NATIONAL PETROLEUM CORPORATION LIMITED

1975 ANNUAL REPORT

DIRECTORS	DALE J. BERTLING, *Houston, Texas* WERNER S. BORCHARDT, *Amsterdam, Holland* SEYMOUR LAZAR, *Palm Spring, California* ALLEN G. RENZ, *Houston, Texas*
OFFICERS	ALLEN G. RENZ, *President* CHARLINE MITCHAM, *Secretary-Treasurer*
AUDITORS	ENNIS AND JAHNKE *Calgary, Alberta, Canada*
STOCK EXCHANGE LISTINGS	The shares of the Company are listed on the Toronto Stock Exchange and also trade in the over-the-counter market in the United States.
TRANSFER AGENTS AND REGISTRARS	MARINE MIDLAND BANK NEW YORK, *New York, N. Y.* GUARANTY TRUST COMPANY OF CANADA, *at Calgary, Toronto, Vancouver & Montreal, Canada*
REGISTERED OFFICE	MacKIMMIE MATTHEWS, *240-4th Avenue S. W., Calgary, Alberta, Canada*
ADMINISTRATIVE OFFICES	*5200 Mitchelldale St., Suite F-30* *Houston, Texas 77092*

REPORT TO SHAREHOLDERS

During 1975, National Petroleum Corporation Limited continued to show improvement for the third year in succession under its new management. Following ten consecutive years of increasing losses, we believe that the company has turned around and is well on its way to becoming a viable, growing company.

Increased revenues, improvement in our reserve position and added business ventures all contributed to the progress made during 1975. For these reasons, we believe that 1975 can be labled as a successful year.

The 1975 figures, as reported by the financial statements included herein, consolidated with its subsidiaries, show a 30% increase in revenues from $340,776 in 1974 to $443,233 in 1975. This represented the highest revenue mark for the company since 1963. This revenue level resulted in an increase in profits from operations, before non-cash items, from $56,985 in 1974 to $95,471 in 1975, and puts your company in a position of anticipating not only a positive cash flow but an actual profit after non-cash deductions in 1976. That too would be the first time since 1963.

Permeator Corporation, Nationals' 53% owned subsidiary, in its annual report, has reported similar progress and is anticipating a positive cash flow from operations in 1976 for the first time in its 16 year history.

Its main product lines, PermaFLO* and PermaFIX* chemical sand consolidation and stabilization processes, continued to show a good growth pattern with a 45% increase in revenues. Similar growth is anticipated in 1976.

Permeator also announced that it has entered into a farmout agreement with Guyan Oil Company of Huntington, West Virginia, on Permeator's 5,908 acre producing leases in West Virginia. National's wholly owned subsidiary, National Oil Field Service, Ltd., has a 20% W.I. in the properties.

The purpose of the farmout is for Guyan to initiate a CO_2 flood program similar to the one they have started in Lincoln County, West Virginia. That program is partially funded by the U. S. Government. If our program proves to be successful, it will mean significant revenue to both Permeator and National.

Permeator and National have also entered into a joint venture agreement with CCP Industries, Inc. of San Francisco. The name of the joint venture is Colorado Contractors, and its purpose is to finance, develop and mine properties that may contain precious metals. Our first effort is underway with the funding by Precious Metals Venture II of a development contract for the expansion of an existing mine in Ouray County, Colorado, known as the Portland Mine. As a result of those efforts, Permeator and National received jointly a 22% interest of Precious Metals' interest in the mine.

Your management feels that considerable progress was made in 1975 and that significant additions were made to the solid base that was established in 1974. We look forward to 1976 with a good deal of enthusiasm.

Your continued cooperation and support will be appreciated.

Respectfully submitted,

Allen G. Renz

Allen G. Renz
President

April 30, 1976

* Servicemark of Permeator Corporation - Reg. U.S. Patent Office

NATIONAL PETROLEUM CORPORATION LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

YEAR ENDED NOVEMBER 30, 1975
(with comparative figures for 1974, 1973 and 1972)

