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ANNUAL REPORT 1987

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COMPANY PROFILE

Canadian Futurity Oils Ltd. is a Calgary based Canadian Controlled Company actively involved in the exploration for and development of petroleum and natural gas properties in Western Canada.

The Company is listed on The Toronto Stock Exchange as CAF.A and has over 1,000 public shareholders.

NOTICE OF ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held in the "Spanish Room", Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta on June 1, 1988 at 10:30 a.m. (Calgary time).

CORPORATE HEAD OFFICE

Canadian Futurity Oils Ltd.
401, 1015 - 4th Street S.W.
Calgary, Alberta
T2R 1J4
(403) 269-5505

METRIC CONVERSION TABLE

| Traditional Unit | S.I. Unit | Conversion Factor |
|--|-------------------------------|---|
| Barrel | Cubic Metre (m ³) | 1 Barrel = 0.159 m ³ |
| | | 1 m ³ = 6.29 barrels |
| Cubic Foot (ft ³) at 14.696 psia at 60°F | Cubic Metre (m ³) | 1 ft ³ = 0.028 m ³ |
| | | 1 m ³ = 35.383 ft ³ |
| Acre | Hectare | 1 acre = 0.405 ha |
| | | 1 hectare = 2.471 acres |

ABBREVIATIONS

Throughout this report standard oil and gas abbreviations have been used as follows:

| | |
|-------|-----------------------------|
| STB | Stock Tank Barrel(s) |
| BOPD | Barrels of Oil per Day |
| MCFD | Thousand Cubic Feet per Day |
| MMCF | Million Cubic Feet |
| MMCFD | Million Cubic Feet per Day |
| BCF | Billion Cubic Feet |

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NOTICE TO SHAREHOLDERS:

Due to National Policy Statement No. 41 our record date for the annual meeting has been set for April 27, 1988 with the annual meeting to be held on June 1, 1988.

The notice of annual meeting, proxy, and information circular will be mailed to the shareholders on April 27, 1988.

Please call our office should you require additional information.

ON BEHALF OF THE BOARD OF DIRECTORS

WILLIAM A. RABATICH
SECRETARY





PRESIDENT'S REPORT

Since early 1986 the world oil markets have been unstable as evidenced by the continual swing in oil prices. This instability has had a profound effect on the energy sector's capability to forecast revenues, determine capital budgets and arrange financing.

However, fiscal 1987 was a year of activity and change for your company. Canadian Futurity was successful in achieving a significant growth in oil and gas production, reserves, asset values and cash flow. These achievements resulted from the following course of action:

- *On a corporate level, the company appointed four board members who have taken an active role in raising investment capital.*
- *The company acquired the assets of three private companies thereby increasing the reserves by 90 percent and production from 135 BOPD to 245 BOPD.*
- *The company raised \$1,731,750 by means of private placements and a farmout flowthrough share agreement with a private company.*
- *The company participated in a 62 development well program which was drilled during the period of September to November, 1987 causing production to increase to 420 BOPD by the end of November and 480 BOPD by the end of December. Gas production increased from 353 MSCF/D to 439 MSCF/D for 1987 to a subsequent rate of 600 MSCF/D.*
- *Company reserves increased from 1,491,898 barrels of oil in 1986 to 3,252,238 barrels in 1987.*
- *Listed on The Toronto Stock Exchange.*

The company has well defined objectives for a growth pattern. This growth policy consists of prudent and controlled acquisitions and low risk drilling which will generate sufficient and sustaining cash flow. Patient pursuit of this corporate objective has been very successful and rewarding to your company as these activities to date have obtained high rates of returns resulting in favourable benefits to the existing shareholders now and into the future.

OUTLOOK

Canadian Futurity looks forward to 1988 with renewed optimism and a very favourable financial position. The company anticipates a capital budget of \$2,300,000 with \$750,000 targeted for 15 to 20 exploration prospects. The remaining capital will be expended on a 50 development well program located in western Saskatchewan and it is anticipated that these wells will increase net oil production by a further 200 BOPD. This increased production coupled with our ability to maintain low operating costs will continue to improve the company's financial results and strengthen its balance sheet.

Canadian Futurity's short term objective is to increase the production base to 1,000 barrels of oil per day giving your company the ability to adapt to an ever-changing environment. It is the company's belief that shareholders can expect a significantly improved financial performance in 1988 as our entire efforts will be dedicated toward this expectation.

We would like to welcome the new shareholders to the corporation and thank them for their confidence in Canadian Futurity. On behalf of the Board of Directors we wish to thank our employees for their continued support as we move forward into a very encouraging year.

For and on behalf of the Board

Peter J. Gross
President & Chief Executive Officer
April 11, 1988



OIL AND GAS ACTIVITIES

In 1987 Canadian Futurity Oils Ltd. initiated an aggressive growth strategy in Western Canada employing corporate acquisitions and an active drilling program. This strategy resulted in the largest annual growth of assets in the company's history.

The company was successful in acquiring three private oil and gas companies in 1987. These assets increased the company's working interest in many of our established production areas in Southwestern Saskatchewan and added several new production areas.

Canadian Futurity Oils Ltd. participated in 63 wells in Saskatchewan and Alberta all during the fourth quarter of this fiscal year, 32 of which were operated by the company. The drilling program emphasized low risk development prospects in Saskatchewan to benefit from the current Provincial royalty holiday program and Federal CEDIP rebates on drilling costs. This program

resulted in 62 successful oil wells in Saskatchewan and 1 dry exploration well at Ronalane in Alberta. The Doddsland North and Whiteside Areas of Saskatchewan accounted for 28 wells in 1987 with an additional 40 development wells approved for 1988.

The company will pursue attractive acquisition and development prospects even more vigorously in 1988, to take full advantage of the opportunities presented by government incentives and royalty free holidays.

In addition the company realizes the need to identify new oil and gas areas for future development. Canadian Futurity has initiated an extensive exploration program to geologically map and drill exploration prospects in 1988. The company has proposed 14 exploration wells for the first quarter of 1988 in the areas shown on the Activity Areas Map. Three of these areas, Gold Creek, Panny-Senex, and Excelsior have been highlighted in this report.



