ANNUAL REPORT

CanDel

TRANSFER AGENTS

National Trust Company, Limited
Calgary, Alberta

National Trust Company, Limited
Toronto, Ontario

Chemical Bank,
New York, New York

Republic National Bank of Dallas
Dallas, Texas

REGISTRARS

National Trust Company, Limited
Calgary, Alberta

The Chase Manhattan Bank, N.A.,
New York, New York

First National Bank of Dallas
Dallas, Texas

The Annual Meeting of Shareholders will be held in the Banff Suite, Calgary Inn, Calgary, Alberta on Tuesday, July 18, 1972 at 11:00 a.m.

HEAD OFFICE

28th Floor, One Calgary Place
330 Fifth Avenue S.W.
Calgary, Alberta T2P 0L4

STOCK LISTING

Toronto Stock Exchange
Canadian Stock Exchange

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

GENERAL COUNSEL

MacKimmie Matthews
Calgary, Alberta

CANDEL OIL LTD.
28th Floor, One Calgary Place,
330 Fifth Avenue S.W.
Calgary, Alberta
T2P 0L4

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS OF
CANDEL OIL LTD.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of CanDel Oil Ltd. will be held in the Banff Suite of the Calgary Inn, in the City of Calgary, in the Province of Alberta, Canada, at 11:00 o'clock in the forenoon (M.D.T.) on Tuesday the 18th day of July, A.D. 1972 for the following purposes:

1. To receive and consider the report of the Directors and the financial statements for 1971.

2. To elect Directors for the ensuing year.

3. To appoint Auditors for the ensuing year.

4. To transact such other business, as may properly come before the Meeting or any adjournment or adjournments thereof.

If any Shareholder is unable to be present at the Annual General Meeting, he is requested to kindly sign and return the attached proxy to the registered office of the Company, 28th Floor, One Calgary Place, 330 Fifth Avenue S.W., Calgary, Alberta T2P 0L4.

Shareholders may, if they wish, strike out the names of the persons named in the enclosed proxy and substitute others.

DATED at Calgary, in the Province of Alberta, this 6th day of June, A.D. 1972.

By Order of the Board,

STANLEY W. JONES,
Secretary.

CANDEL OIL LTD.

PROXY STATEMENT

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation of proxies by the Management of CanDel Oil Ltd., (hereinafter called the "Company"), to be used at the Annual General Meeting of the Company to be held on July 18, 1972, at the time and place and for the purposes set forth in the accompanying Notice of Meeting. All persons who are shareholders of record at the time of the Meeting are entitled to vote thereat. The solicitation will be by mail, but proxies may also be solicited personally by the Directors and Officers of the Company. All expenses in connection with this solicitation by the Management to the registered shareholders will be borne by the Company.

Appointment, Revocation and Delivery of Proxies

The persons named in the attached Instrument of Proxy are directors of the Company. A shareholder desiring to appoint some other person to represent him at the Meeting may do so either by inserting such person's name in the blank space provided in the Instrument of Proxy, or by completing another proper form of proxy and in either case depositing it with the Secretary of the Company within the time hereinafter specified for receipt of Instruments of Proxy. A person appointed as a proxy need not be a shareholder of the Company.

A shareholder who has given an Instrument of Proxy may revoke it as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by it, by signing another Instrument of Proxy bearing a later date and depositing it with the Secretary of the Company within the time hereinafter specified for receipt of Instruments of Proxy, or by signing a written notice of revocation and depositing it with the Secretary of the Company at One Calgary Place S.W., Calgary, Alberta T2P 0L4 before the time fixed for the commencement of the Meeting; otherwise it shall be invalid.

Exercise of Discretion by Proxies

The persons named in the attached Instrument of Proxy will, if it is duly completed and timely deposited, vote the shares in respect of which they are appointed in accordance with any specifications indicated in the manner provided by the form of Instrument of Proxy. In the absence of any direction to the contrary, the shares represented by the Instruments of Proxy, duly completed and timely deposited, will be voted (a) for the approval of the Directors' Report, Financial Statements and Auditors' Report (b) for the election of directors, and (c) for the appointment of auditors, as stated under those headings in this Proxy Statement.

In case the address of a shareholder signing an Instrument of Proxy appears on the records of the Company to be in the United States of America, it will not be used in connection with any vote on the Directors' Report, Financial Statements and Auditors' Report.

The attached Instrument of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the time of printing this Proxy Statement, the Management of the Company knows of no such amendments, variations or other matters to come before the Meeting, other than the matters referred to in the Notice of Meeting.

Voting Shares and Principal Holders Thereof

The Company has outstanding at the date of this notice 4,177,182 common shares each of $3.00 (Canadian) par value. Each share is entitled to one vote per share at the Annual Meeting and all proxies must be deposited with the Secretary at or prior to the meeting.

To the knowledge of the Directors and Senior Officers of the Company, St. Joe Minerals Corporation (a New York corporation) which owns 93.6% of the shares outstanding is the only company or person beneficially owning directly or indirectly more than 10% of the common shares of the Company.

Directors' Report and Financial Statements

The Directors' Report, the Consolidated Financial Statements for the year ended December 31, 1971, and the Auditors' Report, will be presented for the consideration and approval of shareholders at the Meeting. The persons named in the attached Instrument of Proxy will vote the shares in respect of which they are appointed as director, or, in the absence of any direction, in favour of the approval of the Directors' Report, Consolidated Financial Statements and the Auditors' Report, except that **where the address of the shareholder signing the Proxy appears in the records of the Company to be in the United States of America, the shares will not be voted either for or against such approval.**

MANAGEMENT NOMINEES FOR ELECTION AS DIRECTORS

All of the following nominees, with the exception of William M. Hatch and James A. Millard are presently serving as Directors of the Company. The By-Laws of the Company provide that the Directors shall be elected annually and shall hold office until their successors shall have been duly elected or appointed. Messrs. Craig, Duncan and Ritts are nominees of St. Joe Minerals Corporation, the holder of 93.62% of the voting shares of the Company.

Name	Principal Occupation	Office In Company	Year First Elected or Appointed	Principal Occupation Past Five Years
J. Brian Aune	Vice President and Director Nesbitt Thomson and Company Limited Montreal, Quebec Investment Dealer	Director	1972	Vice President, Nesbitt Thomson and Company Limited since 1971, and a director since 1970. Previously employed in the Underwriting Department of that company.
D. Broward Craig	Executive Vice President St. Joe Minerals Corporation, New York, N.Y. A lead and zinc producer	Director	1972	Executive Vice President and Trustee of St. Joe. Previously Vice President Finance and Development (1970-1971), Vice President (1967-1970) and Secretary (1964-1967) of St. Joe.
John C. Duncan	President St. Joe Minerals Corporation, New York, N.Y. A lead and zinc producer	Director	1972	President (since May 1971) and Trustee (since June 1970) of St. Joe. Previously Senior Vice President of St. Joe (October, 1970 - May, 1971). Previously Executive Vice President and Director of W.R. Grace & Company.
William M. Hatch	Chairman and President McLarens Foods Ltd., Toronto, Ontario A food processing company			Chairman, President and Treasurer of McLarens Foods Ltd., Toronto, Ontario.
William C. Leuschner	Senior Vice President and Chief Operating Officer of the Company	Senior Vice President Chief Operating Officer and Director	1972	Senior Vice President and Chief Operating Officer of the Company since 1970; previously Vice President-Exploration of the Company.
Ross A. MacKimmie, Q.C.	Partner, MacKimmie, Matthews, Lawyers, Calgary, Alberta	Director	1966	Partner, MacKimmie, Matthews Calgary, Alberta.
J. A. Millard	Partner, MacKimmie, Matthews, Lawyers, Calgary, Alberta			Partner, MacKimmie, Matthews Calgary, Alberta.
Smiley Raborn, Jr.	President and Chief Executive Officer of the Company	President, Chief Executive Officer and Director	1954	President of the Company.
L. Chase Ritts, Jr.	Independent Petroleum Consultant, New York, N.Y.	Director	1972	Independent petroleum consultant for St. Joe and others since October 1971; previously President of Union Carbide Petroleum Corporation (1967-1971); President of American International Oil Company (1962-1967).

None of the nominees for election as directors has any beneficial ownership of common shares of the Company, except that Messrs. Duncan and Craig are President and Executive Vice-President respectively of St. Joe Minerals Corporation, the holder of 93.6% of the shares of the Company.

REMUNERATION AND EMPLOYEE PLANS

The following tables set forth the remuneration paid by the Company in 1971 to each Director or Officer whose aggregate direct remuneration exceeded $30,000, and to all Directors and Officers as a group:

Payee	Capacity	Aggregate Direct Remuneration	Estimated Annual Retirement Benefits
Smiley Raborn, Jr.	President & Director	$ 46,875	$ 22,589
All Directors and Officers as a group Consisting of 13 persons		$153,791	$ 82,352

Under the Employees Stock Option Plan of the Company, adopted by its Board of Directors on November 8, 1971, and ratified by its shareholders on December 29, 1971, a committee of three directors has been authorized to grant to officers and other key employees options to purchase an aggregate of 100,000 shares of the Company.

The term of each option granted under the Plan may not exceed 10 years from the date of grant. Each option is also subject to earlier termination upon the happening of certain events. Under the Plan, the option price per share may not be less than 100% of the closing price of the Company's shares on The Toronto Stock Exchange on the date the option is granted. The Plan provides for appropriate adjustment in the number of shares subject to options granted and the exercise price in the event of a stock split, stock dividend, combination of shares, merger or other relevant change in the Company's capitalization.