	1975	1974	1973	1972
Revenue				
Sales and service	$ 411,411	$ 327,444	$ 177,183	$ 224,514
Interest and miscellaneous	31,822	13,332	2,041	3,622
	443,233	340,776	179,224	228,136
Expenses				
Cost of sales and service	186,049	109,527	142,446	269,828
Research and development (recovered)	26,770	24,779	(3,933)	87,774
General and administrative	134,943	149,485	183,833	395,158
	347,762	283,791	322,346	752,760
Profit (loss) before undernoted items	95,471	56,985	(143,122)	(524,624)
Depreciation and depletion	116,364	114,683	86,056	108,271
Amortization of patent applications	2,787	1,058	21,181	23,387
	119,151	115,741	107,237	131,658
	(23,680)	(58,756)	(250,359)	(656,282)
Gain on sale of assets	—	727	81,184	—
Loss before extraordinary items	(23,680)	(58,029)	(169,175)	(656,282)
Extraordinary items				
Loss on sale of equipment	—	—	—	(272,470)
Gain on sale of rights	—	37,679	—	148,650
Gain on sale of mineral interests	—	58,525	—	—
Decline in value of investments	—	—	(50,961)	—
Minority interest in loss of subsidiary	—	—	—	54,304
	—	96,204	(50,961)	(69,516)
Net profit or (loss) for the year	(23,680)	38,175	(220,136)	(725,798)
Deficit at beginning of year	3,196,623	3,234,798	3,014,662	2,288,864
Deficit at end of year	$3,220,303	$3,196,623	$3,234,798	$3,014,662
Gain or (loss) per share				
(Loss) before extraordinary items	(1/2¢)	(1¢)	(3¢)	(12¢)
Gain or (loss) for the year	(1/2¢)	1¢	(4¢)	(14¢)

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CONSOLIDATED BALANCE S

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ASSETS

	1975	1974
CURRENT ASSETS		
Cash	$ 17,882	$ 53,731
Accounts receivable	152,178	118,805
Inventories, at lower of cost and net realizable value	35,022	28,460
Prepaid expenses	7,923	7,917
	213,005	208,913
INVESTMENT IN NORTHLAND OILS LIMITED (note 2)	87,604	87,604
OTHER ASSETS		
Sundry investments	21,780	—
Advances to joint venture	—	13,777
Sundry deposits	9,247	8,904
	31,027	22,681
PROPERTY AND EQUIPMENT, at cost (note 4)	2,905,993	2,786,185
Less accumulated depreciation and depletion	1,557,138	1,436,131
	1,348,855	1,350,054
INTANGIBLES AND DEFERRED CHARGES (note 5)		
Patent applications, less amortization	24,023	9,522
Goodwill	9,933	9,933
	33,956	19,455
	$1,714,447	$1,688,707

Approved by the Board

DALE J. BERTLING, Director

ALLEN G. RENZ, Director

CORPORATION LIMITED
aws of Alberta, Canada)
y companies

HEET – NOVEMBER 30, 1975

s at November 30, 1974)

LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	148,887	145,417
Bank note payable	20,212	—
Notes payable — current portion	6,659	—
	175,758	145,417
DEFERRED		
Notes payable — long-term portion	19,079	—
Total liabilities	194,837	145,417

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
10,000,000 shares, par value $.25 each		
Issued		
4,999,872 shares (note 9)	1,249,968	1,249,968
CONTRIBUTED SURPLUS	3,489,945	3,489,945
DEFICIT	(3,220,303)	(3,196,623)
	1,519,610	1,543,290
	$1,714,447	$1,688,707

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED NOVEMBER 30, 1975

(with comparative figures for 1974)

	1975	1974
SOURCE OF FUNDS		
Proceeds from sale of property and equipment	$ 17,884	$174,134
Proceeds from sale of investments	—	42,768
Proceeds from joint venture	13,777	—
Notes payable	19,079	—
Funds provided from operations	97,327	56,985
	148,067	273,887
APPLICATION OF FUNDS		
Additions to property and equipment	137,692	147,502
Additions to intangibles and deferred charges	14,501	10,580
Sundry deposits	343	—
Advances to joint venture	—	595
Purchase of investments	21,780	2,469
	174,316	161,146
INCREASE (DECREASE) IN WORKING CAPITAL	(26,249)	112,741
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	63,496	(49,245)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$37,247	$ 63,496

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED NOVEMEBER 30, 1975

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of National Petroleum Corporation Limited; its wholly-owned subsidiary, National Oil Field Service Ltd., and Permeator Corporation, a 53% owned subsidiary, and its wholly-owned subsidiaries, Permeator Corporation (Canada) Ltd. and Chemergy Corporation. The accounts of PermaCo Inc., a wholly-owned subsidiary of Permeator Corporation, have not been consolidated herein as it is inactive and the inclusion of its accounts would have no material effect on these consolidated financial statements.