DEVELOPMENT

Doddsland North

The company operated and participated in the drilling of 10 oil wells in 1987 to earn a 25 percent working interest in 3,040 acres of land subject to a sliding scale non convertible gross overriding royalty to Norcen Energy Resources Limited. The wells qualify for a 3 year Crown royalty holiday and produce light crude oil from the Viking formation. Drilling in 1987 has identified a further 26 proven and probable development locations scheduled for drilling in the spring of 1988.

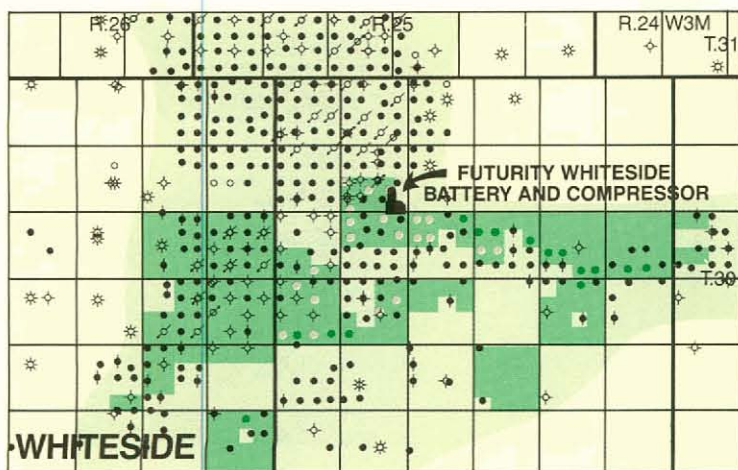
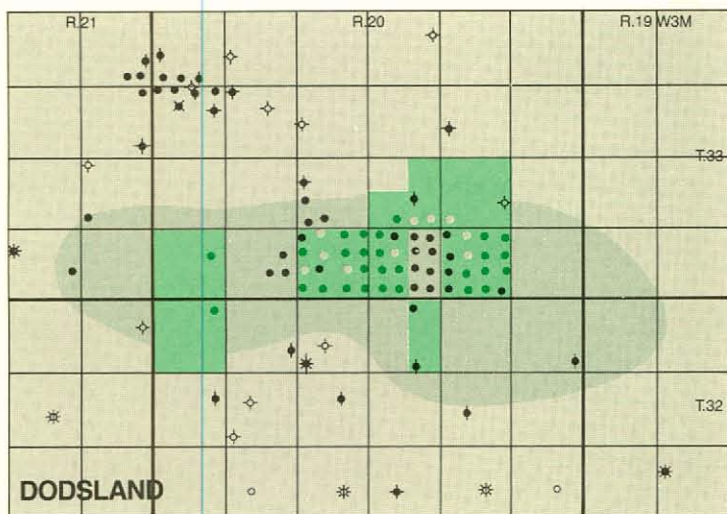
In addition the Company acquired an option to earn a similar 25 percent working interest in 1,240 acres of land adjacent to the main field by drilling 2 exploratory wells. These wells were completed in February of 1988 as Viking oil wells and create the potential for further development drilling in the fall of 1988.

Whiteside Area

Canadian Futurity Oils Ltd. and its partner Canada Northwest Energy Limited participated in a farmin from North Canadian Oils Limited adjacent to the company's established production area at Whiteside, Saskatchewan. The farmin involved the drilling of 6 wells which were all completed as Viking oil wells eligible for the Crown royalty holiday. The farmin earned the company a 55 percent working interest in 760 acres of land subject to a sliding scale non convertible gross overriding royalty to the farmers.

The company also participated for an average 37.5 percent working interest in 12 Viking oil wells on company operated lands in late 1987 and a further 3 wells in the Whiteside Viking Waterflood Unit where we own a 19.25 percent working interest.

All the 1987 wells are producing light oil from the Viking formation and have established an additional 24 proven and probable development locations to be drilled in 1988.