All the outstanding options expire five years from the date of grant, subject to acceleration in the event of death or termination of employment under certain conditions, and are exercisable in cumulative annual installments of 25% of the number of shares subject thereto, commencing one year from the date of grant. The options are non-transferable. Except in the event of death of the optionee or in the event of the optionee's involuntary termination of employment with the Company each option may be exercised only while the optionee is in the employ of the Company.

As of May 31, 1972, there were outstanding options to purchase an aggregate of 61,400 shares of the Company at a price of $8.75 per share and 6,250 shares of the Company at a price of $9.50 per share. Such prices were equal to the market prices at the respective dates of grant. The market value of the Company's shares at May 31, 1972, was $11.00 per share. Officers and directors of the Company as a group (13 persons) on May 31, 1972 held options to purchase an aggregate of 46,750 shares. On that date, Smiley Raborn, Jr., President and a director of the Company, held options to purchase 17,000 shares at a price of $8.75 per share.

Appointment of Auditors

Management recommends the re-appointment of Peat, Marwick Mitchell & Co. as Auditors of the Company for 1972 and that the Directors be authorized to fix their remuneration.

By Order of the Board of Directors

Stanley W. Jones
Secretary

PRINTED IN CANADA

CanDel Oil Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1972

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of CanDel Oil Ltd. and its wholly-owned subsidiary as of March 31, 1972, and the consolidated statements of income, retained earnings and source and use of funds for the three months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972, and the results of their operations and the source and use of their funds for the three months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
May 31, 1972

CanDel Oil Ltd.

CONSOLIDATED STATEMENT OF INCOME

Three Months Ended March 31, 1972

(with comparative figures for 1971)

	1972	1971 (unaudited)
INCOME:		
Crude oil and natural gas liquids sales	$ 1,320,000	$ 1,340,000
Natural gas sales	988,000	937,000
Other	40,000	82,000
	2,348,000	2,359,000
EXPENSE:		
Operating expenses	438,000	447,000
General and administrative expenses (Note 4)	103,000	77,000
Depreciation	208,000	216,000
Depletion (Note 1)	596,000	543,000
Interest on long-term debt	58,000	118,000
Other interest	20,000	18,000
Foreign exchange losses on long-term debt	24,000	28,000
Mineral and foreign exploration costs	95,000	—
	1,542,000	1,447,000
NET INCOME (Notes 1 and 5)	$ 806,000	$ 912,000
NET INCOME PER SHARE (Note 3)	$ .19	$ .22

See accompanying notes to consolidated financial statements

CanDel Oil Ltd.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Three Months Ended March 31, 1972

(with comparative figures for 1971)

	1972	1971 (unaudited)
RETAINED EARNINGS, January 1	$13,891,000	10,692,000
Net income for the period	806,000	912,000
RETAINED EARNINGS, March 31	$14,697,000	$11,604,000

See accompanying notes to consolidated financial statements

CanDel Oil Ltd.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Three Months Ended March 31, 1972

(with comparative figures for 1971)

	1972	1971 (unaudited)
SOURCE OF FUNDS:		
Net income	$ 806,000	$ 912,000
Add: Charges to income not requiring funds	804,000	759,000
Mineral and foreign exploration costs charged to income	95,000	—
Funds provided from operations	1,705,000	1,671,000
Sale of assets	22,000	—
	1,727,000	1,671,000
USE OF FUNDS:		
Additions to property, plant and equipment	1,633,000	1,641,000
Reduction of long-term debt	420,000	923,000
Other	11,000	(141,000)
	2,064,000	2,423,000
INCREASE IN WORKING CAPITAL DEFICIENCY	$ 337,000	$ 752,000

See accompanying notes to consolidated financial statements

CanDel

CONSOLIDATED I

March 3

(with comparative

ASSETS

	1972	1971 (unaudited)
CURRENT ASSETS:		
Cash	$ 128,000	$ 407,000
Accounts receivable	3,261,000	2,070,000
Materials and supplies - at lower of cost or replacement cost	261,000	102,000
Other current assets	2,000	35,000
Total current assets	3,652,000	2,614,000
PROPERTY, PLANT AND EQUIPMENT — at cost (Notes 1 and 2):		
Petroleum and natural gas leases and rights including exploration and development thereon	46,505,000	43,791,000
Less accumulated depletion	20,896,000	18,613,000
	25,609,000	25,178,000
Production and other equipment	16,003,000	15,199,000
Less accumulated depreciation	9,716,000	9,008,000
	6,287,000	6,191,000
	31,896,000	31,369,000
OTHER ASSETS	67,000	63,000
	$35,615,000	$34,046,000

Approved on behalf of the Board:

S. RABORN, JR., Director

R. A. MacKIMMIE, Director

See accompanying notes to c

Oil Ltd.

BALANCE SHEET

1, 1972

figures for 1971)

LIABILITIES

	1972	1971 (unaudited)
CURRENT LIABILITIES:		
Due to bank:		
Secured by accounts receivable	$ 750,000	$ 1,250,000
Secured by assignment of interest in certain producing properties	985,000	1,860,000
Accounts payable and accrued expenses	4,541,000	1,942,000
Current portion of 6¼% secured notes repayable in U.S. funds in amount of $1,881,000 (1971 — $1,873,000)	1,885,000	1,921,000
Total current liabilities	8,161,000	6,973,000
LONG-TERM DEBT (net of current portion):		
Bank loan — secured	—	985,000
6¼% secured notes repayable in U.S. funds in amount of $195,000 (1971 — $2,012,000) (Note 2)	185,000	1,913,000
	185,000	2,898,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Common stock of a par value of $3 per share:		
Authorized 6,250,000 shares		
Outstanding 4,177,182 shares	12,532,000	—
(1971 authorized 12,500,000 shares without nominal or par value, outstanding 8,354,364 shares)	—	12,571,000
Contributed surplus (Note 3)	40,000	—
Retained earnings	14,697,000	11,604,000
	27,269,000	24,175,000
COMMITMENTS AND CONTINGENCY (Note 6)		
	$35,615,000	$34,046,000

onsolidated financial statements

CanDel Oil Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1972

1. ACCOUNTING PRINCIPLES

(a) Full Cost Method of Accounting

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and general and administrative expenses directly related to exploration activities. All such costs are being depleted on a composite unit-of-production method based on estimated recoverable reserves.

The full cost method of accounting was adopted in 1971 retroactive to January 1, 1962. Accordingly, the comparative unaudited figures for the three months ended March 31, 1971 have been restated on the full cost basis.

(b) Depreciation

Depreciation on lease and well equipment, gas processing plants and pipeline facilities is provided on a unit-of-production basis. Other assets are depreciated over their estimated useful lives.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of CanDel Oil Ltd. and its wholly owned subsidiary Candel Petroleum (U.K.) Limited which was formed during 1971 to conduct petroleum exploration in the United Kingdom.

2. LONG-TERM DEBT

The Company has outstanding at March 31, 1972 $2,076,000 U.S. of 6¼% secured notes due September 15, 1974. The portion of this indebtedness, shown under current liabilities, represents the Canadian dollar equivalent payable within one year. The portion shown under long-term debt is the Canadian dollar equivalent of United States dollars on the date of receipt. The notes are secured by certain oil and gas properties and a gas processing plant and an assignment of a specified percentage of the proceeds of production from these properties.

3. CAPITAL STOCK

(a) Consolidation of Shares

At a special general meeting of the Company's shareholders held on December 29, 1971 shareholders approved consolidation of the Company's issued and unissued capital stock through a one for two reverse split of its shares and a change of its shares from no par value to a par value of $3 per share. Earnings per share for the three months ended March 31, 1971 have been calculated based on the number of shares outstanding after giving effect to the reverse stock split. The contributed surplus as at March 31, 1972 of $40,000 represents the excess of the capital stock account prior to consolidation over the amount resulting from the creation of 4,177,182 shares of $3 par value.

(b) Employees' Stock Option Plan

Under the Employees' Stock Option Plan options are outstanding at March 31, 1972, to purchase 67,650 shares at prices ranging from $8.75 to $9.50 per share being the market prices at date of grant. The options are for a period of five years and commencing one year after the date of grant may be exercised in annual installments amounting to 25% of the shares under option. Under the plan 100,000 shares have been reserved for issuance to officers and employees.

4. AMOUNTS PAID TO DIRECTORS AND OFFICERS

During the three months ended March 31, 1972, the Company had nine directors and thirteen officers, five of whom served in both capacities. No remuneration was paid to directors as such. General and administrative expenses for the period include $54,000 for remuneration paid to officers of the Company.

5. INCOME TAXES

For income tax purposes the Company may claim capital cost allowances (depreciation) and exploration, development and lease acquisition costs which exceed the related amounts charged to expense in the financial accounts. For the three months ended March 31, 1971 and 1972 capital cost allowances have been or will be claimed equal to the depreciation recorded in the accounts. However, sufficient exploration, development and lease acquisition costs have been or will be claimed to eliminate taxable income.

