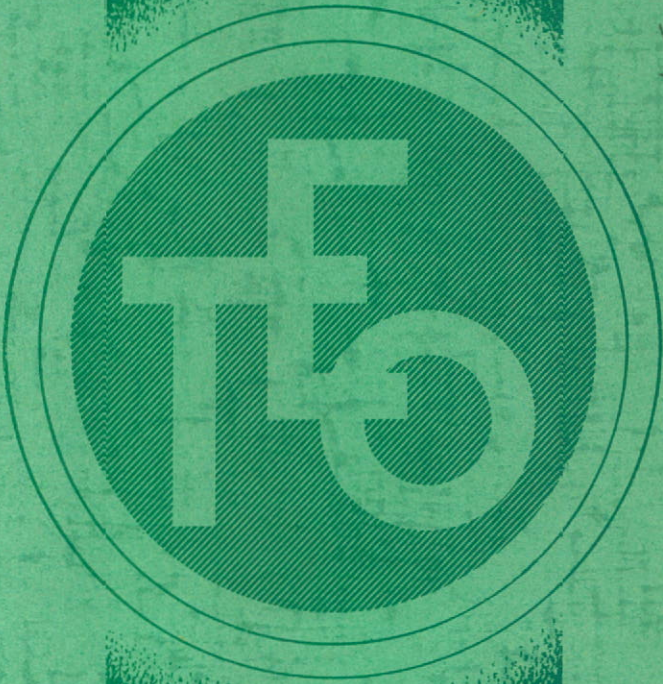




Annual Report 1956

West Canadian oil & gas Ltd.



TRANS EMPIRE OILS LTD.



C

file

TRANS EMPIRE OILS LTD.

RIO BUILDING — 627 EIGHTH AVENUE WEST

CALGARY, ALBERTA

□

March 12, 1957.

To the Shareholders:

At the Special General Meeting of Shareholders of this Company held on February 28, 1957, the Agreement dated January 9, 1957, between Trans Empire Oils Ltd. and West Canadian Petroleum Ltd., a copy of which was forwarded to all registered shareholders of record on January 30, 1957, was approved.

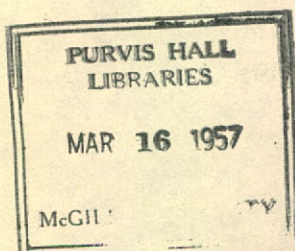
This Agreement provides for the issuance of transferable rights or warrants to the record shareholders of Trans Empire Oils Ltd. at the close of business on March 28, 1957. The rights or warrants are to be exercisable until March 31, 1959, and will entitle each such shareholder to purchase one additional share of the Common Stock of Trans Empire at a price of \$2.50 (Canadian) for each six shares held.

The Company is presently preparing a Registration Statement under the Securities Act of 1933 covering the proposed offering of rights and the additional shares of the Common Stock. It is expected that the Registration Statement will become effective about the middle of April, 1957. The rights will be mailed to shareholders as soon as practicable thereafter.

This letter is sent to you to advise you of the results of the Special General Meeting and so that you will be in a position to take prompt action with respect to the rights you will receive. This letter is not an offering for the sale of the rights or of the shares of the Company's Common Stock issuable upon exercise thereof; such offering will be made only by means of the Prospectus which will be sent with the rights to each shareholder.

Yours very truly,

JOHN D. BOYD,
President.



TRANS EMPIRE OILS LTD.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Take notice that the Annual General Meeting of the Shareholders of Trans Empire Oils Ltd. will be held at the office of the Company, 505 - 8th Avenue West, in the City of Calgary, in Alberta, on the 29th day of April, 1957, at the hour of 2:30 o'clock in the afternoon for the purposes of:

- (a) Receiving and approving the report of the Directors and the Balance Sheet and Statement of Income and Expenditure and the Auditors' Report, all as contained in the Annual Report of the Company for the year ended 31st December, 1956.
- (b) Approving and ratifying all actions of the Directors and Officers of the Company.
- (c) Electing a Board of seven Directors for the ensuing year.
- (d) Appointing auditors for the ensuing year.
- (e) Transacting such other business as may properly come before the meeting.

The transfer books will not be closed

The Board of Directors has fixed Tuesday, the 2nd day of April, 1957, as the record date for the determination of shareholders entitled to notice of and to vote at said Annual Meeting of Shareholders or any adjournments thereof, and only Shareholders of record at the close of business on the date so fixed shall be entitled to notice of and to vote at such meeting or adjournments thereof.

A copy of the Company's Annual Report above mentioned is enclosed herewith.

Dated at Calgary, this 20th day of March, 1957.

By Order of the Board,

JOHN W. LEHMAN,
Secretary.

Company Information, Directors and Officers

TRANS EMPIRE OILS LTD.

(Incorporated under the Laws of Canada on October 30, 1950)

CAPITAL : Authorized - - - 5,000,000 Shares of a Par Value of \$1.25 each.
Issued - - - 2,617,750 Shares of a Par Value of \$1.25 each.
Listings - - - Calgary, Vancouver, Toronto, Canadian,
American and Pacific Coast Stock Exchanges.

FUNDED DEBT : Authorized - - - \$5,000,000.
Outstanding - - - \$798,000 Convertible Sinking Fund Secured.
Notes 5% Series "A".
\$739,000 Convertible Sinking Fund Secured.
Notes 5½% Series "B".

DIRECTORS : John D. Boyd - - - Calgary, Alberta.
Clifton C. Cross - - - Calgary, Alberta.
F. Lawson Glasgow - - - Montreal, Quebec.
John W. Lehman - - - Calgary, Alberta.
Russell P. Leveque - - - Calgary, Alberta.
John H. R. Thomson - - - Calgary, Alberta.
Harold E. Wright - - - Vancouver, British Columbia.

