CanDel Oil Ltd. 1973 ANNUAL REPORT

Marilyn Tomkow, Receptionist

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ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held in the Jasper Suite, 17th Floor of the Calgary Inn, Calgary, Alberta on Thursday, April 25th, 1974, at 11:00 A.M. (M.S.T.)

COVER

View of CanDel's world of operations.

CanDel
OIL LTD.

What's New

2

Growth Review

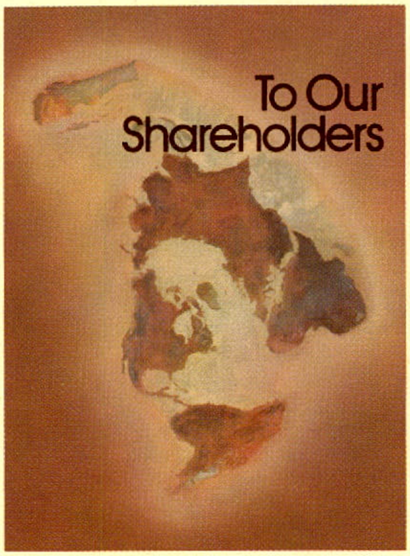
	1973	1972
FINANCIAL		
Gross income	$10,959,000	$ 9,316,000
Funds provided from operations	$ 7,680,000	$ 6,397,000
Per share	$1.84	$1.53
Net income (1)	$ 2,830,000	$ 2,078,000
Per share	$.68	$.50
Exploration expenditures	$ 6,127,000	$ 3,560,000
Development expenditures	$ 2,259,000	$ 1,008,000
Return on shareholders' equity	10.4%	8.5%
Shares outstanding	4,179,431	4,177,182
OPERATING		
Crude oil and natural gas liquids sales		
Gross barrels per day	6,683	6,730
Net barrels per day	5,448	5,728
Natural gas sales		
Gross Mcf. per day (2)	78,591	78,426
Net Mcf. per day	67,517	67,451
Proven reserves in gross barrel equivalents	52,800,000	49,158,000
Barrels per share	12.6	11.7
Net realization per barrel equivalent (3)	$1.94	$1.60
Acreage holdings		
Canada		
Gross	3,840,347	4,722,322
Net	1,208,656	1,333,337
International (4)		
Gross	4,579,480	—
Net	455,289	—
Wells drilled		
Exploration	44	20
Discoveries	12	1
Extensions	8	1
Development	90	7
Successes	87	6

(1) 1972 restated to reflect retroactive changes.

(2) 1 Mcf. is 1,000 cubic feet.

(3) Calculated after deducting royalties and operating expenses and after converting natural gas to crude oil at 15 Mcf. of gas = 1 barrel of oil.

(4) Includes 1,275,000 gross, 255,000 net, in Tunisia, surrendered since year-end.



The year 1973 was the best in the twenty-four year history of our Company. Earnings, cash flow, and gross revenues were at all-time highs. Drilling operations surpassed previous years and results were highly satisfactory as reserves found exceeded production. Statistics on financial and operating results are presented on the opposite page and discussed in detail in this report. Sharply increased royalties and taxes recently imposed by Provincial Governments are chiefly responsible for the decrease shown in net crude oil production.

Your Management is gravely concerned over the business climate currently prevailing for the oil industry in Canada. The confrontation between the Federal Government and Provincial Governments over control of oil and gas resources has created uncertainties. The export tax imposed by the Canadian Government results in wellhead prices for oil that are less than industry's current replacement costs. The disregard of the Provinces for prior lease provisions and agreements, and the indefinite open-ended nature of recent legislation, the most serious of which is the new law adopted in Saskatchewan, has created untenable planning and operating conditions. The cumulative effect of these circumstances will cause financing of industry operations to be extremely difficult, if not impossible.