The subsidiary companies' accounts maintained in United States dollars have been translated to Canadian dollars as follows:

> Current assets and current liabilities, at exchange rates prevailing at period end; other assets at rates in effect at dates of acquisition; revenue and expense at average rates for the year except for depreciation, depletion and amortizaton which are on the same basis as the related assets.

The gain resulting from the translation of currencies is included in accrued liabilities.

2. INVESTMENT IN OTHER COMPANY

	1975	1974
Northland Oils Limited, 3.4% owned (3.4% in 1974) 392,500 shares, at cost (quoted market value 1975, \$33,362; 1974, \$31,400)	\$ 87,604	\$ 87,604

Because of the number of shares held, the quoted market value is not necessarily indicative of the amount that could be realized if the shares were sold.

3. NOTES RECEIVABLE

As a result of providing services to various drilling funds, the companies held various nonrecourse notes receivable secured by specified interests in petroleum properties. The companies estimate the value of the properties securing the notes receivable to be \$915,000 which is not reflected in these consolidated financial statements as the properties were acquired at no cost.

4. PROPERTY AND EQUIPMENT

	1975			1974
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petroleum properties and Development costs	\$ 1,936,525	\$ 778,242	\$ 1,158,283	\$ 1,117,511
Equipment	969,468	778,896	190,572	232,543
	\$ 2,905,993	\$ 1,557,138	\$ 1,348,855	\$ 1,350,054

The companies follow the full-cost method of accounting wherein all costs related to the exploration for and development of oil, gas and related reserves are capitalized. Such costs include acquisition costs, geological and geophysical expense, carrying charges on non-productive properties and costs of drilling both productive and unproductive wells. Proceeds received on disposal of properties are credited against such costs. Depletion on these net costs is provided using a composite unit of production method based on total estimated proven developed reserves. Gains or losses realized on the sale of the last property in an area of interest are reflected in the consolidated statement of income as an extraordinary item.

Depreciation on equipment is provided on a straight-line basis over its estimated useful life.

5. INTANGIBLES AND DEFERRED CHARGES

The costs of patent rights, applications and development costs are being amortized over ten years.

6. INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES

The minority interest in the subsidiary companies is negative due to the losses of the subsidiary companies applicable to the minority interest in the subsidiaries being greater by $273,400 (1974 — $246,700) than the minority interest in the capital stock and contributed surplus of the subsidiaries.

As a result, the company recognizes 100% of the subsidiary losses or gains. During the year the minority interest recognized amounted to $28,333 debit (1974 — $4,905 credit).

7. INCOME TAXES

(a) The excess of the undepreciated capital cost of production equipment over the net value reflected in the financial statements. The excess amounts to approximately $930,000 (1974 — $879,000).

(b) Exploration and development costs which total $1,028,600 (1974 — $993,000) and are deductible in determing taxable income.

(c) Losses carry-forward which amount to $167,118 and are deductible in determining taxable income as follows:

Year of Loss	Amount of Loss	Available To
1971	$ 81,004	1976
1972	66,335	1977
1973	19,779	1978
	$ 167,118	

8. OTHER STATUTORY INFORMATION

During 1975 the aggregate direct renumeration of directors and officers was $73,853 (1974 — $69,050).

9. CAPITAL STOCK

At November 30, 1975 officers and employees held options to purchase 250,000 shares of the capital stock of the company at 30c per share, such price being in excess of the market value on the date the options were granted.

10. RECLASSIFICATION OF COMPARATIVE FIGURES

The 1974 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1975.

AUDITORS' REPORT

To the Shareholders of
National Petroleum Corporation Limited

We have examined the consolidated balance sheet of National Petroleum Corporation Limited and subsidiary companies as at November 30, 1975 and the consolidated statements of income, deficit 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, and we have received all of the information and explanations we have required, except as follows:

Permeator Corporation has acted as an intermediary between various drilling funds and drilling contractors whereby it contracted to provide drilling funds for amounts substantially in excess of the amounts it paid to the drilling contractors. The difference was loaned to the drilling funds in exchange for non-recourse notes receivable secured by specified interests in petroleum properties. Contingent liabilities, if any, arising from these transactions are not presently determinable.

In our opinion, subject to the determination of liabilities, if any which may arise from the transactions described above, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1975 and the results of their operations and the 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.

Emma & Jahnke
Chartered Accountants

Calgary, Alberta
February 4, 1976