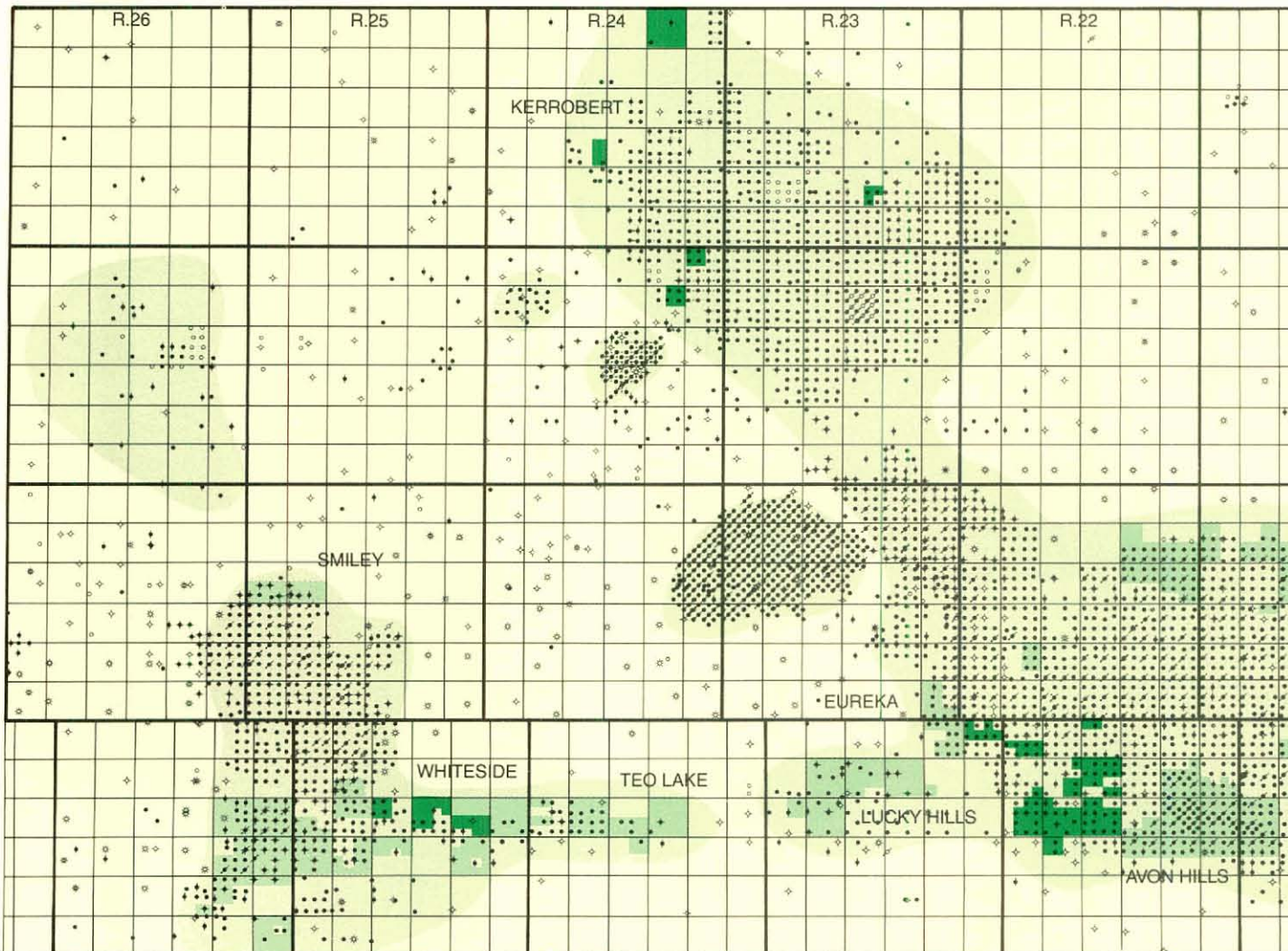
- Company Lands
- 1987 Development Program
- 1988 Development Program
- Oil Well
- Gas Well
- New Location
- Dry and Abandoned
- Suspended
- Oil Pool

Kerrobot

In late 1987 Canadian Futurity Oils Ltd. participated for 20 percent in the drilling of 12 wells on farmout lands from Westar Petroleum. The company earned an average 15 percent working interest in 560 acres of land which includes 2 proven development locations scheduled for drilling in 1988. The initial wells have all been completed as Viking oil wells producing light oil eligible for the Crown royalty holiday.

Avon Hills

The company acquired an additional average 9 percent working interest in 42 Viking oil wells in the Avon Hills Non Unit area during 1987 thereby significantly expanding its interest in the area. The company subsequently participated in the drilling of 4 development wells which are all producing from the Viking formation. Working interests in the Avon Hills Unit was also increased by 7.74 percent to 8.99 percent during the year and was infilled with the drilling of 4 new oil wells. The unit contains 3,940 acres of land and is currently under waterflood with 70 producing wells and 27 water injection wells.



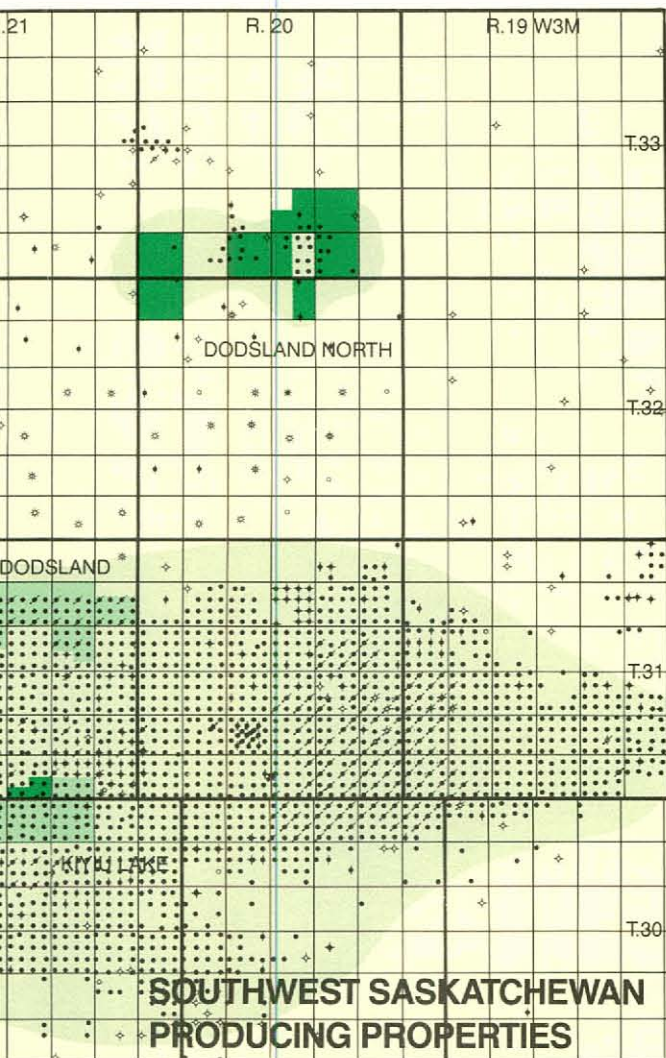


Kiyiu Lake

In 1987 the company participated for its 20 percent working interest in 5 new wells offsetting the established Kiyiu Lake Voluntary Unit. These lands were acquired by the acquisition of a private company earlier in the year. The wells have all been completed for the production of Viking oil with very favorable production rates. Both the Kiyiu Lake Unit and the lands acquired in 1987 have been recommended for waterflooding which would greatly increase the recoverable reserves.