OFFICERS : John D. Boyd - - - President and General Manager.
John H. R. Thomson - - - Vice-President and Treasurer.
John W. Lehman - - - Vice-President and Secretary.
Stanley W. Jones - - - Assistant Secretary-Treasurer.

REGISTRARS : Prudential Trust Company Limited - - - Calgary, Alberta, Canada
Registrar and Transfer Company - - - Jersey City, New Jersey, U.S.A.

TRANSFER AGENTS : Prudential Trust Company Limited - - - Calgary, Alberta.
Prudential Trust Company Limited - - - Vancouver, British Columbia.
Prudential Trust Company Limited - - - Toronto, Ontario.
Prudential Trust Company Limited - - - Montreal, Quebec.
Registrar and Transfer Company - - - Jersey City, New Jersey, U.S.A.

AUDITORS : Morton and Hills - - - - - Calgary, Alberta.

SOLICITORS : Chambers, Might, Saucier, Milvain,
Peacock, Jones & Black - - - - - Calgary, Alberta.

BANKERS : The Royal Bank of Canada - - - - - Calgary, Alberta.

Comparative Summary of Significant Facts

	<i>Year ended December 31 1956</i>	<i>Year ended December 31, 1955</i>
Number of crude oil wells in which interest held	78	75
Net crude oil wells owned	55.4	54.4
Number of gas wells in which interest held	16	13
Net gas wells owned	9.73	7.9
Barrels of crude oil produced	545,173	529,980
Value of crude oil produced after payment of royalties	\$1,057,161.24	\$1,007,270.20
Realization per barrel after Royalties	\$1.94	\$1.90
Estimated oil reserves	10,874,268 bbls.	7,748,464 bbls.
Estimated gas reserves	29.5 billion cu. ft.	29.5 billion cu. ft.
Total income from all sources	\$1,359,999.07	\$1,126,053.39
Net cash profit	\$609,416.95	\$494,190.35
Number of shareholders	6,576	6,908
Gross acreage holdings	2,144,709	2,269,193
Net acreage holdings	333,702	333,289
Book value per undrilled net acre	\$3.17	\$2.96

Directors' Report to the Shareholders

In the Directors' Report to the Shareholders last year, it was stated, "Your Directors now feel that Trans Empire can again embark on a reasonably aggressive program of exploration and development." It is our opinion that the Company has followed this policy during 1956 and that its efforts have been rewarded substantially.

The year under review saw the Company participating in the drilling of sixteen wells, over double the number drilled in 1955. Of these, seven were wildcats, two step out wells, and seven were development wells. Of these, five were dry, the others, with the exception of two still drilling at year end, were productive of oil or gas. One of the gas wells was abandoned due to the fact it was considered non-commercial.

In addition, the Company carried out geophysical and geological surveys and studies on several of its reservations in Alberta and continued with its partners the exploration and evaluation of its lands in British Columbia. In southeastern Saskatchewan, as a result of geological work done in 1955, the Company was able to enter into a substantial development program in the Weyburn area. This resulted in the addition of approximately 3,500,000 barrels of crude oil to its reserves. The lack of pipelines to service this area during 1956 did not enable the Company to reflect the significant increase in production which such an increase in reserves would indicate. The completion of the necessary pipelines has now been accomplished so that in 1957 the Company's daily rate of production and its income therefrom should substantially increase.

The Company's funded debt has been reduced by \$78,500. Bank indebtedness on the other hand has increased by \$256,000 due to the Company's program of development previously mentioned. As a result our current working capital position is in deficit to the extent of \$168,753.50. Fortunately, the Company's banking arrangements are and have been excellent so that no difficulty is anticipated in completing the planned program.

The Company produced 545,173 barrels of crude oil for an income after royalties of \$1,057,161. Production continued its upward trend despite the inability during 1956 to utilize to any extent the large reserves established in Weyburn.

The construction of both the Westcoast Transmission and Trans Canada pipelines projects is progressing satisfactorily. The completion of these projects and of the Alberta Gas Trunk Line should in the near future benefit your Company substantially.

The year under review saw your Directors negotiating at length with several companies with a view to merging Trans Empire's interests so as to form a stronger and more substantial corporate entity. It was finally decided to place before the shareholders a proposal by which Trans Empire would assume all the assets and liabilities of West Canadian Petroleum Ltd. The Special General Meeting to approve this move was called for and held on February 28, 1957. The shareholders approved the proposed merging of interests and work toward this end is now taking place. It is not within the scope of this report to go more fully into this matter since all shareholders have been informed as to its details.

Your directors regret very deeply having to advise the shareholders that Brigadier Harold E. Wright, E.D., a director of Trans Empire since 1952, lost his life in the crash of a T.C.A. aircraft early in December, 1956. Brigadier Wright's advice and good counsel will be greatly missed by the shareholders, the directors, and the Company.

The directors would like to thank the shareholders for their continued support and to express their appreciation to all employees for the loyalty and efficiency displayed throughout what possibly has been Trans Empire's most successful year.