No provision has been made for deferred income taxes resulting from claiming for income tax purposes, exploration, development and lease acquisition costs in excess of the amounts charged to expense in the financial accounts. The Canadian Institute of Chartered Accountants has recommended the tax allocation basis of accounting for all differences in the timing of deductions for tax and accounting purposes. The Company, in common with many other companies in the Canadian oil and gas industry, does not believe that tax allocation in respect of exploration, development and lease acquisition costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

If the tax allocation basis had been followed for all differences in the timing of deductions for tax and accounting purposes, the amounts of the provisions for deferred income taxes for the three months ended March 31, 1971 and 1972 would have been as follows and net income would have been reduced accordingly:

	Reduction in Net Income Resulting from Deferred Income Taxes	
	Total	**Per share***
Three months ended March 31:		
1971	$323,000	.08
1972	260,000	.06

*The per share reduction in net income has been adjusted for the consolidation of shares (Note 3).

On a cumulative basis to March 31, 1972, the Company has claimed exploration, development, lease acquisition costs and capital cost allowances for income tax purposes of approximately $14,650,000 in excess of the amounts written off its accounts.

At March 31, 1972 the following amounts remained to be carried forward and applied against future taxable income:

Exploration, development and lease acquisition costs	$15,690,000
Unclaimed capital cost allowances	7,700,000

Of the $15,690,000 shown above, approximately $2,500,000 is being disputed by the Canadian income tax authorities.

6. COMMITMENTS AND CONTINGENCY

The Company has entered into an agreement to participate in exploration activities in the Northwest and Yukon Territories together with three other companies, all of which are referred to as the "Northwest Exploration Group". As manager of the project, the Company has committed to conduct such activities, prior to June 30, 1973, which are estimated to cost approximately $8,000,000. The other members of the Group are committed to reimburse the Company for 80% of such costs incurred by the Company as manager and to receive 80% of any rights acquired.

The Company has entered into a long-term lease for the use of office premises. The initial lease extends to 1979 and requires annual payments of $62,500.

As security for the performance of work obligations on exploration permits it holds, the Company has deposited $622,000 of non-interest bearing promissory notes with governmental authorities.

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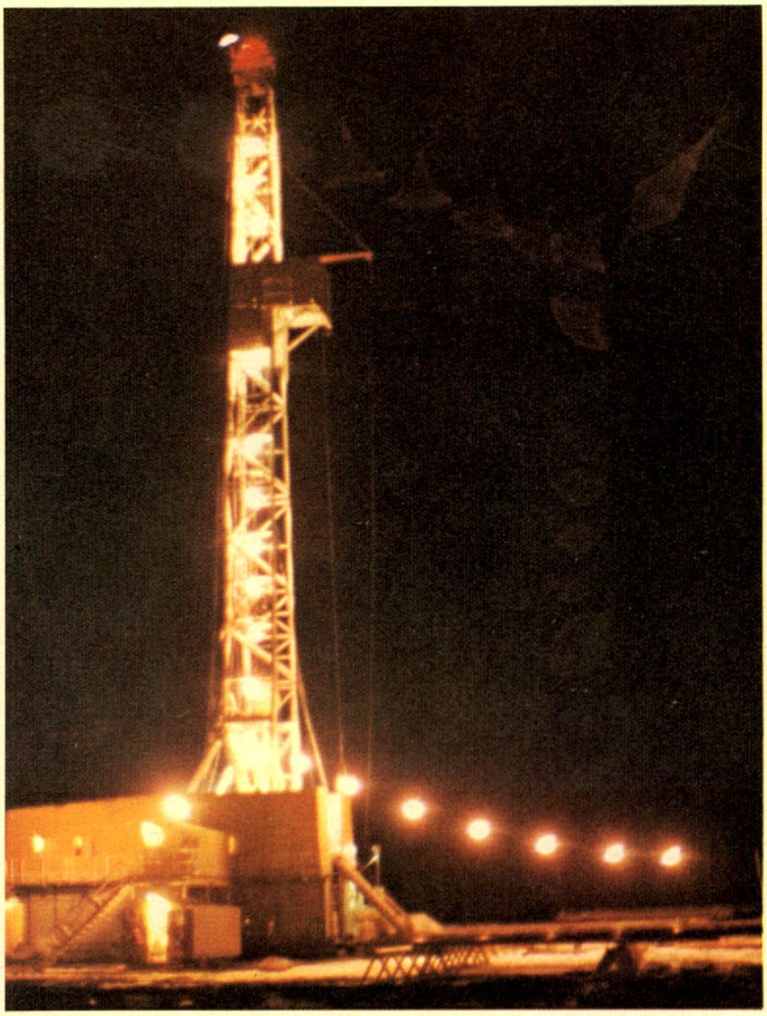


HIGHLIGHTS

FINANCIAL

	1971	1970
Crude oil and natural gas liquids sales	$5,285,000	$5,115,000
Natural gas sales	3,756,000	3,762,000
Funds provided from operations	6,275,000	5,896,000
Per share	1.50	1.41
Net income	3,199,000	2,642,000
Per share	.77	.63

OPERATING

	1971	1970
Crude oil and natural gas liquids sales — Bbls. per day	5,817	6,283
Natural gas sales — Mcf. per day	66,180	66,507

CanDel Oil Ltd.

TO OUR SHAREHOLDERS

It is a pleasure to report to you, some recent changes that have transformed our company into a new organization with new strength, new objectives and plans:

NEW NAME	CanDel Oil Ltd.
NEW CAPITALIZATION	Result of a one for two share consolidation.
NEW DIRECTORS	Seven new directors to be elected to our nine man board.
NEW SHAREHOLDER	St. Joe Minerals Corporation, a major international mining company, has become our controlling shareholder.
NEW ACCOUNTING	The full cost method of accounting was adopted late last year.
NEW FINANCIAL STRENGTH	Long term debt will be completely eliminated early in 1973, permitting the commencement of a broad and aggressive exploration program.
NEW OBJECTIVES	To build a strong and venturesome natural resource company. To achieve maximum profitability while maintaining the position of a first-class corporate citizen.
NEW PLANS	New exploration management has developed long range plans and guide-lines to achieve our new objectives which will provide maximum exposure to exploration success and permit leverage of CanDel's equity in discoveries.
NEW PERSONNEL	Your company has augmented an experienced and well-trained nucleus with new and competent personnel, in all departments.
NEW OPPORTUNITIES	CanDel, with its new financial strength, new goals, new attitude, new people and new policies, is in an excellent position to capitalize on the booming demand for oil and gas and anticipated well-head price increases.

This transformation in the character of your Company is of paramount significance and introduces an exciting new chapter in CanDel's history.

Highlights of financial and operating results for 1971 are presented on the page preceding this letter, and explained in detail in other sections of the report. Our net earnings for the year were $3,199,000 or 77 cents per share, which is an increase of 21 percent over the $2,642,000 or 63 cents per share for 1970. Cash flow reached an all time high of $6,275,000 or $1.50 per share, representing a 6 percent gain over the $5,896,000 or $1.41 for the year before. Gross revenues from all sources amounted to $9,237,000 for 1971 compared to $9,034,000 for 1970.

Although crude oil and natural gas liquid production for the past year declined to 5,817 barrels a day from the 6,283 barrels for the year before, revenues for this production increased marginally to $5,285,000 from $5,115,000 the previous year. This was because the price increase received during the latter part of 1970 was enjoyed during the entire year of 1971.

Revenues from natural gas sales and volumes of gas sold during the year were at about the same levels as in 1970. Average daily production for 1971 was 66.2 million cubic feet resulting in income of $3,756,000 with sales for the preceding year bringing $3,762,000 on a corresponding daily production of 66.5 million cubic feet.

CanDel's 1971 drilling program involved participation in 28 wells, all located in Western Canada. Twenty of these were exploratory and produced three gas discoveries in Alberta and British Columbia and one non-commercial heavy oil discovery in the Northwest Territories. Two gas wells and one oil well were completed as a consequence of an eight well development schedule.

As stated in last year's annual report, your management is optimistic over possibilities for improvement in well-head prices. There appears to be general agreement that natural gas is unrealistically low priced. Events point toward this situation being rectified very soon in order to establish necessary incentive to explore for urgently needed reserves. This circumstance is particularly significant to CanDel as 83 percent of our gas sales volumes are delivered under contract terms that will be renegotiated before July 1, 1973. The crude oil price situation is not clear. However, we believe that natural market forces will prevail and lead to an improvement.

Our long planned for condition, of being free of the burden of heavy debt is practically a reality. This allows us to abandon our conservative exploration stance. We are phasing in a greatly enhanced exploration budget and program that will present the Company with the probability of a high degree of discovery success and maximal ownership in reserves found. This has led to a 25 percent expansion in the number of our employees during the last twelve months. On December 29 our shareholders, at a special general meeting, adopted "CanDel Oil Ltd." as the new name for the Company. A one for two share consolidation was approved and an incentive stock option plan for key employees was established.

A transaction between St. Joe Minerals Corporation and The Standard Oil Company of Ohio was consummated on May 18th of this year in which St. Joe became the owner of 93.6 percent of the outstanding shares of CanDel. St. Joe has stated that its policy as controlling shareholder is for the Company to utilize the maximum of its financial resources in expanding its exploration and production activities.

