently being amortized over a five year period. At September 30, 1976 $746,000 remained to be amortized. Should commercial reserves be developed the remaining unamortized balance would be depleted on a unit of production basis.

### (d) MINING PROPERTIES

The Company follows the practice of capitalizing all acquisition and exploration costs relating to mining properties on a prospect area basis. If a prospect area is subsequently abandoned, all capitalized costs relating to the area are charged to income. Capitalized costs relating to producing properties are depleted on the unit of production method based on estimated recoverable reserves of the area.

### (e) UNDEVELOPED LAND HELD FOR INVESTMENT

The Company capitalizes the following items as a part of the cost of undeveloped land held for investment:

(i) Interest on agreements relating directly to the acquisition of the land.
(ii) Real estate taxes.
(iii) Other direct costs including commissions, legal fees and related charges.

Revenue received from the land is deducted from the total cost capitalized.

### (f) DEPRECIATION

Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize the costs over the estimated useful life of the assets. The annual straight line rates are as follows:

| | |
|---|---|
| Plants and production equipment | 10% |
| Automotive equipment | 30% |
| Other equipment | 20% |

### (g) INCOME TAXES

The Company follows the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method provision for deferred income taxes is made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(h) EARNINGS PER SHARE

Earnings per share are calculated on the weighted average number of shares (1976 — 3,927,280; 1975 — 3,908,652) of the Company outstanding during the year. The conversion of the outstanding convertible subordinated note would not be dilutive.

## 2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | Cost | Accumulated Amortization, Depletion and Depreciation | Net 1976 | Net 1975 |
|---|---|---|---|---|
| Oil and gas properties including exploration and development costs thereon | | | | |
| North America | $23,840,000 | $3,351,000 | $20,489,000 | $17,998,000 |
| Foreign | 1,040,000 | 294,000 | 746,000 | 892,000 |
| Production and other equipment | 5,668,000 | 1,314,000 | 4,354,000 | 2,537,000 |
| Mining properties including exploration and development costs thereon | 265,000 | — | 265,000 | 377,000 |
| | $30,813,000 | $4,959,000 | $25,854,000 | $21,804,000 |

## 3. UNDEVELOPED LAND HELD FOR INVESTMENT

The Company, in conjunction with a co-purchaser, holds two individual tracts of undeveloped land in Denton County, Texas which were acquired for a combination of cash and the assumption of certain non-recourse notes (note 4). The Company's carrying costs relative to its 70% interest are as follows:

| | 1976 | 1975 |
|---|---|---|
| Lewisville | $8,009,000 | $ 9,483,000 |
| Garza Little Elm Reservoir | 568,000 | 545,000 |
| | $8,577,000 | $10,028,000 |

During the year the Company and its partner successfully renegotiated reduced terms of payment on all but two of the non-recourse notes which had been outstanding at September 30, 1975. The parcels of land covered by the two notes, which were not renegotiated, were surrendered.

Upon surrender, the Company wrote off carrying costs of $1,534,000 applicable to the two parcels together with the balance of the unpaid notes resulting in an extraordinary loss, before income taxes, of $748,000.

On December 9, 1975 the Company filed an action against Xerox Corporation claiming breach of contract on the part of Xerox, amongst other counts, in failure to perform its undertaking to construct a manufacturing facility on property contiguous to the Company's. Examinations for Discovery have been completed and the case is expected to go to trial in early 1977.

## 4. NOTES PAYABLE ON LAND HELD FOR INVESTMENT

Debt outstanding on land held for investment (note 3) is represented by certain non-recourse notes, payable in variable annual installments, at interest rates from 5% to 8%. The amounts included in the consolidated accounts represent the Company's 70% portion of the total debt, applicable to the undernoted properties, as follows:

| | 1976 | 1975 |
|---|---|---|
| Lewisville | $5,890,000 | $6,723,000 |
| Garza Little Elm Reservoir | 383,000 | 383,000 |
| | $6,273,000 | $7,106,000 |

During the year two parcels of land within the Lewisville tract were surrendered. The applicable investment, net of the outstanding notes in the amount of $831,000, was charged against income as an extraordinary item (note 10).