On behalf of the Board,

JOHN D. BOYD, *President.*

Exploration and Production

During 1956 the Company and its associates drilled the following wells:

<i>Name</i>	<i>Area</i>	<i>T.E.'s Interest (Gross royalty not incl.)</i>	<i>Result</i>
T.E. Leduc Calmar Highland Park No. 1	Peace River, Alta.	50%	Gas—aban.
T.E. Imperial Ralph No. 14 - 21	Weyburn, Sask.	83%	Oil
T.E. Imperial Welby No. 14 - 16	Welby, Sask.	50%	Dry
T.E. Imperial Ralph No. 12 - 21	Weyburn, Sask.	83%	Oil
Canadian Export Gas T.E. Helmsdale No. 10 - 5 ...	Helmsdale, Alta.	15%	Dry
T.E. Tidewater Welby No. 8 - 2	Welby, Sask.	50%	Dry
Imperial T.E. Pacific Big Lake No. 10 - 35B	St. Albert, Alta.	4.24%	Gas
T.E. Tidewater Welby No. 9 - 20	Welby, Sask.	50%	Dry
T.E. Imperial Weyburn No. 12 - 9	Weyburn, Sask.	83%	Dry
T.E. Ralph No. 4 - 21	Weyburn, Sask.	100%	Oil
T.E. Ralph No. 6 - 21	Weyburn, Sask.	100%	Oil
T.E. Baysel Canadian Superior Halbrite No. 4 - 25	Weyburn, Sask.	25%	Oil
T.E. Imperial Ralph No. 16 - 21	Weyburn, Sask.	83%	Oil
Imperial T.E. Big Lake No. 12 - 25L	St. Albert, Alta.	3.135%	Oil
Imperial T.E. Big Lake No. 12 - 25N	St. Albert, Alta.	3.135%	Dr. at year end
Triad Union Quaich No. 10 - 21	Quaich, Alta.	4.7%	Dr. at year end

(carried)

Total development and exploration expenditures in connection with the above wells have been estimated at \$700,000.00.

● SOUTHEAST SASKATCHEWAN

WEYBURN

Of the sixteen wells in which the Company participated, seven were drilled in the Weyburn area of southeast Saskatchewan. Only one of the seven failed to produce commercial oil. The success of the others convinced us that the Weyburn-Ralph field has reserves far exceeding the most optimistic 1955 estimates. A prediction of 180 million barrels of recoverable oil may now turn out to be modest.

While this field has, as yet, no definite boundaries, eighty-one wells have been drilled to date in thirty-six sections. When the pattern has been filled in on this land and on other acreage deemed proven or semi-proven, it is possible that we might see at Ralph-Weyburn a field containing upwards of 40,000 acres, drained by 500 wells on 80-acre spacing, and capable of producing from 40,000 to 50,000 barrels a day. Certainly it promises to be of major proportions. The oil resembles Midale crude, although, where Midale averages 28.5 API gravity, Weyburn varies from 29 to 35 API. Over-all sulphur content at Weyburn is less than at Midale, and the water problem diminishes as more wells are completed in the southwest part of the field. Maximum permissive recoveries on our wells, and on most others in the southwest extension, are on the order of 175

barrels a day. The reservoir is Mississippian, divided into two types of pay, namely Charles and Mission Canyon. Both are productive with the Charles favored by operators at the moment.

The Trans Prairie Pipeline linking the Weyburn field to the Midale terminal of the Westspur pipeline, went into partial operation late in December. It is expected that at least 5,000 barrels daily will move through the line beginning January 15th. We are assured, also, that when further oil is available, sales to refineries in the United States middle west will be increased. Present posted well-head price is \$1.74½ per barrel. An increase to \$1.90 can be expected early in the New Year.

By the middle of May all eight wells on Section 21 should be producing oil at a minimum of 100 barrels (each) per day. At a price of \$1.90 per barrel, gross revenue would total \$45,000.00 a month, of which our share before operating would be \$33,000.00. On the basis of a yearly take of \$400,000.00 less assumed operating expense of \$60,000.00, development cost of \$75,000.00 per well for the 8 wells would be retired in about 1¾ years. In this time, 511,000 barrels would have been produced, leaving more than 3,000,000 still to be recovered.

HALBRITE

During December we joined Bailey Selburn in the drilling of a wildcat on Canadian-Superior land in the Halbrite district, approximately 10 miles southeast of our Ralph-Weyburn production. Drill stem tests indicated that a discovery had been made. Core analysis and electrolog confirmed the tests. At the year-end, evaluation of the find was in progress.

In addition to the half section on which the well is located (W½ of 25 - 5 - 12 - W2nd), Trans Empire and Bailey Selburn own the E½ of the same section on a 50/50 basis and have an option on the NW¼ of 26, from Hudson's Bay Oil & Gas Co. Ltd. Preliminary reserve calculations based on logs, cores and tests, are on the order of 300,000 to 350,000 barrels per 80-acre location. From present information there is every reason to assume that a fairly substantial pool exists in the south Halbrite area, and that all your Company's land there will be found productive.

WELBY

East of Wapella, in the general Welby area, the Company, during the summer, earned a 50% interest in 4,500 acres from Imperial and Tidewater by the drilling of three 1,900 foot wells to the Devonian. Although the wells proved to be dry, contributions from companies owning surrounding land reduced the expense considerably.

● ALBERTA

WHITECOURT

Merrill Petroleum and Dominion Minerals Ltd. have announced the location of a well in Section 20 - 58 - 13 - W5th M., near Whitecourt. This will be a Mississippian test in an area which is very much in the news, as the result of the discovery of wet gas and oil in several wildcats, during 1955 and 1956. Trans Empire's ½ interest in Dominion Minerals' 7,000 acres will be favorably affected by any gas or oil discoveries made by Merrill or others at Whitecourt.

Exploration and Production — (Continued)

● BRITISH COLUMBIA

During the year, Canada Southern, the operator of 1,600,000 acres of jointly owned permits in B.C., in which we hold an undivided 12½% interest, admitted Phillips Petroleum Corporation of Oklahoma to a partnership in its portion of the acreage. Under the agreement Phillips agreed to do a very considerable amount of work on the several permits. While we have no farmout arrangement with Phillips regarding our interest, we feel that there will be a definite advantage to us and to the other minor holders, when the very great technical resources of the Phillips organization begin to be used in the exploration and development of our land.