We are facing up to the problems and challenges created by the actions and attitudes of our Governments in Canada. Our planning for the future is flexible and designed to cope with these. We believe that reason will prevail and an atmosphere conducive to free enterprise will result. We believe that wellhead prices will be allowed which will warrant the tremendous expenditures required to replace reserves produced. The current conditions make predictions for 1974 impossible; nevertheless, we are confident that CanDel will grow and prosper.

Your Company made substantial progress in its program to expand international exploration during the year. The most important step was sharing in the purchase of the Transworld Companies with St. Joe Minerals and Apexco. This transaction resulted in obtaining interests in promising exploration licenses in the United Kingdom sector of the North Sea, Egypt, and Peru. Plans call for our group to drill interesting prospects in these areas during 1974.

CanDel and its partners in the Athabasca Oil Sands Project have filed an application with the Alberta Energy Resources Board for permission to install facilities to mine, process, and market synthetic crude oil. If plans materialize, your Company will share in production from the Athabasca Tar Sands in 1982.

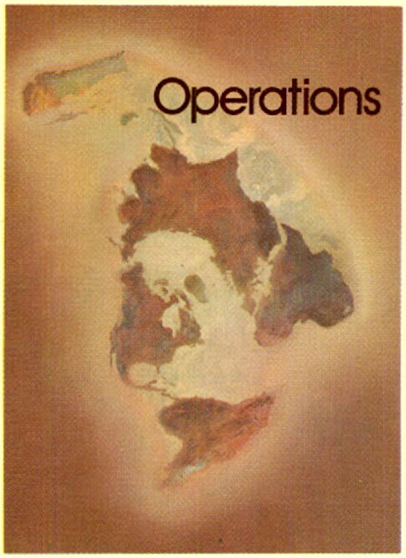
Traditionally, our financial reporting has been based on accounting principles and procedures of a high standard. Consistent with this policy, we adopted deferred income tax accounting on a retroactive basis during 1973. This has the effect of reducing reported earnings by approximately one-third and reflects the payments that the Company must ultimately make to Government. Our cash flow is not influenced by the change.

This Annual Report salutes our employees, many of whom are pictured herein. The fine results achieved for 1973 are due, in great part, to the efforts of our people. CanDel's Board of Directors has rewarded their performance by establishing an attractive savings plan and a key employee incentive bonus plan.

Smiley Raborn, Jr.

President and
Chief Executive Officer

March 15, 1974



W. C. Leuschner, Executive Vice President and Chief Operating Officer

D. M. Ericson, Vice President — Exploration

EXPLORATION AND DEVELOPMENT

Drilling Results 1973

The Company participated, with varying interests, in 134 exploration and development wells, more particularly shown in the Table of Drilling Results. This program, the most active in the Company's twenty-four year history, was justified through the belief that fair wellhead price levels would be attained. To date, only modest increases have been received by the producer.

TABLE OF DRILLING RESULTS 1973

	Gas	Oil	Suspended	Dry	Gross	Net
Exploration	16	4	1	23	44	13.1
Development	75	12	–	3	90	31.0
Totals	91	16	1	26	134	44.1

Exploration expenditures reached an all-time record of $6,127,000. Forty-four wells were drilled and 20 of these were successfully completed as discoveries or extensions. These include: 4 oil and 11 gas completions in Alberta, 2 gas completions in British Columbia, 2 gas completions offshore Louisiana in the Gulf of Mexico, and 1 gas success in the Netherlands sector of the North Sea. Twenty wells in the program were drilled under farmout arrangements by others at no cost to the Company.