Following the sale, Messrs. J. D. Harnett; R. A. Hart; J. L. Ross; C. E. Spahr; D. G. Stevens and A. W. Whitehouse, Jr. resigned as directors of the Company. Subsequently Messrs. John C. Duncan; D. Broward Craig; L. C. Ritts, Jr., and J. Brian Aune were appointed to the Board. In August of 1971, Mr. S. McKinnon resigned as a Director and was replaced by Mr. W. C. Leuschner. The guidance and counselling of the departing directors has played a major role in the progress of our Company and we are deeply appreciative of their contribution.

CanDel is staffed with fine and competent people. The Directors wish to register their acknowledgement and gratefulness for the job they have done and the manner in which the transition into a new Company has been received by them.

Smiley Raborn, Jr.

June 15, 1972

President and Chief Executive Officer

CanDel OIL LTD.

OPERATIONS

Exploration

In view of CanDel's improved financial position, your Company has developed plans for new exploratory joint interest ventures designed to provide maximum exposure toward striking large oil and gas reserves in northern and western Canada. Geological studies indicate such reserves are still to be found in the huge and promising sedimentary basin stretching from the United States border on the south to the Alaskan state line.

The Mackenzie River Valley, known as the "transportation" or "pipeline corridor", is the search area for one of these ventures. It is called the Northwest Exploration Project with CanDel as manager. Partners in the project are the Canadian subsidiaries of Consolidated Natural Gas Company, El Paso Natural Gas Company and Texas Gas Exploration Corporation. Drilling and seismic operations commenced early this year. Principal objectives are big gas fields along the "pipeline corridor", down the Mackenzie River to the Alaskan border near the huge oil and gas fields on the North Slope.

In addition, we are working on a second joint interest venture called the ABC Exploration Project. This project will seek oil and gas reserves from the southern border of the Territories, through British Columbia and Alberta to the United States border. Our portion of the costs for these two ventures will be $10 million over the next five years. An additional $10 to $15 million will be expended by CanDel to expand exploration activities in western Canada and other areas.

The future will see your Company aggressively exploring in all areas of geologic and economic promise. The critical energy shortage in North America has provided the incentive.

TABLE OF DRILLING RESULTS
Year 1971

	Gas	Oil	Dry	Gross	Net
Exploratory	3	1	16	20	4.6
Development	2	1	5	8	3.0
Totals	5	2	21	28	7.6

Drilling

CanDel held varying interests in 28 exploration and development wells during 1971, resulting in five gas and two oil completions, with one additional well drilling at year end. Two gas discoveries were made in southern Alberta and one in northeastern British Columbia and one heavy oil discovery in the Northwest Territories. Thirteen additional wells were drilled adjacent to Company lands and were supported by acreage contributions and drilling options.

Yukon and Northwest Territories

Since CanDel's recent entry into the Territories we have participated in drilling thirteen "wildcats". We have acquired by surveying, trade and purchase, and by farm-in arrangements over 4,000 miles of recent seismic data. The Company, as a result of this activity, has acquired interests in 1,717,886 gross acres and drilling and seismic options on an additional 6,390,810 gross acres. The CanDel DECKMG et al East Mackay B-45 well, located 70 miles from Norman Wells, resulted in a non-commercial heavy oil discovery. The remainder of the wildcats have been abandoned.

Mackenzie River Valley, Northwest Territories — in Winter

— in Summer

Alberta, British Columbia, Saskatchewan

CanDel holds interests in 1,730,750 gross acres in the western provinces and will step up exploration activities in the foothills and deep-basin parts of Alberta and British Columbia. During the past year we participated in drilling 22 wells; six were drilled under farmout arrangements at no cost to the Company. This drilling resulted in the completion of two Cretaceous gas wells in the Enchant area of southern Alberta and a dual zone Triassic and Mississippian gas discovery in northeastern British Columbia. Follow-up drilling to these discoveries is planned for later this year.

Development drilling included two gas and one oil completions. Gas wells were completed at Normandville in Alberta and at Peejay in British Columbia. The oil producer was drilled at Cessford in Alberta. Since year end we have drilled 12 additional wells resulting in six oil completions at Peejay in northeastern British Columbia.

Mineral Exploration

CanDel participated in five crew months of surface geological and geophysical prospecting on mineral holdings in northern Saskatchewan. Early this year we participated in diamond drill coring, totalling 7,000 feet, on our lands. To date, no mineral occurrences of economic significance have been found.

CanDel Oil Ltd.

Land

Land holdings at year end totalled 3,455,403 gross acres (1,126,931 net acres) of petroleum and natural gas lands and 48,407 gross acres (16,171 net acres) of mineral exploration acreage.

The Company currently holds by seismic and drilling options an additional 6,396,090 gross acres of land in western Canada as well as an option to earn 68,780 gross acres (25,792 net acres) of mineral exploration acreage.

Winter drilling operations, Northwest Territories

Land Holding Summary

Year end, 1971

Petroleum and Natural Gas

	Lease Acres		Reservation Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	969,932	424,489	124,800	21,436	1,094,732	445,925
British Columbia	264,907	78,643	350,383	275,690	615,290	354,333
Saskatchewan	20,728	11,538	—	—	20,728	11,538
Manitoba	6,767	6,767	—	—	6,767	6,767
Northwest Territories	—	—	1,222,703	264,244	1,222,703	264,244
Yukon	—	—	495,183	44,124	495,183	44,124
	1,262,334	521,437	2,193,069	605,494	3,455,403	1,126,931

Minerals

	Permit Acres		Claim Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Saskatchewan	—	—	480	240	480	240
Northwest Territories	36,770	12,583	11,157	3,348	47,927	15,931
	36,770	12,583	11,637	3,588	48,407	16,171

CanDel OIL LTD.

Production

Market demands for crude oil and natural gas remained at very high levels during the year. As a result, practically all fields were produced at or near capacity during the period.

During the year CanDel has participated actively in the industry's concerted efforts to protect the natural environment. In addition, we have installed protection against oil spills in our producing fields and are carrying out air pollution surveys in all Company operated gas fields.

Oil and Gas Liquids

Production of oil and gas liquids for the year totalled 2,123,200 barrels compared to 2,293,500 barrels in 1970. The Company's major oil properties, Cessford in Alberta; Fosterton, Weyburn and Bone Creek in Saskatchewan; and Peejay in British Columbia, because of natural decline, were not able to produce to the full market demand. Oil production accordingly declined 7.4 per cent compared to 1970. Evaluation of the economics for additional development in waterflood areas were undertaken. As a result, six development wells have been drilled and completed in the Peejay area in early 1972.

Natural Gas

Natural gas sales of 24.2 billion cubic feet were about level with 1970 at 24.3 billion cubic feet. CanDel, as operator of the Minnehik-Buck Lake gas plant and field facilities, completed a $4 million enlargement of the plant. Sales from that field accordingly increased but did not reach the expected levels due to an explosion of a gas regeneration heater which resulted in a complete shutdown of the plant for 48 days and seriously hampered the start-up of the new facilities. The plant is currently operating at near designed capacity of 100 million cubic feet per day.

Sulphur

Sulphur production in 1971 was 3,502 long tons with sales of 1,733 long tons compared with 1,928 long tons in 1970. Your Company does not have large sulphur reserves. Consequently, our income is not seriously affected by the continuing low price and depressed market conditions.

Reserves

CanDel's remaining proven reserves, at December 31, 1971 as reported by an independent engineering study, were 20,827,000 barrels of oil, 455,000 barrels of natural gas liquids, 336.7 billion cubic feet of natural gas, and 47,760 long tons of sulphur.

CanDel
OIL LTD.

FINANCIAL

The Company adopted the full cost method of accounting for exploration and development costs in 1971. Under this method of accounting, the Company is capitalizing all costs of finding and developing petroleum and natural gas reserves. As such reserves are subsequently produced, the capitalized costs are written-off on a unit of production basis. The Company has restated its accounts on the full cost basis retroactively to January 1, 1962. Prior to this date the Company had not incurred significant exploration and development costs and had not produced significant quantities of oil and gas. The retroactive adoption of full cost accounting insures that current revenues are being charged with the full cost of finding and developing oil and gas currently being produced.

All figures included in this report are calculated on the full cost basis. Per share figures are reported after giving effect to the consolidation of the Company's shares on a one for two basis.

Reporting financial results on the new basis will enable shareholders to more readily compare the financial statements of CanDel with those of most other exploration companies in the Canadian petroleum industry.

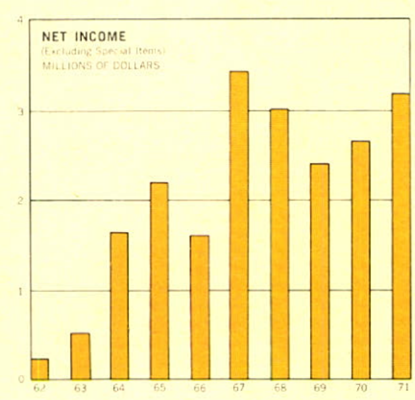
Pipeline looping to accommodate increased production at Minnehik-Buck Lake Gas Plant

Statement of Income

Net income for 1971 calculated on the full cost method of accounting was $3,199,000 or 77 cents per share, an increase of 21% over $2,642,000 or 63 cents per share in 1970. On the previous method of accounting, net income for 1971 would have been $1,667,000 compared to $1,830,000 in 1970. The reduction in net income for 1971 that would have been reported on the previous method is due to the higher level of exploration activity.