● LIFTING COSTS

From well completion date to the end of 1956, the cost of lifting all oil produced by us, and by others for our account amounts to .46c per barrel. Royalties paid to date on the same oil are at the rate of .35c per barrel.

● OIL AND GAS RESERVES

The following table sets out the Company's estimate of present recoverable reserves after deduction of royalty owner's share:

Light Oil—end of 1955	5,558,917	
Plus discoveries 1956	3,598,800	
	<u>9,157,717</u>	
Less Withdrawals 1956	394,578	8,763,139
	<u>307,119</u>	
Medium Oil—end of 1955	307,119	
Less Withdrawals 1956	44,537	262,582
	<u>1,882,428</u>	
Heavy Oil—end of 1955	1,882,428	
Less Withdrawals 1956	33,881	1,848,547
	<u>10,874,268</u>	<u>10,874,268</u> Bbls.

Any reduction of our gas reserves in Alberta due to sales or wastage will be counteracted by solution gas discovered with the oil at Weyburn and Halbrite. Therefore, we conclude that we have at least as much reserve gas in 1956 as we had last year, or 29.5 billion cubic feet.

Dr. J. C. Sproule, the well-known Petroleum Consultant appraised our reserves at July 31st, 1956. He arrived at a figure of 7,904,057 barrels, for oil and 13.6 billion cubic feet for gas. While Dr. Sproule's calculations are somewhat lower than those of our own reservoir technicians, this, in our experience, is a normal occurrence.

● COST OF FINDING OIL

Wells drilled in 1956 gave us additional reserves as under:

Ralph-Weyburn (Sproule's estimate)	3,500,000
Halbrite Discovery estimate 350,000 barrels, our 25% interest	87,500
Big Lake D-2 and D-3 discoveries, estimate 360,000 barrels., our 3.135% interest	11,300
	3,598,800 Bbls.

Total cost of development wells, dry holes and tank batteries during 1956, is estimated at \$700,000.00. A further \$70,000.00 was spent for exploration in B.C. To complete development on Sec. 21 - 6 - 13 - W2nd, at Ralph, three additional wells will have to be drilled at a cost of \$200,000.00. This expenditure, of course, will be made in 1957, but for purposes of comparison it is being included.

It is apparent, then, that total exploration and development expense of \$970,000.00 incurred in all provinces, as mentioned above, if related to the actual new oil discovered, will reflect a cost rate of .28c a barrel. When it is realized that the average barrel of oil discovered in Canada in 1956 cost \$1.10, our expenditures in this connection can be considered moderate.

● 1956 PRODUCTION

	<i>Production in Barrels</i>	<i>Company's Share Production After Royalty Deductions</i>	<i>Company's Share of Revenue</i>
Leduc	285,128	245,057	\$ 644,529.45
Stettler	97,913	83,226	173,388.38
Campbell	43,775	39,445	78,508.73
Cessford	50,211	44,537	65,726.21
Buffalo Coulee	35,664	33,881	44,090.64
St. Albert	9,433	8,254	22,138.49
Weyburn	19,632	15,527	20,769.73
Redwater and Other Fields	3,417	3,069	8,009.61
	545,173	472,996	\$ 1,057,161.24

● FINANCIAL

During the year 1956, bank loans were increased from \$192,500 to \$448,500. Series "A" Notes outstanding were reduced through purchases on the open market by \$16,000 while Series "B" Notes were reduced by \$62,500.

The Company had a gross income from all sources of \$1,359,999. After all charges, including depreciation of \$107,352, writing down investments by \$69,999, providing for abandoned wells \$286,888 and writing off leases to the extent of \$66,259, it earned a net profit on the year's operations of \$131,881. This was an improvement over the previous year of \$182,363.



Gross and Net Acreage as at December 31, 1956

● ALBERTA

	<i>Area</i>	<i>Net</i>	<i>Gross</i>		<i>Area</i>	<i>Net</i>	<i>Gross</i>
1. Bantry	-----	153	2,560	31. Lake Newell	-----	12,800	12,800
2. Barons	-----	320	320	32. Leduc	-----	760	960
3. Bashaw	-----	1,596	4,173.6	33. Lethbridge	-----	321	321
4. Birch Lake	-----	320	320	34. Livingstone	-----	161	161
5. Calgary	-----	316	316	35. Lundbreck	-----	1,354	2,029
6. Campbell	-----	4,169	4,333	36. Misty Hills	-----	319	319
7. Cardinal River	-----	5,760	5,760	37. Okotoks	-----	160	160
8. Cessford	-----	2,400	4,160	38. Peace River	-----	19,280	38,560
9. Coronation	-----	641	641	39. Pigeon Lake	-----	40	160
10. Countess	-----	5,760	23,040	40. Pincher Creek	-----	482	482
11. Craigmyle	-----	479	479	41. Princess	-----	322	6,085
12. Crossfield	-----	319	319	42. Red Deer	-----	522	645
13. Didsbury	-----	480	480	43. Redwater	-----	29	160
14. Drumheller	-----	4,960	5,440	44. Rolling Hills	-----	150	150
15. Duhamel	-----	111	111	45. Rollyview	-----	80	160
16. Empress	-----	487	487	46. Rumsey	-----	159	159
17. Excelsior	-----	162	162	47. Shoal Lake	-----	17,856	19,840
18. Fabyan	-----	640	640	48. Spring Coulee	-----	320	320
19. Fort Saskatchewan	-----	240	240	49. St. Albert	-----	132	1,160
20. Halladay	-----	4,000	4,000	50. St. Michael	-----	509	509
21. Hanna	-----	320	320	51. Stavely	-----	159	159
22. Hawk Hills	-----	4,800	9,600	52. Stettler	-----	478	638
23. Heisler	-----	3,413	4,550	53. Sullivan Creek	-----	802	802
24. Helmsdale	-----	1,918	12,792	54. Sullivan Lake	-----	641	641
25. High River	-----	1,280	1,280	55. Thorsby	-----	1,360	5,440
26. Hilliard	-----	639	639	56. Tit Hills	-----	640	640
27. Innisfail	-----	480	480	57. Twin River	-----	160	160
28. Jumping Pound	-----	280	280	58. Wabasca	-----	1,920	1,920
29. Kavanaugh	-----	160	160	59. Whitecourt	-----	1,035	7,167
30. Lake St. Anne	-----	155	155	60. Winchell Coulee	-----	954	954