The Company's 70% portion of principal and interest payments payable over the next five year period is as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 1977 | $ 3,000 | $378,000 | $381,000 |
| 1978 | 4,000 | 476,000 | 480,000 |
| 1979 | 4,000 | 484,000 | 488,000 |
| 1980 | 185,000 | 450,000 | 635,000 |
| 1981 | 186,000 | 469,000 | 655,000 |

## 5. PRODUCTION AND DEVELOPMENT LOANS

Production and development loans are comprised of the following:

| | 1976 | 1975 |
|---|---|---|
| Development loans | $ 6,479,000 | $6,447,000 |
| Prepayment of future gas deliveries | 735,000 | 864,000 |
| Bank loans | | |
| Production loan | 2,900,000 | — |
| Development loan | 1,200,000 | 1,700,000 |
| | $11,314,000 | $9,011,000 |

At September 30, 1976 the Company's banker had issued letters of credit in the amount of $7,000,000 U.S. guaranteeing repayment of development loans. Development loans aggregating $5,950,000 matured and were repaid in November, 1976, from the proceeds of a U.S. dollar production loan, granted by the Company's banker in the amount of $5,500,000, and a cash payment of $450,000. The letters of credit were cancelled coincident with the payment of $5,950,000.

The remaining development loans and prepayments of future gas deliveries are interest free obligations repayable, at various rates, from proceeds of production.

The bank production loans of $2,900,000 Canadian, together with the U.S. production loan of $5,500,000, granted subsequent to the year end, are repayable from proceeds of production over a five year period. The bank development loan of $1,200,000 is the amount outstanding from an available line of credit of $3,000,000. All bank indebtedness is secured by assignment of the Company's interest in certain oil and gas properties and bears interest at 1% and 1¹/₂% respectively over the Canadian and U.S. prime rates.

None of the above indebtedness has been classified as current as all loans and prepayments are secured by, and repayable from, future production. Estimated principal payments on the above indebtedness for the next five years are as follows:

1977 — $1,985,000; 1978 — $2,066,000; 1979 — $2,064,000; 1980 — $1,939,000; 1981 — $1,432,000.

## 6. CONVERTIBLE SUBORDINATED NOTE

On June 13, 1973 the Company issued a $5,000,000 convertible subordinated note due May 31, 1988. The note bears interest at a rate of $1^1/_2$% over the best rate which a major United States bank shall charge from time to time on 90 day unsecured commercial loans. The note is convertible up to May 31, 1988 into 588,235 shares of the common stock of the Company at a price of $8.50 per share.

## 7. CAPITAL STOCK

Issued capital stock of the Company consists of the following:

| | Number of Shares | Stated Value |
|---|---|---|
| Balance, September 30, 1975 | 3,908,770 | $13,104,000 |
| Stock options exercised | 52,631 | 258,000 |
| Balance, September 30, 1976 | 3,961,401 | $13,362,000 |

At September 30, 1976, 673,519 shares of the capital stock were reserved as follows:

588,235 shares for the conversion of the $5,000,000 convertible subordinated note (note 6).

85,284 shares for options granted to officers and employees exercisable on various dates at prices ranging from $1.87 to $5.74 per share.

The Company has a note receivable from an officer to enable him to purchase shares of the Company. This note, in the amount of $75,000, is non-interest bearing and is secured by the related shares.

## 8. INCOME TAXES

Income taxes charged to current operations of $996,000 in 1976 and $411,000 in 1975 resulted in effective rates of 40% and 56% respectively. These totals vary from the amounts of $1,233,000 in 1976 and $364,000 in 1975 computed by applying "expected" tax rates of 50% to earnings before income taxes.

| | 1976 | | 1975 | |
|---|---|---|---|---|
| | Amount | % of Pre-tax Income | Amount | % of Pre-tax Income |
| Computed expected tax | $1,233,000 | 50% | $ 364,000 | 50% |
| Non-deductible Crown royalties | 295,000 | 12 | 245,000 | 34 |
| Earned depletion allowance | (66,000) | (3) | (25,000) | (4) |
| Special resource allowance | (254,000) | (10) | — | — |
| Provincial rebates and credits | (228,000) | (9) | (150,000) | (21) |
| Resource rate reductions | — | — | (16,000) | (2) |
| Miscellaneous | 16,000 | — | (7,000) | (1) |
| Income taxes per financial statements | $ 996,000 | 40% | $ 411,000 | 56% |

Total income tax expense is comprised of the following:

| | 1976 | 1975 |
|---|---|---|
| Deferred tax expense | $1,150,000 | $ 556,000 |
| Current tax expense | 18,000 | — |
| Current tax recovery — Provincial Royalty Tax Credit | (172,000) | (145,000) |
| | $ 996,000 | $ 411,000 |

## 9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors and senior officers of the Company (including the five highest paid employees) received remuneration amounting to $205,000 (1975 — $161,000).