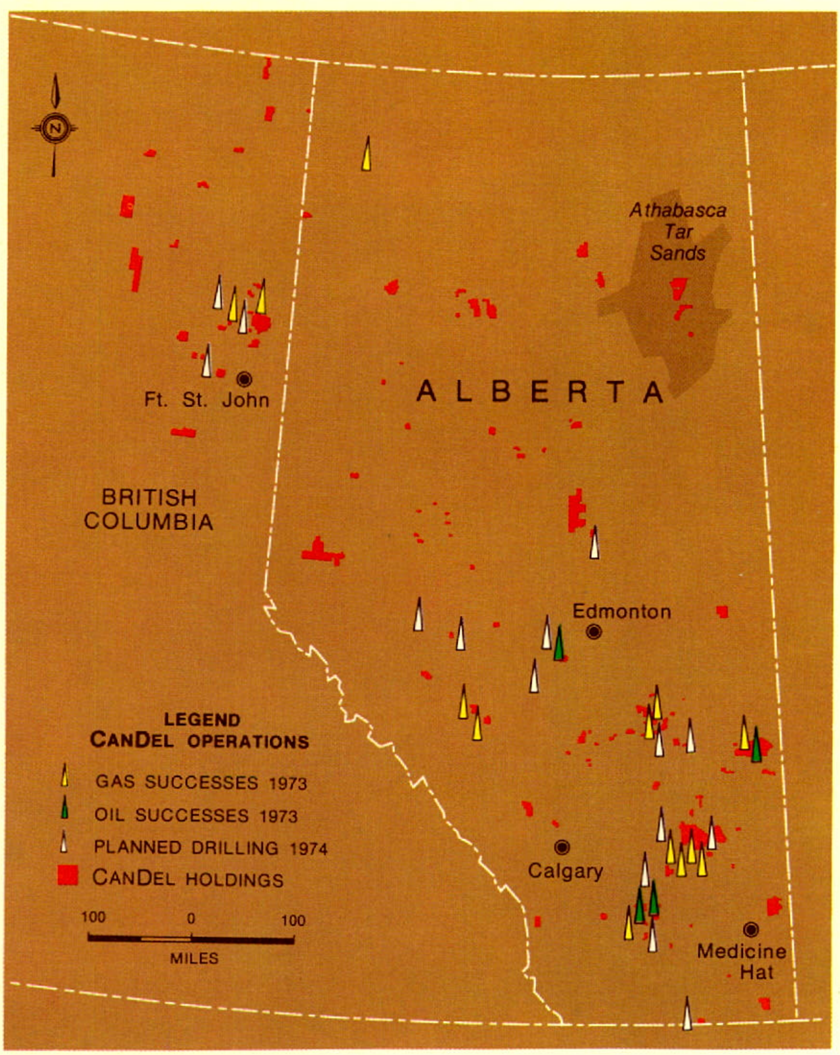
Development expenditures totalled $2,259,000. Of the 90 development wells drilled, 87 were successfully completed as follows: 73 gas wells in the Cessford, Medicine Hat, Provost, and Nevis fields in Alberta, 1 gas completion at Peejay in British Columbia, and 1 gas completion offshore Louisiana in the Gulf of Mexico; and 12 oil wells in the Cessford and Homeglen-Rimbey fields in Alberta, the Peejay field in British Columbia, and the Bone Creek and Instow fields in Saskatchewan.

This drilling success, along with optimization of producing facilities, resulted in an addition to our net proven remaining crude oil and natural gas reserves equivalent to 6.1 million barrels (8.0 million gross), which is in excess of our sales of 3.6 million barrel equivalents (4.4 million gross) for the year. (15,000 cubic feet of gas = 1 barrel of oil.)

D. H. Church, Vice President — Drilling and Development

Western Canada

The CanDel-operated Northwest Exploration Project conducted over 700 miles of seismic surveys and drilled and abandoned 6 wells. Total expenditures for the project's 3 years of operations amounted to approximately $17 million, with your Company's participation being 20 percent. Costs of operating the program greatly exceeded estimates primarily because of stringent environmental and land use requirements. Market outlets have not materialized as the planned gas pipeline to service the area has been seriously delayed. The Federal Government has failed to adopt clear-cut leasing and royalty regulations. This discouragement, combined with Government's attitude toward the oil industry, has resulted in the project being terminated.