CANADIAN LAND HOLDINGS

| | 1987 | |
|--------------------|-------------|-----------|
| | Gross Acres | Net Acres |
| Alberta | 4,320 | 488 |
| Saskatchewan | 36,090 | 7,537 |
| | 40,410 | 8,025 |



- Company Lands
- Properties Acquired in 1987
- Oil Well
- Gas Well
- New Location
- Dry and Abandoned
- Suspended
- Oil Pool

EXPLORATION

Gold Creek

Regional mapping projects resulted in 3 Triassic oil prospects in the Gold Creek (Elmsworth) Area of Alberta approximately 30 miles south of Grande Prairie. The company has retained a 20 percent working interest in the project and has been successful at acquiring 4,110 acres of land through Crown land sales. A farmout has been negotiated with Suncor Incorporated to earn an additional 480 acres in one of the prospects as shown on the accompanying map. Initial production rates from adjacent Triassic oil wells discovered by Dome ranged from 300 to 500 barrels per day. Drilling is scheduled for early 1988.

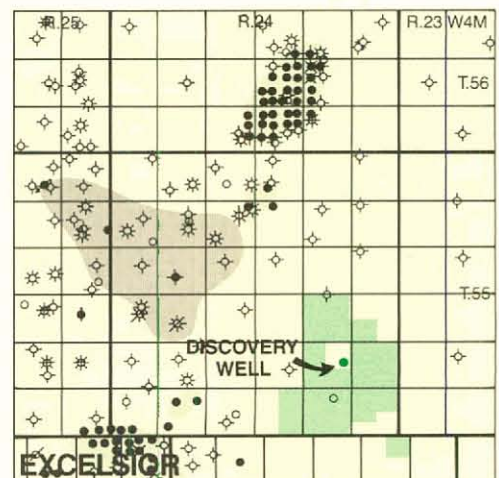
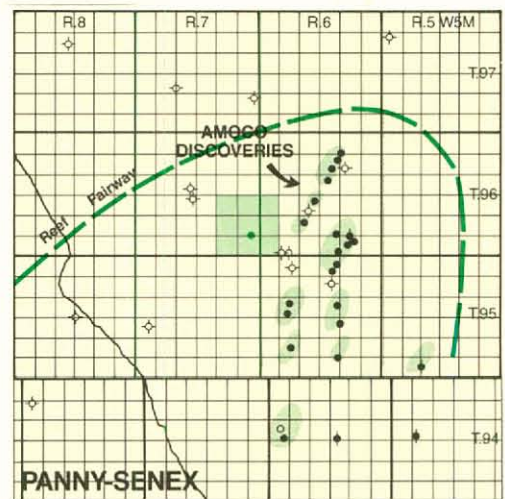
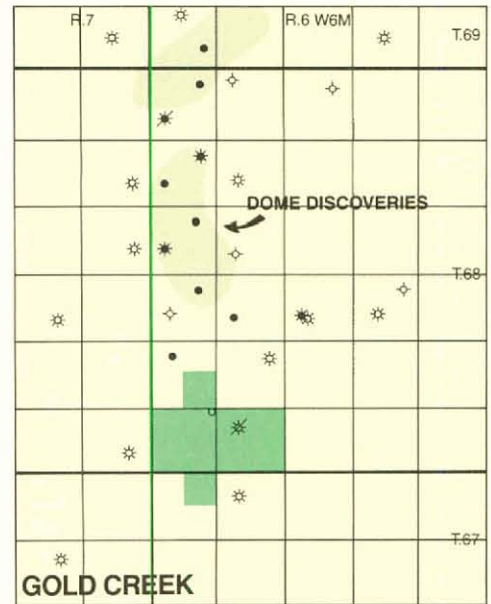
Panny - Senex

Canadian Futurity has negotiated a farmout agreement with Precambrian Shield Resources to earn a 12 percent working interest after payout in 5,120 acres of land adjacent to Amoco's recent Keg River Reef discoveries. The company will participate for 15 percent of a lease validating well to be operated by Chieftain in the first quarter of fiscal 1988. The well will be drilled on a seismic structure and will earn a large block of land in the reef fairway where initial production rates from the Keg River formation range up to 600 barrels of oil per day.

Excelsior

The company has completed an agreement with Enron Oil Canada Ltd. and its partners to shoot 6 miles of seismic surveys and drill a Wabamun test three miles north of the City of Edmonton. The prospective zones in the area include the Wabamun, Lower Mannville and Viking formations with the potential for oil or gas with readily available gas markets.

Canadian Futurity will participate for a 40 percent working interest in the initial program which will earn a 20 percent working interest after payout in 640 acres of land and options on an additional 2,610 acres of potential acreage. This prospect is consistent with the company's effort to drill exploration plays in Alberta with multiple zone potential and earn additional lands for future development.



PRODUCTION AND OPERATIONS

Fiscal 1987 was an active year resulting in increased production rates in oil and gas as well as a significant increase in hydrocarbon reserves.

Total capital expenditures in 1987, excluding reserve acquisitions, were \$1,465,124. Of this, \$1,023,803 was used in the drilling of 63 wells, consisting of 1 exploratory well in Alberta and 62 development wells in Saskatchewan. The remaining \$441,321 was spent on flowlining and battery installations which allows the company to reduce trucking and thereby control its operating costs.

Oil production for the year averaged 232 barrels per day but has increased to 475 barrels per day subsequent to the 1987 year end due to the 62 development well program coming on production. Gas production increased by 24 percent to 439 MSCF/D over the previous year and to 600 MSCF/D subsequent to year end.