Sales of crude oil and natural gas liquids increased to $5,285,000 from $5,115,000 in 1970. The increase was due to the higher wellhead prices in effect throughout 1971. The volume of crude oil and natural gas liquids sold in 1971 declined to 5,817 barrels per day from 6,283 in 1970. Natural gas sales in 1971 remained at about the same level as 1970.

Charges to income declined to $6,038,000 in 1971 from $6,392,000. Reduced interest charges reflecting the Company's improved debt position were the main reason for the reduction in expenses.



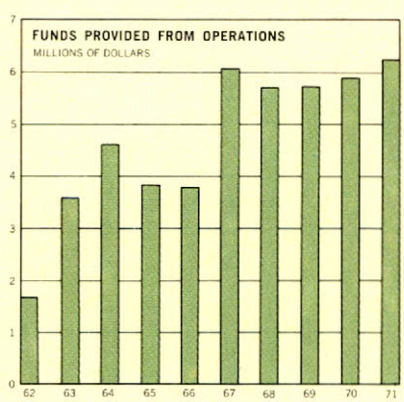
Statement of Source and Use of Funds

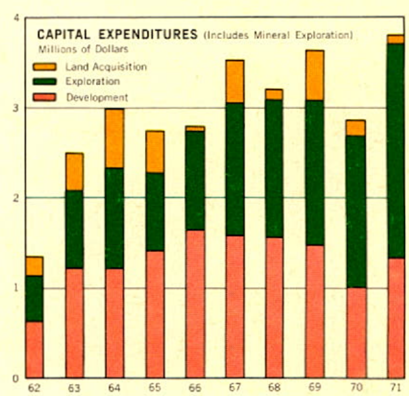
Funds provided from operations (cash flow) reached a record level in 1971 of $6,275,000 or $1.50 per share, an increase of 6% over the 1970 figure of $5,896,000 or $1.41 per share.

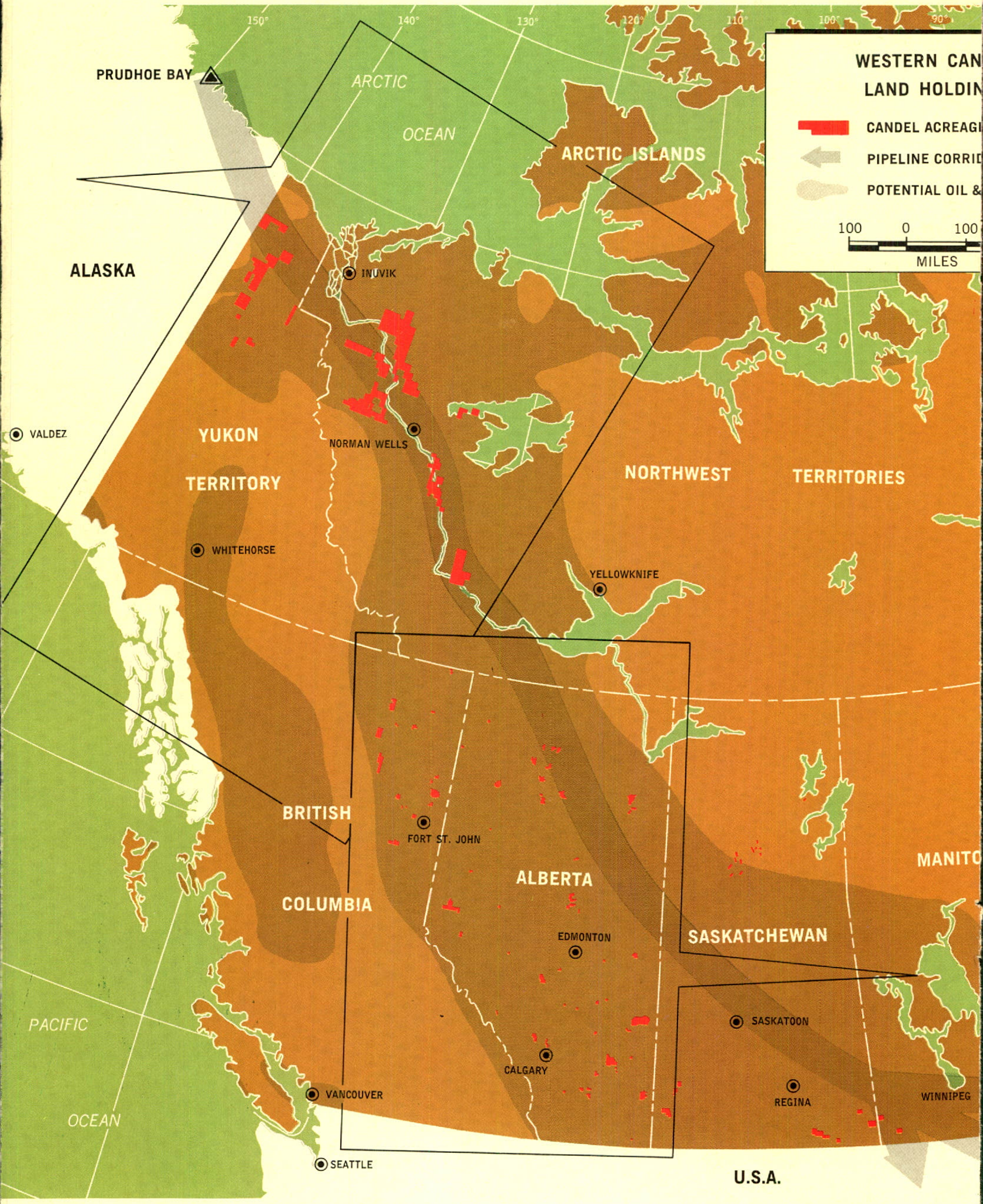
In 1971 expenditures on property, plant and equipment totalled $3,829,000 an increase of 33% over the $2,875,000 spent in 1970. The following table provides details of the capital expenditures made in 1971 and 1970.

	1971	1970
EXPLORATION		
Drilling	$1,613,000	$ 928,000
Geological and geophysical	215,000	150,000
Rentals on non-producing properties . .	289,000	323,000
Direct exploration overhead (net of recoveries)	195,000	227,000
	2,312,000	1,628,000
DEVELOPMENT		
Drilling	337,000	337,000
Equipment and facilities	1,001,000	717,000
	1,338,000	1,054,000
ACQUISITION OF RIGHTS	103,000	132,000
MINERAL EXPLORATION	76,000	61,000
TOTAL EXPENDITURES	$3,829,000	$2,875,000

Funds applied to the reduction of long-term debt during the year amounted to $3,215,000 compared to $3,643,000 in 1970. After 1972, large amounts of funds will no longer be required for retirement of long-term debt. Final payment of the bank loan secured by producing properties will be made late in 1972 and the 6¼% secured notes are scheduled for retirement in early 1973. In future it is planned to direct the funds previously required for debt servicing into the Company's expanded exploration program and the improvement of our working capital position.



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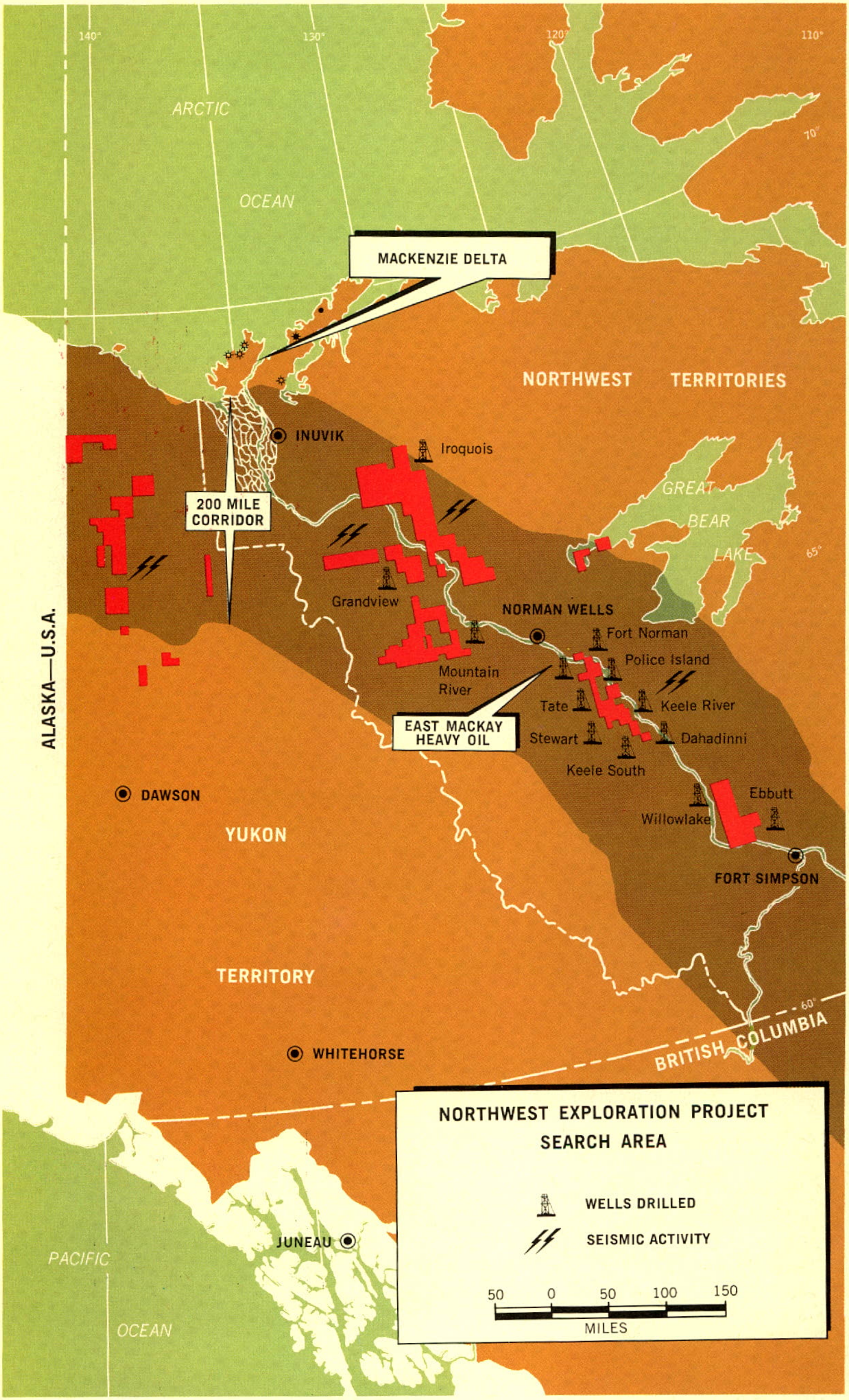