● SASKATCHEWAN

61. Coleville	-----	620	620	64. Regina	-----	160	160
62. Macoun	-----	89	89	65. Wapella	-----	797	797
63. Halbrite	-----	320	320	66. Welby	-----	2,160	4,320
				67. Weyburn	-----	2,080	2,080

● MONTANA

68. Dawson County	-----	640	640
-------------------	-------	-----	-----

● BRITISH COLUMBIA

69. Fort St. John	-----	193,477	1,564,720	69. Red Willow	-----	16,173	342,880
				69. N.E. B.C.	-----	4,523	36,185

● TOTALS

TOTAL NET ACREAGE	-----	331,702
TOTAL GROSS ACREAGE	-----	2,144,709

Trans Empire Oils Ltd. and Wholly Owned Subsidiary Company — Taylor F

Consolidated Balance Sheet as at December 31, 1956, and Comp

● ASSETS

	1956	1955
CURRENT:		
Cash on Hand and in Banks	\$ 32,296.94	\$ 28,667.04
Accounts Receivable—		
For Sale of Oil	90,689.19	90,560.18
Other	23,548.62	58,988.44
Inventories—at Lower of Cost or Market (Note 2)	150,080.23	101,631.50
Dominion of Canada Bonds—at Cost	15,870.20	
	<u>\$ 312,485.18</u>	<u>\$ 279,847.16</u>
SINKING FUND:		
Cash and investments Held by Prudential Trust Company Limited under Terms of Trust Deed—		
Cash	\$ 1,978.30	\$ 3,348.54
Other Investments as specified in Trust Deed—at Cost		
(Market Value 1955—\$37,093.75)		
(Market Value 1956—\$36,593.74)	6,250.00	6,250.00
	<u>\$ 8,228.30</u>	<u>\$ 9,598.54</u>
INVESTMENTS:		
Bonds, Debentures, Mortgages and Royalties at Cost—Less amounts written off	\$ 15,942.95	\$ 13,086.49
Share Investments—at Cost—Less amounts written off	50,516.50	46,911.50
Other Investments—at Nominal Value	1.00	1.00
	<u>\$ 66,460.45</u>	<u>\$ 59,998.99</u>
FIXED ASSETS—AT COST: (Note 3)		
Property, Plant and Equipment	\$ 1,665,269.36	\$ 1,569,399.45
Less Accumulated Depreciation (Note 4)	(1,040,579.02)	(1,000,497.98)
	<u>\$ 624,690.34</u>	<u>\$ 568,901.47</u>
DEVELOPMENT: (Note 5)		
Producing and Drilling Wells and Development—at Cost	\$ 3,744,099.29	\$ 3,600,405.54
Interest Exploratory Development—at Cost	245,476.61	195,534.74
Interest in Petroleum and Natural Gas Rights, Leases, Permits and Reservations—at Cost	1,710,270.09	1,613,478.34
Add Revaluation re Acquisition Redwater Leaseholds Ltd. and Roxboro Oils Limited—Net	306,331.25	306,331.25
Other Lease Revaluations	411,194.85	411,194.85
	<u>\$ 6,417,372.09</u>	<u>\$ 6,126,944.72</u>
Less Accumulated Provision for Recovery of Development	(1,815,913.46)	(1,811,985.47)
	<u>\$ 4,601,458.63</u>	<u>\$ 4,314,959.25</u>
Abandoned Wells—at Cost	\$ 2,124,651.54	\$ 1,837,763.43
Less Accumulated Provision for Abandoned Wells	(2,124,651.54)	(1,837,763.43)
	<u>\$ 0.00</u>	<u>\$ 0.00</u>
OTHER ASSETS:		
Security Deposits	\$ 3,982.00	\$ 13,492.00
Discount on Convertible Sinking Fund Secured Notes—Less Amortization	61,358.48	69,691.07
Organization Expense	60,760.87	60,966.82
Deposit with Trustee re Exchange of Shares	129.04	1,044.00
Sundry Refund		2,405.22
	<u>\$ 126,230.39</u>	<u>\$ 147,599.11</u>
Premium Paid Upon Acquisition of Shares of Subsidiary Companies		\$ 3,662.00
	<u>\$ 5,739,553.29</u>	<u>\$ 5,384,566.52</u>