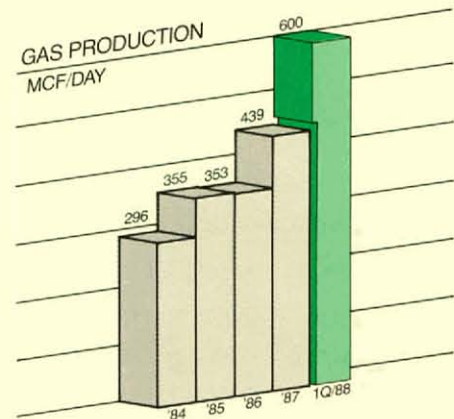
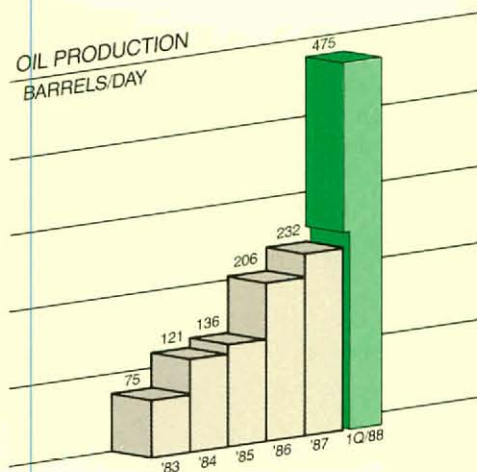
In total, Canadian Futurity has varying interests in 556 wells, of which 70% are company operated. In these periods of low oil and gas prices it is imperative the operating costs be minimized and Canadian Futurity is committed to this concept

plus maintaining large working interests in our operated producing prospects.

The company is planning an ambitious development and exploratory program and will experience its most active drilling year ever during 1988 which will require a capital outlay of \$2,300,000 of which one-third will be allocated to exploratory drilling and the remaining two-thirds to development drilling.

The 1988 development program will consist of drilling 50 wells which we anticipate will increase our production base by approximately 200 barrels of oil per day. The average interest to be retained in these areas will be about 40 percent.

The 1988 exploratory budget will attempt to define areas of gas potential because 95 percent of our current revenue results from oil operations. It is our intention and goal to more evenly balance these revenue streams in the time ahead. In addition, 90 percent of these funds will be expended in Alberta to obtain exposure in new and potentially larger prospective areas.



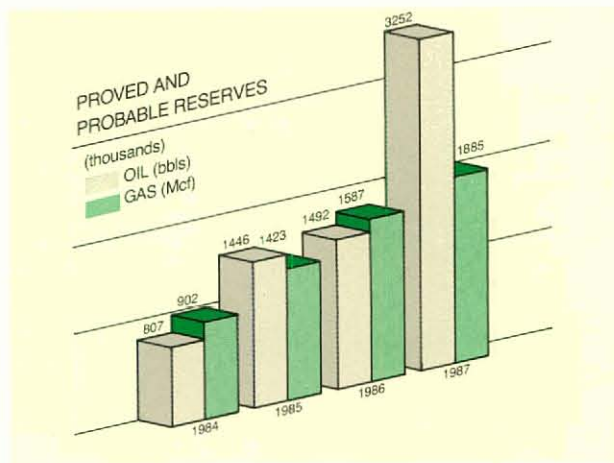
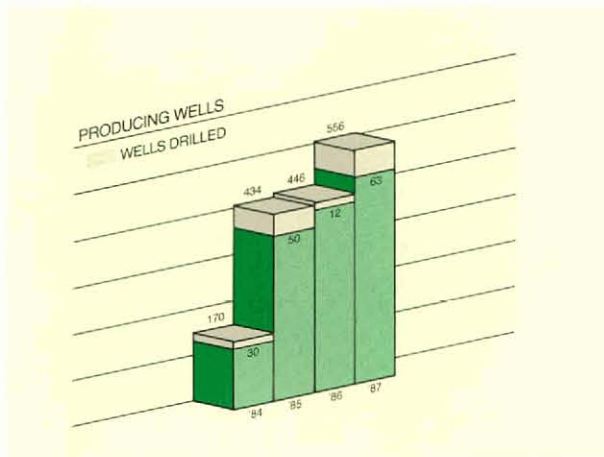
Petroleum and Natural Gas Reserves

Through development drilling and an amalgamation it was possible for Canadian Futurity to increase its reserve base quite substantially. These values, as evaluated by an independent engineering firm are as set out below:

Reserve Summary:
As at November 30:

| | 1987 | | 1986 | | 1985 | |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Oil MSTB | Gas MMCF | Oil MSTB | Gas MMCF | Oil MSTB | Gas MMCF |
| Proven | 1868 | 1680 | 1030 | 1223 | 1099 | 1170 |
| Probable | 1384 | 185 | 462 | 364 | 347 | 253 |
| Total | 3252 | 1865 | 1492 | 1587 | 1446 | 1423 |

Because a large number of our reserves are included in Voluntary Units currently under waterflood, the productive life index is in excess of 20 years.





FINANCIAL HIGHLIGHTS

Overview

1987 significantly strengthened the financial position of the company. A series of financing activities were completed which included the raising of \$1,485,000 of cash equity in order to finance our drilling programs, and the company also issued \$1,765,747 of capital stock to acquire three private companies. We were able to complete these financings and acquisitions at favorable terms during a period of low commodity prices.

Acquisitions

On June 1, 1987 Canadian Futurity acquired all the outstanding shares of Tiger Ventures and C & J Oils Inc. for 2,000,000 shares valued at \$1,300,000 and \$101,468 of cash. Further, on November 30, 1987 the company also acquired all the outstanding shares of 370651 Alberta Ltd. for 895,668 shares valued at \$465,747.

Debt Position

As at November 30, 1987 the company's long-term debt was \$4,080,000. The company assumed \$1,475,000 of Tiger Ventures debt as part of the June 1, 1987 acquisition, and has since reduced total long-term debt by \$1,217,464 to year end. At November 30 the company had \$300,000 of unused bank line of credit.

Revenues and Expenses

The company's oil and gas revenues after royalties were \$2,026,646 compared to \$1,705,683 in 1986. The 1987 total reflects the revenues from December 1, 1986 to November 30, 1987 for Canadian Futurity Oils Ltd., and the revenues for the company's wholly-owned subsidiaries Tiger Ventures Ltd. and C & J Oils Inc. for the period June 1, 1987 to November 30, 1987. Revenues from the company's other subsidiary 370651 Alberta Ltd. have not been reflected in the above totals as 370651 Alberta Ltd. was acquired just before year end. The company expects 1988 annualized revenues to increase significantly with the addition of Tiger Ventures Ltd., C & J Oils Inc. and 370651 Alberta Ltd.