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Fort Norman
Police Island
Mountain River
Tate
Keele River
EAST MACKAY HEAVY OIL
Stewart
Dahadinni
Keele South
Ebbutt
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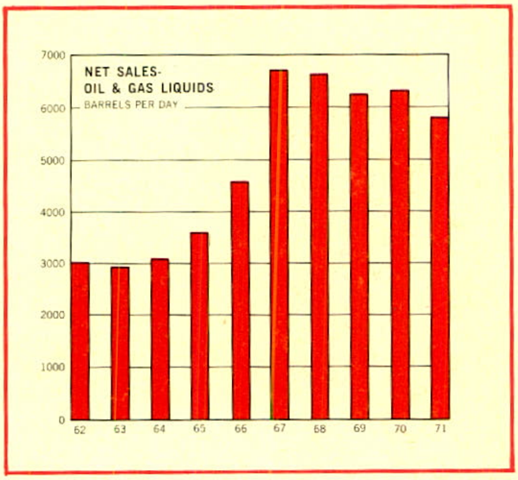
Net Sales – Oil and Gas Liquids

Total Barrels

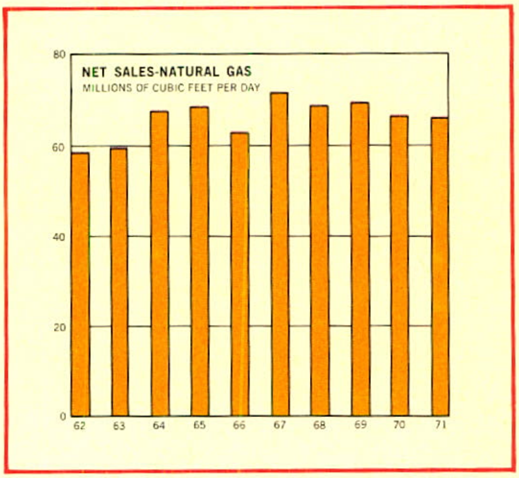
Field	1971	1970
ALBERTA		
Cessford	364,900	418,300
Pembina	104,700	101,900
Joffre	82,400	78,100
Leduc	68,200	63,500
Big Lake	40,700	51,500
Stettler	43,200	41,100
Swan Hills	40,800	30,300
Homeglen-Rimbey	28,700	27,600
Others	107,500	89,700
	881,100	902,000
SASKATCHEWAN		
Fosterton	367,000	391,300
Weyburn	211,000	249,700
Bone Creek-Instow	109,800	128,800
Battrum	39,800	56,500
Midale	39,600	37,600
Steelman	24,900	26,300
Crystal Hill	21,700	26,300
Others	34,300	20,000
	848,100	936,500
BRITISH COLUMBIA		
Peejay	294,600	358,600
Weasel	89,500	88,900
Others	9,900	7,500
	394,000	455,000
	2,123,200	2,293,500

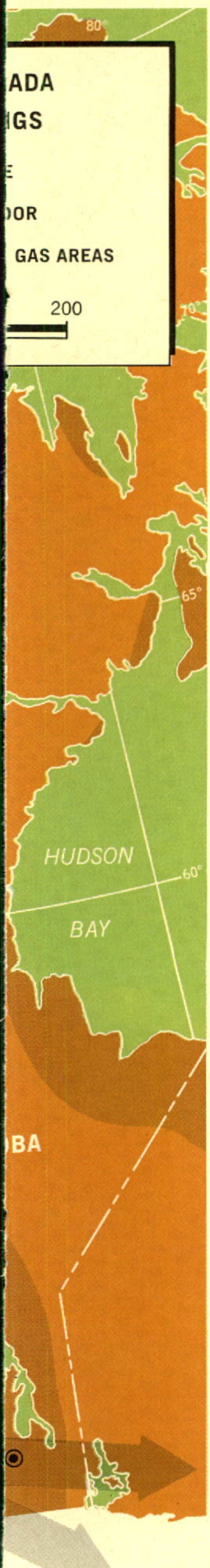


Net Sales – Natural Gas

Total Mcf.

Field	1971	1970
ALBERTA		
Cessford	12,733,300	13,054,900
Medicine Hat-Roseglen	3,934,900	4,578,300
Minnehik-Buck Lake	2,039,400	1,897,100
Countess	1,003,900	959,600
Provost	540,700	578,700
Homeglen-Rimbey	415,500	409,100
Others	1,656,200	1,319,600
	22,323,900	22,797,300
BRITISH COLUMBIA		
Rigel	1,440,000	1,046,400
Kobes	337,000	382,800
Others	54,700	46,400
	1,831,700	1,475,600
OTHER MISCELLANEOUS	—	2,000
	24,155,600	24,274,900

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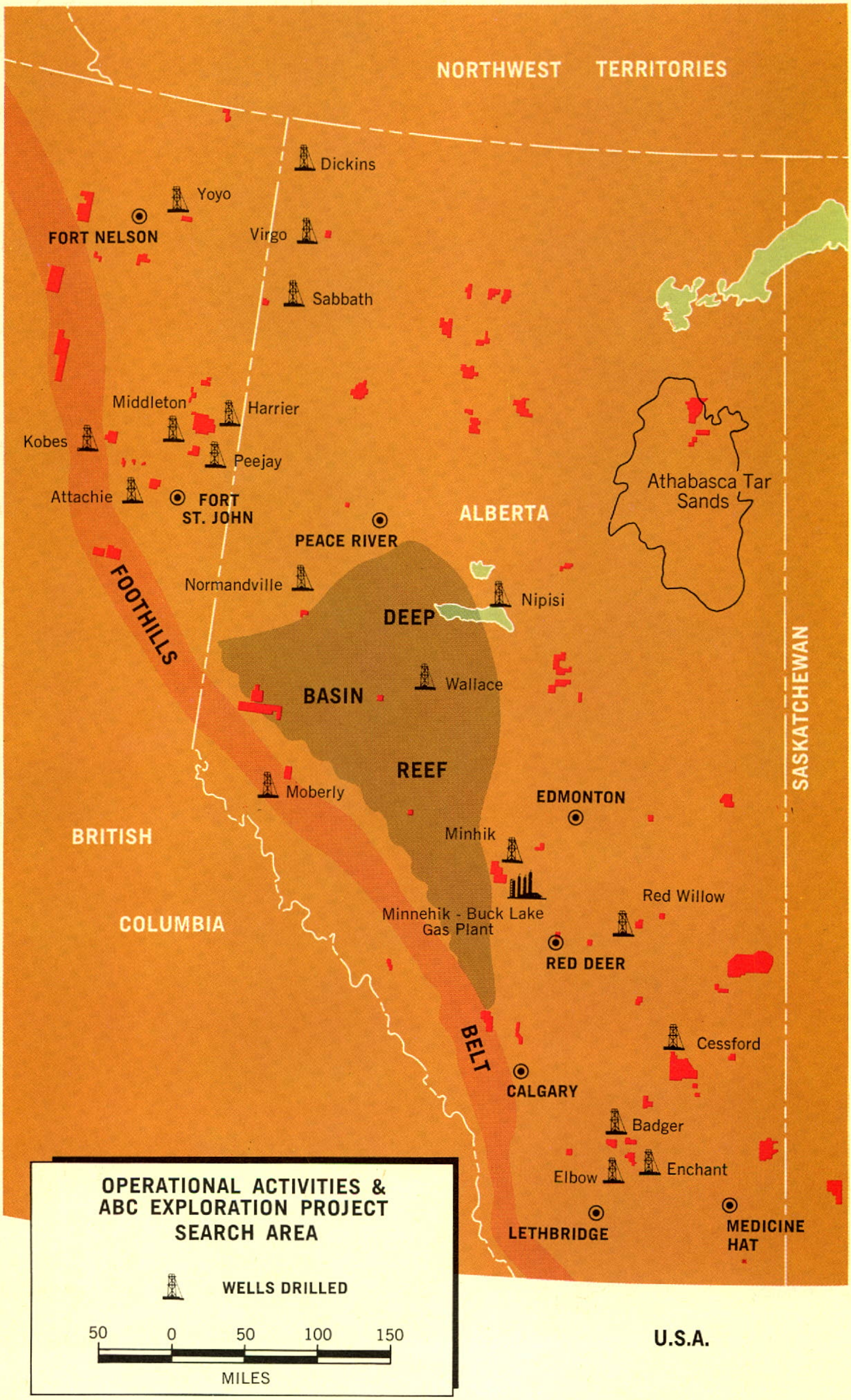
NORTHWEST TERRITORIES
Dickins
Yoyo
FORT NELSON
Virgo
Sabbath
Middleton
Harrier
Kobes
Peejay
Attachie
FORT ST. JOHN
PEACE RIVER
ALBERTA
Athabasca Tar Sands
FOOTHILLS
Normandville
DEEP
Nipisi
BASIN
Wallace
REEF
Moberly
EDMONTON
BRITISH
COLUMBIA
Minhik
Minnehik - Buck Lake Gas Plant
Red Willow
RED DEER
SASKATCHEWAN
BELT
Cessford
CALGARY
Badger
Elbow
Enchant
LETHBRIDGE
MEDICINE HAT
OPERATIONAL ACTIVITIES & ABC EXPLORATION PROJECT SEARCH AREA
WELLS DRILLED
50 0 50 100 150
MILES
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CanDel Oil Ltd.