Balance Sheet as at December 31, 1955

● LIABILITIES

	1956	1955
CURRENT:		
Bank Loans (Note 7)	\$ 448,500.00	\$ 192,500.00
Accounts Payable—Trade	15,803.14	35,544.12
Accrued Interest on Secured Notes	16,931.54	18,046.13
	<u>\$ 481,234.68</u>	<u>\$ 246,090.30</u>
FUNDED DEBT: (Note 8)		
Convertible Sinking Fund Secured Notes—		
Authorized—\$5,000,000.00		
Issued—\$1,500,000.00—5% Series “A” Maturing March 1, 1956	\$ 1,500,000.00	\$ 1,500,000.00
Less Converted to Shares and Purchased for Cancellation	(702,000.00)	(686,000.00)
	<u>\$ 798,000.00</u>	<u>\$ 814,000.00</u>
Issued—\$1,000,000.00—5½% Series “B” Maturing December 1, 1967	\$ 1,000,000.00	\$ 1,000,000.00
Less Purchased for Cancellation	(261,000.00)	(198,500.00)
	<u>\$ 739,000.00</u>	<u>\$ 801,500.00</u>
Total Funded Debt	<u>\$ 1,537,000.00</u>	<u>\$ 1,615,500.00</u>
CAPITAL AND SURPLUS: (Note 9)		
Authorized—		
5,000,000 Shares Par Value \$1.25 each including 276,660 Shares reserved for conversion of secured notes and 100,000 Shares re option agreements with officers of the Company.		
Issued and Outstanding—2,617,750	\$ 3,272,187.50	\$ 3,272,187.50
Earned Surplus	281,286.36	88,325.80
Surplus arising from Conversion to Par Value Shares and Premium on Sale of Shares (Note 10)	162,462.92	162,462.92
Surplus arising from Purchase of Subsidiary Company Shares	5,382.83	
	<u>\$ 3,721,318.61</u>	<u>\$ 3,522,976.22</u>

The notes appended hereto form an integral part of these statements.

Signed on behalf of the Board.

JOHN D. BOYD, Director.

JOHN W. LEHMAN, Director.

Submitted with our Report dated February 20, 1957.

MORTON & HILLS, Chartered Accountants.

\$ 5,739,553.29 \$ 5,384,566.52

Trans Empire Oils Ltd. and Wholly owned Subsidiary Company—
Taylor Petroleum Operators Limited

Notes to Consolidated Financial Statements

December 31, 1956.

● NOTE 1 —

PRINCIPLES OF CONSOLIDATION.

The consolidated statements for the year 1956 include the accounts of the parent company and its wholly owned subsidiary company, Taylor Petroleum Operators Limited. Moose Jaw Refineries Limited is now held at \$1.00 nominal value, the asset account having been written off through Profit and Loss statement.

● NOTE 2 —

INVENTORIES

The inventory consists of Tubular Goods and well equipment in the amount of \$133,093.21 at cost and oil in tanks valued at \$16,987.02 being the posted field price of the oil, less royalties.

● NOTE 3 —

The following is a summary of property, plant and equipment and accumulated provision for depreciation of the parent company and its subsidiary company as at December 31, 1956, and December 31, 1955.

	1956		1955	
	<i>Assets</i>	<i>Accumulated Provisions</i>	<i>Assets</i>	<i>Accumulated Provisions</i>
Production and Field Equipment	\$ 1,484,285.17	\$ 965,934.51	\$ 1,412,434.61	\$ 955,157.23
Servicing and Field Equipment, Cars and Trucks	137,539.93	56,751.60	95,890.89	30,779.43
Furniture and Fixtures	31,219.26	17,892.91	25,827.49	14,561.32
Land	12,225.00		35,246.46	
	<u>\$ 1,665,269.36</u>	<u>\$ 1,040,579.02</u>	<u>\$ 1,569,399.45</u>	<u>\$ 1,000,497.98</u>

● NOTE 4 —

Depreciation on fixed assets has been provided at rates not in excess of the maximum allowed by Dominion Income Tax Regulations.

The rates used for the years ended December 31, 1956, and December 31, 1955, are as follows:

Production Equipment—

First and Second years	30% on reducing balance
3rd and subsequent years	20% on reducing balance
Field Equipment	20% on reducing balance
Service and Drilling Rigs	15% on reducing balance
	30% in 1956
Cars and Trucks	30% on reducing balance
Furniture and Fixtures	20% on reducing balance

Depreciation Charged 1956—

Production Equipment	\$ 70,188.20
Field Equipment	1,107.69
Service and Drilling Rigs	22,648.57
Cars and Trucks	10,076.09
Furniture and Fixtures	3,331.59

\$107,352.14

Profit and Loss Reconciliation—

Operating Charges	\$ 93,944.46
General	13,407.68

\$107,352.14

Depreciation could be charged under Income Tax Regulations amounting to \$203,521.01.

● NOTE 5 —

The following is a summary of development and leasehold costs of Trans Empire Oils Ltd., and related accumulated provision for depletion as at December 31, 1956, and December 31, 1955.

	1956		1955	
	<i>Assets</i>	<i>Accumulated Provisions</i>	<i>Assets</i>	<i>Accumulated Provisions</i>
Producing and Drilling Wells	\$ 3,744,099.29		\$ 3,600,405.54	
Producing Leases	1,062,344.48	\$ 1,453,219.76	1,053,979.69	\$ 1,515,551.60
Abandoned Wells	2,124,651.54	2,124,651.54	1,837,763.43	1,837,763.43
Abandoned Leases	362,693.70	362,693.70	296,433.87	296,433.87
Interest in Exploratory Development	245,476.61		195,534.74	
Undeveloped Leases and Permits	1,002,758.01		980,590.88	
	<u>\$ 8,542,023.63</u>	<u>\$ 3,940,565.00</u>	<u>\$ 7,964,708.15</u>	<u>\$ 3,649,748.90</u>

During 1954 the valuation of undeveloped leases was increased by \$237,842.71 and in 1955 by \$173,352.14. These amounts were transferred to Profit and Loss Account.

Depletion provision for producing wells including leasehold costs has been calculated on the basis of engineering estimates of recoverable oil.

In 1956 the estimate of recoverable oil was increased by new discoveries in the amount of 2,467,670 barrels resulting in an adjustment of the reserve requirements of \$62,331.84.