Capital Expenditures

The company's total capital expenditures were \$4,270,784 which include the acquisitions of Tiger Ventures Ltd., C & J Oils Inc. and 370651 Alberta Ltd. Net cash expenditures amounted to \$1,465,124 in 1987.

Future capital projects will be financed from internally generated cash flows or by equity issues. Canadian Futurity does not capitalize any interest on administrative expenses.

| | STATISTICS | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|-----------|
| | 1987 | 1986 | 1985 | 1984 | 1983 |
| Gross Revenue | \$2,026,646 | \$1,705,683 | \$1,761,621 | \$1,690,735 | — |
| Cash Flow | 357,812 | 228,908 | 673,138 | 874,963 | (48,929) |
| Cash Flow per Share | 0.04 | 0.04 | 0.10 | 0.05 | (0.02) |
| Net Income (loss) | (388,788) | (1,775,365) | 155,138 | 270,963 | (48,929) |
| Net Income (loss) per Share | (0.04) | (0.28) | 0.03 | 0.01 | (0.02) |
| Total Assets | 13,954,539 | 7,728,350 | 10,433,075 | 4,905,590 | 13,462 |
| Capital Acquisitions | 4,270,784 | 538,092 | 5,577,310 | 4,768,313 | — |
| Shareholders' Equity | 5,723,749 | 3,286,790 | 5,062,155 | 2,744,185 | (310,586) |
| Common Shares Outstanding | 13,562,339 | 6,446,671 | 6,446,671 | 20,315,034 | 3,744,150 |

CANADIAN FUTURITY OILS LTD.

CONSOLIDATED BALANCE SHEET

AS AT NOVEMBER 30, 1987

| | <u>1987</u> | <u>1986</u> |
|---|-------------------|------------------|
| | <u>\$</u> | <u>\$</u> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and short-term deposits | 231,075 | 11,730 |
| Accounts receivable | 2,387,409 | 384,278 |
| Accounts receivable from related parties (Note 7) | 39,975 | 21,507 |
| Marketable securities and deposits | 21,638 | 29,477 |
| | <u>2,680,097</u> | <u>446,992</u> |
| EXPLORATION FUNDS RECEIVABLE (Note 6) | 425,000 | — |
| PROPERTY AND EQUIPMENT (Note 3) | 10,849,442 | 7,281,358 |
| | <u>13,954,539</u> | <u>7,728,350</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | 2,727,249 | 626,550 |
| Accounts payable to related parties (Note 7) | 9,489 | 17,394 |
| Current portion of long-term debt (Note 4) | 460,152 | 55,500 |
| | <u>3,196,890</u> | <u>699,444</u> |
| LONG-TERM DEBT (Note 4) | 4,080,000 | 3,742,116 |
| DEFERRED INCOME TAXES | 528,900 | — |
| FLOW THROUGH SHARES SUBSCRIBED (Note 6) | 425,000 | — |
| CONTINGENCIES (Note 9) | | |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 6) | 8,732,729 | 5,906,982 |
| DEFICIT | 3,008,980 | 2,620,192 |
| | <u>5,723,749</u> | <u>3,286,790</u> |
| | <u>13,954,539</u> | <u>7,728,350</u> |

APPROVED BY THE BOARD OF DIRECTORS

 , Director

 , Director

See accompanying notes

CANADIAN FUTURITY OILS LTD.

CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED NOVEMBER 30, 1987

| | <u>1987</u> \$ | <u>1986</u> \$ |
|--|-----------------------|-------------------------|
| REVENUE | | |
| Petroleum sales, net of royalties | 1,856,515 | 1,624,975 |
| Other | 170,131 | 80,708 |
| | <u>2,026,646</u> | <u>1,705,683</u> |
| EXPENSES | | |
| Depletion and depreciation | 702,700 | 2,222,273 |
| Production | 823,688 | 696,789 |
| Interest on long-term debt | 464,041 | 430,827 |
| General and administrative | 381,105 | 349,159 |
| | <u>2,371,534</u> | <u>3,699,048</u> |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM | 344,888 | 1,993,365 |
| PROVISION FOR (RECOVERY OF) INCOME TAXES | | |
| — Current | 17,421 | — |
| — Deferred | 43,900 | 218,000 |
| | <u>61,321</u> | <u>218,000</u> |
| LOSS BEFORE EXTRAORDINARY ITEM | 406,209 | 1,775,365 |
| EXTRAORDINARY ITEM | | |
| Recovery of income taxes — recognition of loss carry forwards | 17,421 | — |
| LOSS FOR THE YEAR | <u>388,788</u> | <u>1,775,365</u> |
| LOSS PER SHARE | <u>.04</u> | <u>.28</u> |

CANADIAN FUTURITY OILS LTD.

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED NOVEMBER 30, 1987

| | <u>1987</u> \$ | <u>1986</u> \$ |
|--|-------------------------|-------------------------|
| DEFICIT — BEGINNING OF YEAR | 2,620,192 | 844,827 |
| LOSS FOR THE YEAR | 388,788 | 1,775,365 |
| DEFICIT — END OF YEAR | <u>3,008,980</u> | <u>2,620,192</u> |

See accompanying notes

CANADIAN FUTURITY OILS LTD.

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

FOR THE YEAR ENDED NOVEMBER 30, 1987

| | <u>1987</u> \$ | <u>1986</u> \$ |
|--|---------------------------|--------------------|
| OPERATING | | |
| Cash from operations | | |
| Loss from operations | (344,888) | (1,993,365) |
| Add (deduct) item not involving cash from operations | | |
| Depletion and depreciation | 702,700 | 2,222,273 |
| Net change in non-cash working capital items | (39,679) | (1,392,906) |
| | <u>318,133</u> | <u>(1,163,998)</u> |
| FINANCING | | |
| Repayment of long-term debt | (1,217,464) | — |
| Issue of long-term debt | 725,000 | 1,649,232 |
| Issue of share capital for cash | 1,060,000 | — |
| Issue of share capital on acquisition of subsidiaries | 1,765,747 | — |
| | <u>2,333,284</u> | <u>1,649,232</u> |
| INVESTING | | |
| Purchase of property and equipment | (564,856) | (538,092) |
| Net assets of subsidiaries acquired | (1,867,216) | — |
| | <u>(2,432,072)</u> | <u>(538,092)</u> |
| INCREASE (DECREASE) IN CASH AND SHORT-TERM DEPOSITS | 219,345 | (52,858) |
| CASH AND SHORT-TERM DEPOSITS | | |
| — BEGINNING OF YEAR | <u>11,730</u> | <u>64,588</u> |
| CASH AND SHORT-TERM DEPOSITS | | |
| — END OF YEAR | <u>231,075</u> | <u>11,730</u> |

See accompanying notes

CANADIAN FUTURITY OILS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED NOVEMBER 30, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Snappy Business Forms Ltd., Tiger Ventures Ltd., C & J Oils Inc. and 370651 Alberta Ltd.