FINANCIAL AND OPERATING REVIEW

FINANCIAL

	1971	1970
GROSS INCOME	$ 9,237,000	$ 9,034,000
FUNDS PROVIDED FROM OPERATIONS	$ 6,275,000	$ 5,896,000
Per Share *	$1.50	$1.41
NET INCOME		
Before Special Items	$ 3,199,000	$ 2,642,000
Per Share *	$ .77	$ .63
Special Items (Loss)	—	—
Per Share *	—	—
Net Income	$ 3,199,000	$ 2,642,000
Per Share *	$ .77	$ .63
CAPITAL EXPENDITURES		
Petroleum and Natural Gas		
Exploration	$ 2,312,000	$ 1,628,000
Development	1,338,000	1,054,000
Land Acquisition	103,000	132,000
	3,753,000	2,814,000
Mineral Exploration	76,000	61,000
Total	$ 3,829,000	$ 2,875,000
LONG-TERM DEBT	$ 605,000	$ 3,821,000
SHARES OUTSTANDING *	4,177,182	4,177,182

* Adjusted to reflect the one for two reverse stock split

OPERATIONS

	1971	1970
PRODUCTION		
Crude oil and natural gas liquids		
Sales Bbls.	2,123,200	2,293,500
Sales Bbls. per day	5,817	6,283
Natural gas		
Sales Mcf.	24,156,000	24,275,000
Sales Mcf. per day	66,180	66,507
NET WELLS DRILLED		
Oil	.6	1.8
Gas	1.4	1.5
Dry	5.5	5.6
NET WELLS OWNED		
Oil	147.1	143.5
Gas	109.6	108.2
LAND HOLDINGS		
Gross acres	3,455,403	2,045,169
Net acres	1,126,931	1,012,352
NUMBER OF EMPLOYEES	82	71

1969	1968	1967	1966	1965	1964	1963	1962
$ 9,050,000	$ 9,088,000	$ 9,427,000	$ 6,944,000	$ 6,429,000	$ 6,649,000	$ 5,423,000	$ 5,026,000
$ 5,676,000	$ 5,718,000	$ 6,066,000	$ 3,794,000	$ 3,847,000	$ 4,628,000	$ 3,608,000	$ 1,683,000
$1.36	$1.37	$1.45	$1.39	$1.41	$1.70	$1.35	$ .63
$ 2,410,000	$ 3,020,000	$ 3,444,000	$ 1,620,000	$ 2,205,000	$ 1,654,000	$ 525,000	$ 234,000
$ .58	$ .72	$ .82	$ .59	$ .81	$ .61	$ .20	$ .09
—	—	—	—	$ 414,000	$ 1,413,000	$ 1,436,000	$ (8,000)
—	—	—	—	$ .15	$ .52	$ .53	—
$ 2,410,000	$ 3,020,000	$ 3,444,000	$ 1,620,000	$ 2,619,000	$ 3,067,000	$ 1,961,000	$ 226,000
$ .58	$ .72	$ .82	$ .59	$ .96	$1.13	$ .73	$ .09
$ 1,490,000	$ 1,616,000	$ 1,466,000	$ 1,129,000	$ 857,000	$ 1,105,000	$ 853,000	$ 508,000
1,418,000	1,488,000	1,570,000	1,575,000	1,644,000	1,433,000	1,230,000	641,000
599,000	113,000	498,000	98,000	257,000	459,000	417,000	214,000
3,507,000	3,217,000	3,534,000	2,802,000	2,758,000	2,997,000	2,500,000	1,363,000
126,000	—	—	—	—	—	—	—
$ 3,633,000	$ 3,217,000	$ 3,534,000	$ 2,802,000	$ 2,758,000	$ 2,997,000	$ 2,500,000	$ 1,363,000
$ 7,463,000	$11,120,000	$14,495,000	$17,062,000	$18,155,000	$20,536,000	$25,305,000	$27,103,000
4,177,182	4,177,182	4,177,182	2,726,005	2,726,005	2,726,005	2,668,822	2,667,889

2,276,200	2,427,600	2,447,200	1,667,200	1,310,900	1,122,200	1,070,000	1,094,400
6,236	6,633	6,705	4,567	3,592	3,066	2,932	3,000
25,398,000	24,819,000	26,107,000	22,854,000	24,958,000	24,644,000	21,785,000	21,352,000
69,583	67,812	71,525	62,613	68,379	67,334	59,685	58,500
2.7	5.0	3.6	5.2	13.3	6.5	1.1	1.7
3.1	10.2	2.3	9.4	.4	10.0	1.9	2.1
4.6	6.2	4.5	3.6	7.1	6.6	8.1	4.6
145.4	144.9	146.4	146.8	114.2	102.7	96.2	94.5
110.3	109.1	100.4	97.5	83.5	89.3	79.3	77.2
2,201,405	2,516,724	2,459,546	2,051,251	2,031,673	1,785,409	1,663,425	2,280,889
1,068,604	1,050,209	970,593	954,275	939,440	832,654	786,099	816,304
71	69	71	70	69	64	76	76

CanDel Oil Ltd.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of CanDel Oil Ltd. and its wholly owned subsidiary as of December 31, 1971 and the consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of accounting for exploration and development costs, of which we approve, as explained in Note 1.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 1, 1972

Consolidated Statement of Income

Year ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
INCOME:		
Crude oil and natural gas liquids sales	$ 5,285,000	$ 5,115,000
Natural gas sales	3,756,000	3,762,000
Other	196,000	157,000
	9,237,000	9,034,000
EXPENSE:		
Operating expenses	2,017,000	1,933,000
General and administrative expenses (Note 4)	399,000	331,000
Depreciation	760,000	760,000
Depletion (Note 1)	2,231,000	2,391,000
Interest on long-term debt	379,000	697,000
Other interest	97,000	72,000
Foreign exchange losses on long-term debt	69,000	97,000
Mineral and foreign exploration costs	86,000	111,000
	6,038,000	6,392,000
NET INCOME (Notes 1 and 5)	$ 3,199,000	$ 2,642,000
NET INCOME PER SHARE	$ .77	$ .63

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings

Year ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
RETAINED EARNINGS, January 1		
As previously reported	$ 2,729,000	$ 898,000
Retroactive adjustment re change in accounting practice (Note 1)	7,963,000	7,152,000
	10,692,000	8,050,000
Net income for the year	3,199,000	2,642,000
RETAINED EARNINGS, December 31	$13,891,000	$10,692,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Source and Use of Funds

Year ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS:		
Net income	$ 3,199,000	$ 2,642,000
Add: Charges to income not requiring funds	2,990,000	3,143,000
Mineral and foreign exploration costs charged to income	86,000	111,000
Funds provided from operations	6,275,000	5,896,000
Sale of assets	55,000	676,000
Other	149,000	(142,000)
	6,479,000	6,430,000
USE OF FUNDS:		
Additions to property, plant and equipment	3,829,000	2,875,000
Reduction of long-term debt	3,215,000	3,643,000
	7,044,000	6,518,000
INCREASE IN WORKING CAPITAL DEFICIENCY	$ 565,000	$ 88,000

See accompanying notes to consolidated financial statements

CanDel
OIL LTD.