New discoveries since the end of the fiscal period has added an estimated 1,000,000 barrels to the above increase.

● NOTE 6 —

Reconciliation of investment in subsidiary company consolidated as shown by the parent company's books and the parent's equity in the net assets of the subsidiary company as shown by the books of the latter.

Notes to Consolidated Financial Statements—(Continued)

Taylor Petroleum Operators Limited			
Stated value of shares	\$ 25,000.00		
Surplus December 31, 1950	20,378.03	\$ 45,378.03	
Cost to Trans Empire Oils Ltd.			\$ 39,995.20
Capital Surplus re Purchase of Shares			5,382.83
			\$ 45,378.03
Investment in Subsidiary as per Parent Company's Books			\$ 39,995.20
Parent Company's Equity as per Subsidiary Company's Books			36,340.65
			\$ 3,654.55
<i>Loss</i>			5,382.83
<i>Add</i> Surplus re Purchase of Shares			\$ 9,037.38
<i>Loss</i> transferred to Earned Surplus Account			

● NOTE 7 —

Bank loans are secured by an assignment of the proceeds from the Company's net share of production on certain properties.

● NOTE 8 —

Convertible Sinking Fund Secured Notes:

Authorized — \$5,000,000.00
 Issued — \$1,500,000.00 — 5% Series "A"
 Yearly Sinking Fund Requirement of \$100,000.00 commencing March 1, 1953,
 Maturity date March 1, 1966.

Payment to the Sinking Fund re Series "A" Notes is not required until March 1, 1957, because of conversions of secured notes to shares. On March 1, 1957, a Sinking Fund payment of \$500.00 will be required if further conversions of secured notes are not made.

Converted to Shares as per Terms of Trust Deed	\$485,000.00
Purchased for Cancellation	217,000.00
	\$702,000.00

Issued — \$1,000,000.00 — 5½% Series "B"
 Yearly Sinking Fund Requirement of \$65,000.00
 Final Payment December 1, 1967.

Payment to the Sinking Fund re Series "B" Notes in the amount of \$63,500.00 will be required December 1, 1957, if conversions of secured notes to shares are not made.

Notes Purchased for Cancellations	\$261,000.00
---	--------------

Convertible to Series "A" and Series "B" Notes to December 31, 1957 —
 18 shares for each \$100.00 principal amount.

● **NOTE 9 —**

The consideration received by Trans Empire Oils Ltd. on issue of its Capital Stock was as follows:

	<u>Shares</u>	<u>Consideration</u>
Consideration other than cash for the net assets of Globe Oil Company Limited, Leduc West Oil Co. Ltd., British Empire Oil Developments Ltd., East Leduc Oil Co. Ltd.	1,920,002	\$ 1,600,878.12
For the net assets of Roxboro Oils Ltd.	143,334	600,083.06
For the net assets of Redwater Leaseholds Ltd.	242,857	452,904.24
Secured Notes converted to Shares as per Terms of Trust Deed	111,550	460,750.00
Cash Consideration	\$320,035.00	
Transfer Capital Surplus	162,462.92	200,007
	<u>2,617,750</u>	<u>\$ 3,272,187.50</u>

Supplementary Letters Patent were issued May 14, 1954

- (1) Changing 2,417,750 shares without nominal or par value of the capital stock of the Company, representing a paid up capital of \$3,114,650.42 into 2,417,750 shares of the par value of \$1.25 each and transferring to Capital Surplus \$92,462.92.
- (2) Changing 2,582,250 unissued shares without nominal or par value into 2,582,250 shares of par value of \$1.25 each (200,000 shares have since been issued).
276,660 of the unissued shares are reserved for the conversion of secured notes to shares.
100,000 of the unissued shares are reserved re option agreement with officers of the Company.

The option agreements are dated May 30, 1955, covering 100,000 shares of the unissued shares of the capital stock of Trans Empire Oils Ltd., at and for the price of \$2.00 per share. The option may be accepted by the optionees up to and including the 30th day of May, 1958.

Number of Shares under option December 31, 1956	100,000
Option Price	\$2.00 per share
Market Price per Share May 30, 1955	\$1.85 per share
Total Market Value (American Stock Exchange)	\$185,000.00
Market Price per Share December 31, 1956	\$2.37 per share
Total Market Value (American Stock Exchange)	\$237,000.00
Number of shares to which options were exercised since May 30, 1955	Nil

● **NOTE 10 —**

The Capital Surplus arises as follows:

Transfer re change of shares from No Par Value to Par Value of \$1.25 each (See Note 9)	\$ 92,462.92
Sale of 200,000 Shares at \$1.60 (Premium 35 cents per share)	70,000.00
	<u>\$162,462.92</u>

Notes to Consolidated Financial Statements—(Continued)

● NOTE 11 —

The Company maintains a contributory pension plan for all officers and male employees who have completed two years of service (five years in the case of female employees). Individuals contribute six per cent of their salaries and the Company a like amount. The estimated annual cost to the Company and its wholly owned subsidiary companies is \$12,000.00.

The normal retirement age is 65 except in the case of employees who join the plan after 55. These employees are pensionable 10 years after joining the plan.

Under an insurance plan (Great West Life Assurance Company), in the event of an employee's death while in the Company's employ, his estate or beneficiary shall be entitled to his pension policies in full.

If the employee is not insurable his estate or beneficiary will receive all contributions made by the employee and the Company, plus accrued dividends.

When an employee has participated in the plan for 10 years the Company will vest in him 10 percent of its contributions to the plan and an additional 10 percent per year thereafter until all contributions are vested in the employee.