Oil and gas operations

The Company follows the full cost method of accounting for oil and gas activities whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs are accumulated in a single cost centre representing the Company's activity undertaken exclusively in Canada and are depleted using the unit-of-production method based on estimated proven oil and gas reserves as determined by an independent reservoir engineer. For purposes of the depletion calculation, gross proven oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content. The carrying value of unproven properties is excluded from the depletion calculation.

In applying the full cost method of accounting, capitalized costs less accumulated depletion are restricted from exceeding an amount equal to the estimated undiscounted future net revenues less the aggregate estimated future general and administrative, financing, and income tax costs derived from proven reserves plus the lower of cost and estimated fair value of unproven properties.

Future net revenues are calculated by multiplying net reserves by the average price of oil (\$23.50 per barrel) and gas (\$2.20 per thousand cubic feet) over the fiscal period. The year end price of oil and gas was not materially different from the yearly average price.

Investment tax credits

Investment tax credits are recorded as a reduction of the expenditure which generated the credit.

Marketable securities

Marketable securities are recorded at the lower of cost or market.

Joint venture accounting

Substantially all exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Accounts receivable and payable with joint venturers reflect their proportionate share of revenues net of royalties, operating expenses and capital expenditures.

Other assets

Other assets including office furniture and operating equipment, are recorded at cost and are depreciated on the diminishing balance basis at an annual rate of 20%.

Income taxes

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for income tax purposes and when they are recorded in the Statement of Loss.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. The inclusion of the additional number of shares issuable with respect to the stock options has no material effect on the loss per share.

2. ACQUISITIONS

Effective June 1, 1987, Canadian Futurity Oils Ltd. acquired 100% of the outstanding shares of Tiger Ventures Ltd. and C & J Oils Inc. In addition Canadian Futurity Oils Ltd. acquired 100% of the outstanding shares of 370651 Alberta Ltd. on November 30, 1987.

The November 30, 1987 figures reflect the operating results from December 1, 1986 to November 30, 1987 of Canadian Futurity Oils Ltd. and from June 1, 1987 to November 30, 1987 for Tiger Ventures Ltd. and C & J Oils Inc. 370651 Alberta Ltd. was acquired at year end and as a result no operating results of 370651 Alberta Ltd. have been reflected.

The purchase method of accounting has been applied, details are as follows:

| | Tiger Ventures Ltd. | C & J Oils Inc. | 370651 Alberta Ltd. |
|--|---------------------------|-----------------------|---------------------------|
| | \$ | \$ | \$ |
| Current assets | 152,905 | 447 | 282,303 |
| Current liabilities | 253,333 | 17,140 | 283,894 |
| | (100,428) | (16,693) | (1,591) |
| Property and equipment | 2,838,679 | 1 | 671,750 |
| | 2,738,251 | (16,692) | 670,159 |
| Deferred taxes | 485,000 | — | — |
| Long-term debt | 1,235,000 | — | — |
| Book value of assets over liabilities | 1,018,251 | (16,692) | 670,159 |
| Excess of cost over book value of assets assigned to property and equipment | 285,651 | 114,259 | (204,412) |
| Fair market value of net assets | <u>1,303,902</u> | <u>97,567</u> | <u>465,747</u> |

3. PROPERTY AND EQUIPMENT

| | 1987 | | | 1986 |
|---|-------------------|---|-------------------|-------------------|
| | Cost | Accumulated Depletion and Depreciation | Net Book Value | Net Book Value |
| | \$ | \$ | \$ | \$ |
| Petroleum and natural gas properties | 17,001,543 | 6,207,359 | 10,794,184 | 7,232,262 |
| Office furniture and operating equipment | 112,882 | 57,624 | 55,258 | 49,096 |
| | <u>17,114,425</u> | <u>6,264,983</u> | <u>10,849,442</u> | <u>7,281,358</u> |

4. LONG-TERM DEBT

| | 1987 | 1986 |
|--|------------------|------------------|
| | \$ | \$ |
| Demand bank loan with interest at prime plus 1%, secured by assignment of the Company's interest in and revenues from various oil and gas properties, a general assignment of book debts, assignment of Alberta Royalty Tax Credits, and a guarantee of Tiger Ventures Ltd. including a \$5,100,000 floating charge debenture relating to all the assets of Tiger Ventures Ltd. | 4,500,000 | 3,700,000 |
| Unsecured bank loans with interest at prime plus 1% and 14% repayable in monthly instalments of approximately \$5,000 | 40,152 | 97,616 |
| | <u>4,540,152</u> | 3,797,616 |
| Less: current portion | 460,152 | 55,500 |
| | <u>4,080,000</u> | <u>3,742,116</u> |

Principal repayments required on long-term debt in each of the next five years are as follows:

| | |
|------|---------|
| | \$ |
| 1988 | 460,152 |
| 1989 | 720,000 |
| 1990 | 720,000 |
| 1991 | 720,000 |
| 1992 | 720,000 |