## 10. EXTRAORDINARY ITEMS

(a) Extraordinary items consist of the following:

| | |
|---|---|
| Gain on sale of marketable securities, net of deferred income taxes in the amount of $233,000 | $ 753,000 |
| Realization of deferred taxes recoverable not recorded in prior years (note 10 (b)) | 84,000 |
| Loss on forfeiture of land held for investment, net of deferred income tax recovery of $359,000 (note 3) | (389,000) |
| | $ 448,000 |

(b) In prior years, the Company had incurred losses for income tax purposes which resulted in deferred income taxes recoverable. Because there was no certainty that these losses could be applied for future income tax purposes, these deferred income taxes recoverable in the amount of $84,000 were not reflected in the Company's financial statements in those years.

## 11. RESTATEMENT OF 1975 FIGURES

(a) The Company's 1975 income tax expense has been adjusted to correct an understatement of deferred income taxes for that year.

(b) The current portion of long term debt has been restated as long term debt in the 1975 comparative consolidated balance sheet to conform with the presentation of production and development loans in 1976.



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# Five Year Summary

1977

| | 1976 | 1975 | 1974 | 1973 | 1972 |
|---|---|---|---|---|---|
| FINANCIAL (thousands of dollars) | | | | | |
| Revenue | **6,293** | 3,738 | 2,350 | 1,894 | 674 |
| Expenses | **3,826** | 3,010 | 2,573 | 1,388 | 639 |
| Income tax expense (recovery) | **996** | 411 | (67) | 155 | 11 |
| Net income (loss) before extraordinary items | **1,471** | 317 | (156) | 351 | 24 |
| Extraordinary income (loss) | **448** | — | (797) | — | — |
| Net income (loss) | **1,919** | 317 | (953) | 351 | 24 |
| Funds from operations | **4,615** | 2,196 | 624 | 881 | 236 |
| Exploration and development expenditures | **8,106** | 8,585 | 7,316 | 5,134 | 1,338 |
| SHARE DATA | | | | | |
| Average number of shares outstanding (thousands) | **3,927** | 3,909 | 3,900 | 3,465 | 2,385 |
| Net income (loss) per share | | | | | |
| — before extraordinary items | **.37** | .08 | (.04) | .10 | .01 |
| — after extraordinary items | **.48** | .08 | (.24) | .10 | .01 |
| Cash flow per share | **1.17** | .56 | .16 | .25 | .10 |
| Trading range of shares (calendar year) | | | | | |
| — High | **7.87** | 3.50 | 6.75 | 8.90 | 8.10 |
| — Low | **3.25** | 2.30 | 2.00 | 4.80 | 3.80 |
| OPERATIONS | | | | | |
| Net wells drilled | | | | | |
| — Gas | **33.1** | 21.9 | 15.8 | 20.7 | 6.6 |
| — Oil | **.9** | 2.0 | — | 3.2 | .8 |
| — Dry | **8.9** | 13.5 | 22.2 | 40.0 | 8.7 |
| | **42.9** | 37.4 | 38.0 | 63.9 | 16.1 |
| Annual production* | | | | | |
| — Gas (billions of cubic feet) | **5.2** | 3.4 | 2.0 | 1.5 | .2 |
| — Oil (thousands of barrels) | **155** | 186 | 265 | 210 | 140 |
| Proven reserves* | | | | | |
| — Gas (billions of cubic feet) | **100.4** | 88.6 | 64.3 | 97.9 | 70.4 |
| — Oil (thousands of barrels) | **1,597** | 1,722 | 2,313 | 2,789 | 2,026 |
| Net working interest acres owned (thousands of acres) | | | | | |
| — Canadian (including offshore) | **273** | 387 | 934 | 923 | 864 |
| — United States | **212** | 274 | 485 | 366 | 143 |
| — International | **224** | 512 | 2,616 | 2,515 | 525 |
| | **709** | 1,173 | 4,035 | 3,804 | 1,532 |

Financial results have been restated for comparative purposes to reflect retroactive accounting adjustments. Average shares outstanding and trading price have been adjusted for comparative purposes to reflect the one for two share consolidation which occurred September, 1975.

*Net after royalties