Consolidated Balance Sheet

December 31, 1971
(with comparative figures for 1970)

ASSETS

	1971	1970
CURRENT ASSETS:		
Cash	$ 457,000	$ 482,000
Accounts receivable	1,825,000	1,858,000
Materials and supplies — at lower of cost or replacement cost	181,000	107,000
Other current assets	2,000	12,000
Total current assets	2,465,000	2,459,000
PROPERTY, PLANT AND EQUIPMENT — at cost (Notes 1 and 2):		
Petroleum and natural gas leases and rights including exploration and development thereon	45,232,000	42,469,000
Less accumulated depletion	20,300,000	18,070,000
	24,932,000	24,399,000
Production and other equipment	15,771,000	14,880,000
Less accumulated depreciation	9,519,000	8,792,000
	6,252,000	6,088,000
	31,184,000	30,487,000
OTHER ASSETS	56,000	204,000
	$33,705,000	$33,150,000

Approved on behalf of the Board:

Smiley Raborn, Jr. Director

R A MacKimmie Director

See accompanying notes to consolidated financial statements

LIABILITIES

	1971	1970
CURRENT LIABILITIES:		
Due to bank:		
Secured by accounts receivable	$ 1,900,000	$ 800,000
Secured by assignment of interest in certain producing properties	1,450,000	1,860,000
Accounts payable and accrued expenses	1,402,000	1,485,000
Current portion of 6¼% secured notes repayable in U.S. funds in the amount of $1,881,000 (1970 — $1,873,000)	1,885,000	1,921,000
Total current liabilities	6,637,000	6,066,000
LONG-TERM DEBT (net of current portion):		
Bank loan — secured	—	1,450,000
6¼% secured notes repayable in U.S. funds in amount of $637,000 (1970 — $2,494,000) (Note 2)	605,000	2,371,000
	605,000	3,821,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Common stock of a par value of $3 per share:		
Authorized 6,250,000 shares Outstanding 4,177,182 shares	12,532,000	—
(1970 authorized 12,500,00 shares without nominal or par value, outstanding 8,354,364 shares)	—	12,571,000
Contributed surplus (Note 3)	40,000	—
Retained earnings (Note 1)	13,891,000	10,692,000
	26,463,000	23,263,000
COMMITMENTS AND CONTINGENCY (Note 6)		
	$33,705,000	$33,150,000

Notes to Consolidated Financial Statements

December 31, 1971

1. ACCOUNTING PRINCIPLES

(a) Full Cost Method of Accounting

Prior to 1971 the Company followed the practice of charging exploration costs and lease rentals on undeveloped properties to income as incurred. Non-productive leasehold acquisition and drilling costs were charged to income at the time a project was determined to be non-productive. Depletion of productive leasehold and drilling costs was provided on a unit-of-production basis.

In 1971 the Company adopted the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and general and administrative expenses directly related to exploration activities. All such costs are being depleted on a composite unit-of-production method based on estimated recoverable reserves. The change in accounting practice was adopted retroactively to January 1, 1962, prior to which time the Company did not have significant production activity. The retroactive adoption of the full cost method of accounting resulted in a net increase in property, plant and equipment of $7,963,000 at January 1, 1971, and a corresponding increase in the previously reported retained earnings from $2,729,000 to $10,692,000.

The adoption of the full cost accounting method has resulted in an increase of the Company's net income over that previously reported. The effect of the change in accounting method for the years ended December 31, 1970 and 1971 is set out below:

	Net Income		Change in Net Income	
	Full Cost Method	Previous Method	Total	Per Share *
Year ended December 31:				
1970	$2,642,000	1,830,000	812,000	.20
1971	3,199,000	1,667,000	1,532,000	.36

* The per share change in net income has been adjusted for the consolidation of shares (Note 3).

(b) Depreciation

Depreciation on lease and well equipment, gas processing plants and pipeline facilities is provided on a unit-of-production basis. Other assets are depreciated over their estimated useful lives.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of CanDel Oil Ltd. and its wholly owned subsidiary Candel Petroleum (U.K.) Limited which was formed during the year to conduct petroleum exploration in the United Kingdom. The subsidiary company's only expenditures in 1971 were those relating to incorporation and participation in a seismic survey in the North Sea, all of which have been charged to income.

2. LONG-TERM DEBT

The Company has outstanding at December 31, 1971 $2,518,000 U.S. of 6¼% secured notes due September 15, 1974. The portion of this indebtedness, shown under current liabilities, represents the Canadian dollar equivalent payable within one year. The portion shown under long-term debt is the Canadian dollar equivalent of United States dollars on the date of receipt. The notes are secured by certain oil and gas properties and a gas processing plant and an assignment of a specified percentage of the proceeds of production from these properties.

3. CAPITAL STOCK

(a) Consolidation of Shares

At a special general meeting of the Company's shareholders held on December 29, 1971 shareholders approved consolidation of the Company's issued and unissued capital stock through a one for two reverse split of its shares and a change of its shares from no par value to a par value of $3 per share. The contributed surplus at December 31, 1971 of $40,000 represents the excess of the capital stock account prior to consolidation over the amount resulting from the creation of 4,177,182 shares of $3 par value.

(b) Employees' Stock Option Plan

An Employees' Stock Option Plan was established in 1971 whereby shares of the Company may be purchased by employees. Under the plan 100,000 shares were reserved for issuance to officers and employees. At December 31, 1971 options have been granted to purchase 67,650 shares at prices ranging from $8.75 to $9.50 per share being the market prices at date of grant. The options are for a period of five years and commencing one year after the date of grant may be exercised in annual instalments amounting to 25% of the shares under option.

4. AMOUNTS PAID TO DIRECTORS AND OFFICERS

The Company had nine directors and eleven officers during 1971, five of whom served in both capacities. No remuneration was paid to directors as such. General and administrative expenses for 1971 includes $154,000 for remuneration paid to officers of the Company.

5. INCOME TAXES

For income tax purposes the Company may claim capital cost allowances (depreciation) and exploration, development and lease acquisition costs which exceed the related amounts charged to expense in the financial accounts. For the years ended December 31, 1970 and 1971 capital cost allowances have been or will be claimed equal to the depreciation recorded in the accounts. However, sufficient exploration, development and lease acquisition costs have been or will be claimed to eliminate taxable income.

No provision has been made for deferred income taxes resulting from claiming for income tax purposes, exploration, development and lease acquisition costs in excess of the amounts charged to expense in the financial accounts. The Canadian Institute of Chartered Accountants has recommended the tax allocation basis of accounting for all differences in the timing of deductions for tax and accounting purposes. The Company, in common with many other companies in the Canadian oil and gas industry, does not believe that tax allocation in respect of exploration, development and lease acquisition costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

If the tax allocation basis had been followed for all differences in the timing of deductions for tax and accounting purposes, the amounts of the provisions for deferred income taxes for the years ended December 31, 1970 and 1971 would have been as follows and net income would have been reduced accordingly:

	Reduction in Net Income Resulting from Deferred Income Taxes	
	Total	**Per Share***
Year ended December 31:		
1970	$ 962,000	.23
1971	1,090,000	.26

*The per share reduction in net income has been adjusted for the consolidation of shares (Note 3).

On a cumulative basis to December 31, 1971, the Company has claimed exploration, development, lease acquisition costs and capital cost allowances for income tax purposes of approximately $13,800,000 in excess of the amounts written off its accounts.

At December 31, 1971 the following amounts remained to be carried forward and applied against future taxable income:

Exploration, development and lease acquisition costs	$15,850,000
Unclaimed capital cost allowances	7,680,000

Of the $15,850,000 shown above, approximately $2,500,000 is being disputed by the Canadian income tax authorities.

6. COMMITMENTS AND CONTINGENCY

The Company has entered into an agreement to participate in exploration activities in the Northwest and Yukon Territories together with three other companies, all of which are referred to as the "Northwest Exploration Group". As manager of the project, the Company has committed to conduct such activities, prior to June 30, 1973, which are estimated to cost approximately $8,000,000. The other members of the Group are committed to reimburse the Company for 80% of such costs incurred by the Company as manager and to receive 80% of any rights acquired.

The Company has entered into a long-term lease for the use of office premises. The initial lease extends to 1979 and requires annual payments of $62,500.

As security for the performance of work obligations on exploration permits it holds, the Company has deposited $512,000 of non-interest bearing promissory notes with governmental authorities.

CANDEL
OIL LTD.

MANAGEMENT

Top Row: S. Raborn, Jr., W. C. Leuschner; M. A. Williams, S. Raborn, Jr.

Centre Row: J. Karberg, R. K. Terrell; S. Raborn, Jr., S. W. Jones; D. B. Dunn, W. C. Leuschner, R. K. Terrell

Bottom Row: D. H. Church; D. M. Ericson, A. R. Long, D. B. Dunn; D. N. Goldfeldt, M. A. Williams, E. F. Gaffney, M. R. Wolfer.

BOARD OF DIRECTORS

J. Brian Aune, Montreal, Quebec
Vice President and Director, Nesbitt Thomson and Company Limited

D. Broward Craig, New York, New York
Executive Vice President, St. Joe Minerals Corporation

John C. Duncan, New York, New York
President and Chief Executive Officer, St. Joe Minerals Corporation

William C. Leuschner, Calgary, Alberta
Senior Vice President and Chief Operating Officer of the Company

Ross A. MacKimmie, Q.C., Calgary, Alberta
Senior Partner, MacKimmie Matthews

Smiley Raborn, Jr., Calgary, Alberta
President and Chief Executive Officer of the Company

L. Chase Ritts, Jr., New York, New York
Independent Petroleum Consultant

CORPORATE OFFICERS

John C. Duncan, Chairman of the Board of Directors

Smiley Raborn, Jr., President and Chief Executive Officer

William C. Leuschner, Senior Vice President and Chief Operating Officer

D. Burton Dunn, Vice President — Exploration

Richard K. Terrell, Vice President — Production

Michael A. Williams, Vice President — Finance and Treasurer

Stanley W. Jones, Secretary and Assistant To The President

Donald N. Goldfeldt, Comptroller and Assistant Treasurer

Morley R. Wolfer, Assistant Secretary

OTHER EXECUTIVES

Douglas H. Church, Drilling Manager

Donald M. Ericson, Exploration Manager

Jorgen Karberg, Production Manager

A. Ross Long, Land Manager

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