5. INCOME TAXES

The following table reconciles the expected income tax recovery, calculated at statutory rates, with the actual tax provision:

| | 1987 | 1986 |
|--|-----------------|----------------|
| | \$ | \$ |
| Expected tax recovery | 143,345 | 997,000 |
| Non-taxable income in equity of subsidiary | 24,054 | — |
| Non-deductible crown payments | (21,036) | (39,000) |
| Depletion related to property and equipment which has no related tax basis | (66,271) | (387,000) |
| Resource allowance | 111,255 | 110,000 |
| Tax losses not booked due to a lack of virtual certainty of recovery | (252,668) | (463,000) |
| | <u>(61,321)</u> | <u>218,000</u> |

6. SHARE CAPITAL

- a) Authorized — 50,000,000 Class "A" voting shares without nominal or par value
 — 25,000,000 Class "B" shares without nominal or par value
 — 25,000,000 Class "C" shares without nominal or par value

- b) Issued

Changes in issued Class "A" share capital are summarized below:

| | Number of Shares | \$ |
|---|-------------------|------------------|
| Balance — beginning of year | 6,446,671 | 5,906,982 |
| Issued for cash | 4,220,000 | 1,060,000 |
| Issued on acquisition of the shares of Tiger Ventures Ltd. and C & J Oils Inc. | 2,000,000 | 1,300,000 |
| Issued on acquisition of the shares of 370651 Alberta Ltd. | 895,668 | 465,747 |
| Balance — end of year | <u>13,562,339</u> | <u>8,732,729</u> |
| Shares to be issued pursuant to flow through arrangements | <u>812,426</u> | <u>425,000</u> |

The Company entered into an exploratory flow through share agreement on September 18, 1987 for a maximum of \$500,000. The agreement closed on December 31, 1987 for \$425,000 whereby the Company is obligated to incur \$425,000 of exploratory expenses by February 29, 1988 and renounce such expenses to subscribers.

- c) Stock Options

The Company has outstanding stock options to certain officers to purchase 320,337 Class "A" shares at a price of \$0.15 per share. These options expire in 1991.

The Company also has outstanding stock options to certain directors to purchase 322,333 Class "A" shares at a price of \$0.18 per share. These options expire in 1992.

7. RELATED PARTY TRANSACTIONS

Amounts due to and from related parties result from joint venture operations with companies owned by officers and directors. A director is a partner in a law firm that provided legal services at a cost of \$13,885 (none in 1986). A director received commissions of \$5,500 (none in 1986).

8. SEGMENTED INFORMATION

During the year, the Company operated in one business segment, the exploration and development of oil and gas in Canada.

9. CONTINGENCIES

- a) The Company's wholly-owned subsidiary, Snappy Business Forms Ltd., guaranteed a bank liability of a previous shareholder's private company in the amount of \$68,000. This guarantee was called during the year ended November 30, 1986. However, management is of the opinion that because Snappy Business Forms Ltd. has no assets, this action will have no effect on the financial results of the Company.
- b) Statements of Claim have been filed against Canadian Futurity Oils Ltd. These claims arise from the Company being elected operator of three waterflood units following the resignation of the previous operator. The Plaintiffs desire to be appointed operator of the units and recover unspecified damages in the amount of \$500,000 plus costs in each action. A statement of defense has been filed and management is of the opinion that the claim can be defended.

10. SUBSEQUENT EVENTS

- a) On December 31, 1987 the Company issued a 191,160 flow through share private placement for \$100,000. The Company is obligated to incur \$100,000 of Canadian exploration expenses by February 29, 1988 and renounce such expenses to the subscribers.
- b) The Board of Directors approved 782,667 Employee and Directors incentive options at \$0.53 per share which are subject to shareholders approval.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Futurity Oils Ltd. as at November 30, 1987 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1987 and the results of its operations and the changes in its 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, Canada
March 25, 1988

VENNARD JOHANNESEN & CO.
Chartered Accountants



BOARD OF DIRECTORS

HARRY J. HODGE, Toronto, Ontario
Chairman, Canadian Futurity Oils Ltd.

PETER J. GROSS, Calgary, Alberta
President, Canadian Futurity Oils Ltd.

JOHN C. MCGILVARY, Calgary, Alberta
Vice President, Canadian Futurity Oils Ltd.

WILLIAM A. RABATICH, Calgary, Alberta
Controller, Canadian Futurity Oils Ltd.

WAYNE G. BEACH, Toronto, Ontario
Partner, Beach, Hepburn Barristers & Solicitors

R.W. CAIRNS, Toronto, Ontario
Senior Vice President,
Canarim Investment Corporation Ltd.

MEMBERS OF THE AUDIT COMMITTEE

Harry J. Hodge
Ronald W. Cairns
William A. Rabatich

REGISTRAR AND TRANSFER AGENT

Central Trust Company
401 - 9 Avenue S.W.
Calgary, Alberta
T2P 3K5

CORPORATE OFFICERS

Peter J. GrossPresident
John C. McGilvaryVice President
William A. Rabatich, C.A.Controller, Secretary

BANKING AFFILIATIONS

Bank of Montreal
First Canadian Centre
340 - 7th Avenue S.W.
Calgary, Alberta
T2P 0X4

SOLICITORS

Cook Snowdon
900, 340 - 12 Avenue S.W.
Calgary, Alberta
T2R 1L6

AUDITORS

Vennard Johannesen & Co.
1700, 801 - 6 Avenue S.W.
Calgary, Alberta
T2P 3W2

WHOLLY-OWNED SUBSIDIARIES

Snappy Business Forms Ltd.
Tiger Ventures Ltd.
C & J Oils Inc.
370651 Alberta Ltd.

SHARE TRADING RECORD The Vancouver Stock Exchange (CAF.A)

| <u>Year</u> | <u>High</u> | <u>Low</u> | <u>Close</u> | <u>Share Volume</u> |
|-------------|-------------|------------|--------------|---------------------|
| 1986 | \$.80 | .05 | .09 | 490,322 |
| 1987 | \$.75 | .08 | .52 | 4,773,709 |



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MCARA
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LIMITED
Calgary, Alberta, Canada

The logo for MCARA Printing Limited features a stylized graphic of three vertical bars of varying heights, resembling a bar chart or a printing-related symbol.