● NOTE 12 —

The Company will not pay any dividends (other than stock dividends) or purchase or pay off any paid up capital of any of its shares when its net current assets are or would be thereby reduced below 25 percent of the principal of the secured notes for the time being outstanding, or if and so long as it is default in any respect under the Trust Deed.

● NOTE 13 —

Provision for taxes on income is not required because deductions from income for development expenditures are allowed under income tax regulations. Such allowances substantially exceed provisions for depletion and amortization as provided in the Company's books which has been calculated on a unit of production method based on independent engineering estimates of recoverable oil from producing wells.

● NOTE 14 —

There is a contingent liability for income tax in connection with Moose Jaw Refineries Limited in the amount of \$7,400.00.

There may be a liability of approximately \$10,000.00 for failure to drill a well on acreage acquired.

● NOTE 15 —

Amortization of Discount on Convertible Sinking Fund Secured Notes is written off yearly on the basis of balance of amount divided by number of years to maturity of loan.

Trans Empire Oils Ltd. and Wholly Owned Subsidiary Company—
Taylor Petroleum Operators Limited

Statement of Consolidated Profit and Loss

For the Year Ended December 31, 1956.

And Comparative Statement for the Year Ended December 31, 1955.

INCOME:	1956	1955
Proceeds from Production obtained from wells—less Royalties	\$ 1,057,161.24	\$ 1,007,270.20
Servicing and Engineering	200,561.56	55,018.41
OTHER INCOME:		
Interest, Dividends, Royalties and Income from Sources other than Oil Production	102,276.27	63,764.78
Increase in Value of Leases		173,352.14
	<u>\$ 1,359,999.07</u>	<u>\$ 1,299,405.53</u>
DEDUCTIONS:		
Production Costs—		
Well Operating Expense, Lease and Well Maintenance, Repairs and Renewals	\$ 235,589.69	\$ 205,571.46
Servicing and Engineering	92,636.53	3,031.49
Taxes and Assessments (Other than Income Taxes)	23,357.23	17,810.88
Executive Salaries charged to Production	35,000.00	39,900.00
Depreciation of Equipment	93,944.46	81,813.84
	<u>\$ 480,527.91</u>	<u>\$ 348,127.67</u>
General and Administrative Expense—Less Recoveries and Charges to Production	\$ 173,108.12	\$ 165,222.05
Counsel and Solicitor's Fees and Salaries of Executive Officers including all Salaried Directors, including Directors' Fees of \$1,800.00—Less Charges to Production Costs	26,363.54	18,841.21
Geological Expense	7,189.10	8,551.96
Interest on Secured Notes and Bank Charges	91,513.35	104,673.24
Lease Rentals	65,824.56	68,260.75
Amortization of Discount on Notes	5,992.59	6,495.92
Depreciation of Furniture and Fixtures and Cars	13,407.68	9,720.00
Adjustments re Investments Written Down	69,999.00	30,460.59
Adjustments re Advances to Subsidiary Company Written Off	3,376.01	
	<u>\$ 456,773.95</u>	<u>\$ 412,225.72</u>
Provision for Depletion	(\$ 62,331.84)	\$ 220,486.80
Provision for Abandoned Wells	\$ 286,888.11	\$ 310,456.19
Provision for Abandoned Leases	\$ 66,259.83	\$ 58,591.16
Net Profit Transferred to Earned Surplus	<u>\$ 131,881.11</u>	<u>(\$ 50,482.01)</u>

The notes appended hereto form an integral part of these statements.

**Trans Empire Oils Ltd. and Wholly Owned Subsidiary Company—
Taylor Petroleum Operators Limited**

Notes to Statement of Consolidated Profit and Loss

December 31, 1956.

● **NOTE 1 —**

Transactions between affiliated companies are on the basis of cost with the exception of well supervision and service charges which are charged at a rate per well.

● **NOTE 2 —**

Depreciation of fixed assets has been provided as explained in Note 4 to the balance sheet.

● **NOTE 3 —**

Depletion and amortization of well costs has been charged as explained in Note 5 to the balance sheet.

● **NOTE 4 —**

Maintenance, repairs and renewals are charged to operating expenses, betterments are capitalized.

● **NOTE 5 —**

Profits or losses on disposal of fixed assets after the application of depreciation reserves are transferred to profit and loss account.

● **NOTE 6 —**

Profit on disposal of investment securities is based on average cost of securities.

**Trans Empire Oils Ltd. and Wholly Owned Subsidiary Company—
Taylor Petroleum Operators Limited**

Statement of Consolidated Earned Surplus

As at December 31, 1956.

Balance as at December 31, 1955	\$ 88,325.80
Add Deficit of Subsidiary Company, Moose Jaw Refineries Ltd., now eliminated	61,078.45
(Asset written off through Profit and Loss Statement)	
Profit transferred from Statement of Consolidated Profit and Loss per statement attached..	<u>131,881.11</u>
Balance as at December 31, 1956	<u><u>\$281,285.36</u></u>

The notes appended hereto form an integral part of these financial statements.

Auditor's Report

TO THE SHAREHOLDERS,
TRANS EMPIRE OILS LTD.

We have examined the consolidated balance sheet of Trans Empire Oils Ltd. and wholly owned subsidiary company as at December 31, 1956, and the statements of consolidated earned surplus and profit and loss for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earned surplus and profit and loss, including notes thereon, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of Trans Empire Oils Ltd. and wholly owned subsidiary company, Taylor Petroleum Operators Limited as at December 31, 1956, and the results of their combined operations for the year then ended, according to the best of our information and the explanations given to us and as shown by the books of the companies.

MORTON & HILLS
Chartered Accountants.

February 20, 1957.
Calgary, Alberta.

KELLOWAY PRINTING LTD.
CALGARY - ALBERTA