C. B. James, Chief Draftsman

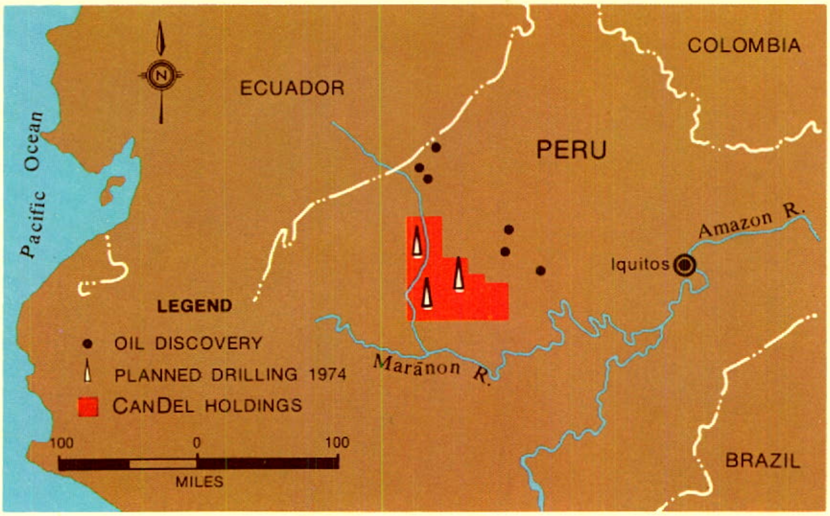
The ABC Project, which concentrates its search for large hydrocarbon reserves in the Deep Basin and Foothills areas of Alberta and British Columbia, will soon have completed 2 years of operations. This project, like the Northwest Exploration Project, is operated by CanDel and largely derives its financial support from United States gas pipeline and utility companies. To date, 7 deep exploratory tests have been drilled resulting in 1 gas discovery and 6 dry holes. Your Company participates to a 20 percent interest in this $5-million per year program.

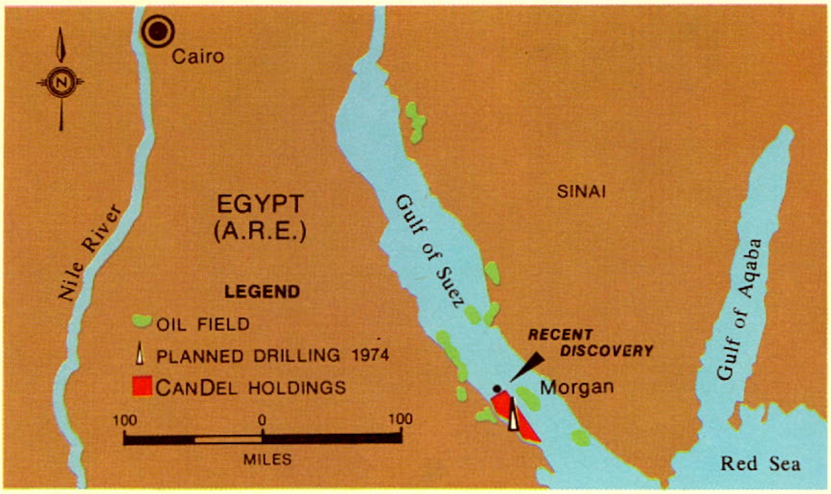
CanDel has historically explored for and developed oil and gas reserves in the shallow "lower risk" areas of Alberta and British Columbia. The continuance of this policy led to participation in 72 successful gas development wells in the Cessford, Provost, and Medicine Hat-Roseglen Units. These wells formed part of "enhanced recovery schemes" which were previously uneconomic. Gas price increases received during 1973 justified the implementation of the programs which have increased both the recovery and delivery rates of our natural gas. The Company continues to build prospect inventories in these important "bread and butter" areas and has added approximately 100,000 acres to its land holdings for future drilling.

International

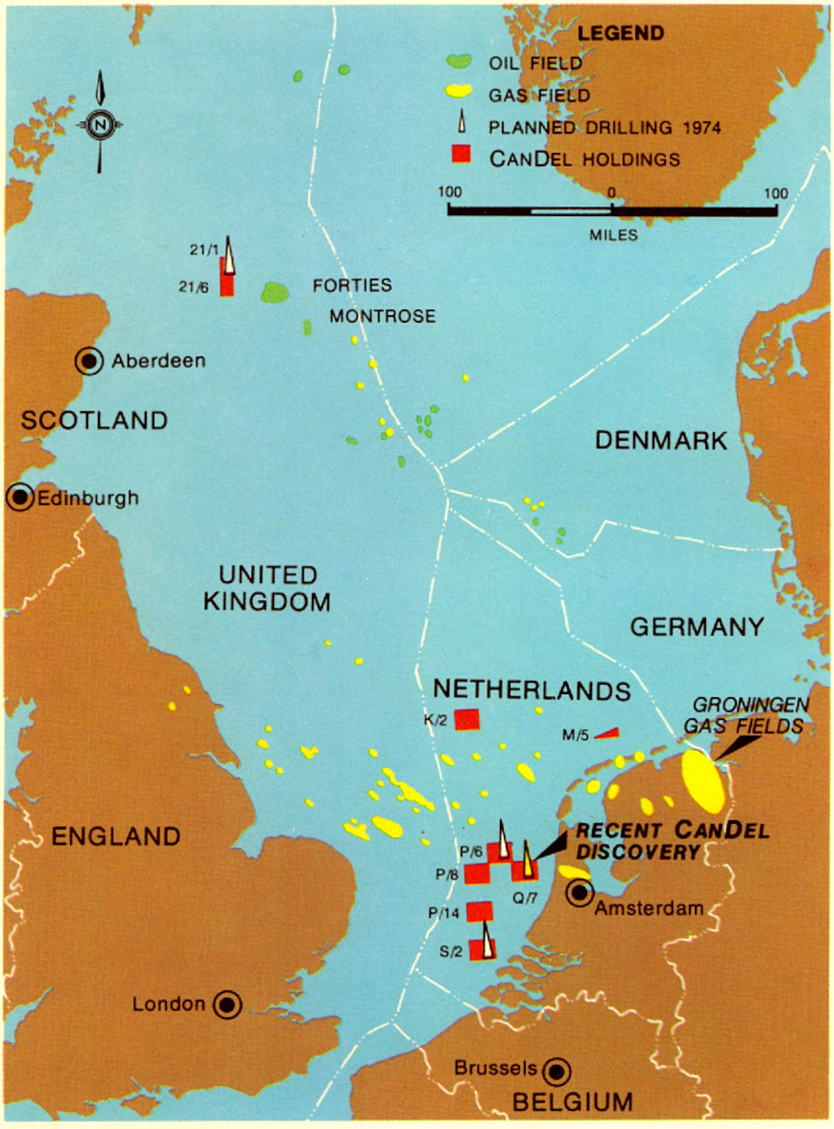
CanDel, with a 15 percent participating interest, has completed the first year of a joint venture exploration program seeking production in the prolific offshore waters of the Gulf of Mexico. This $10,200,000, three-year venture has drilled 3 wells resulting in 2 gas discoveries and 1 dry hole. In addition, 1 of the discoveries has been followed up with a successful development well and facilities are now being completed for third quarter deliveries.

Our international exploration position has been significantly improved with the acquisition of a one-third interest in the Transworld holdings. This resulted in the Company having a 14 percent interest in petroleum exploration licenses covering Blocks 21/1 and 21/6 comprising 109,000 acres in the United Kingdom sector of the North Sea and lying approximately 22 miles west of the huge Forties Field; a 5 percent interest in an exploration license on 2,512,000 acres in the Amazon Basin of Eastern Peru in an area of recent oil discoveries; a 20 percent interest in 27,000 acres in the Gulf of






R. H. Burton, Chief Geologist



A. R. Long, Vice President — Land

Suez within 3 miles of a recent major oil discovery and within 10 miles of Egypt's giant Morgan Field; a 20 percent interest in 1,275,000 acres in Northern Tunisia on which a test well has just been abandoned and the acreage surrendered subsequent to year-end; and a 20 percent interest in an application for exploration licenses covering 987,000 acres in Guatemala.

Geophysical surveys have been completed on the North Sea holdings and plans are being finalized to commence a test well on Block 21/1 by mid-year. In Peru, seismic work continues, and 3 deep test wells are scheduled for 1974. Plans also include an early drilling start on our Egyptian holdings.

In addition to our Transworld interests, CanDel's international exploration program involves holdings in Blocks K/2, M/5, Q/7, P/14, P/6, P/8 and S/2 in the Netherlands sector of the North Sea. Seismic work has been completed and at least one of these Blocks will be drilled this year. In the Celtic Sea, we are also participating in a group survey in anticipation of the Irish Government accepting applications for exploration licenses.

Land

The Company's land holdings have increased by 3,697,505 gross acres (330,608 net acres). The majority of the additions were in the Netherlands and United Kingdom sectors of the North Sea, Peru, Egypt and Tunisia. Additional lands were also acquired in the United States and Western Canada. Details of our holdings are scheduled below.

LAND SUMMARY
December 31, 1973

PETROLEUM AND NATURAL GAS

	Lease Acres		Permit, Reservation, Concession & Licence		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Canada:						
Alberta	953,735	458,143	317,238	139,313	1,270,973	597,456
British Columbia	246,503	79,284	287,304	245,607	533,807	324,891
Saskatchewan	20,172	10,531	—	—	20,172	10,531
Northwest Territories	40,342	5,437	1,163,734	196,014	1,204,076	201,451
Yukon Territory	—	—	811,319	74,327	811,319	74,327
Sub Total	1,260,752	553,395	2,579,595	655,261	3,840,347	1,208,656
International:						
U.S.A.	11,304	1,494	—	—	11,304	1,494
Netherlands North Sea	—	—	644,448	52,471	644,448	52,471
U.K. North Sea	—	—	109,022	15,263	109,022	15,263
Peru	—	—	2,512,536	125,627	2,512,536	125,627
Egypt	—	—	27,170	5,434	27,170	5,434
Tunisia*	—	—	1,275,000	255,000	1,275,000	255,000
Sub Total	11,304	1,494	4,568,176	453,795	4,579,480	455,289
Grand Total	1,272,056	554,889	7,147,771	1,109,056	8,419,827	1,663,945

MINERALS

	Claim Acres		Claim Blocks		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Saskatchewan	600	264	37,500	18,292	38,100	18,557

* Tunisian acreage surrendered since year-end.

PRODUCTION

Crude oil and natural gas markets were at peak levels during the year, enabling the Company's properties to be produced at full capacity. Price increases permitted CanDel to implement enhanced recovery schemes which, combined with optimization of production facilities, arrested the decline in production evident in past years. Gross production rates of crude oil and natural gas remained at virtually the same level as in 1972.

R. K. Terrell, Vice President — Production

Crude Oil and Natural Gas Liquids

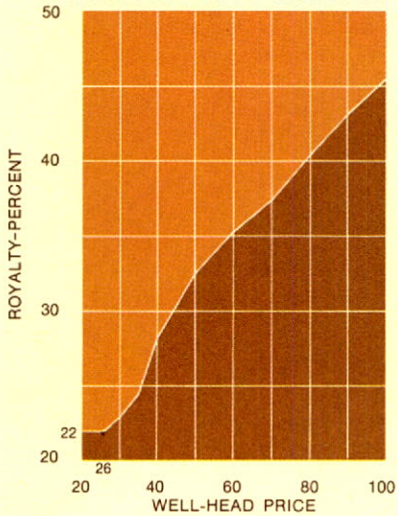
Production of crude oil and natural gas liquids totalled 2,439,200 gross barrels (1,988,500 net barrels) compared to 2,463,000 gross barrels (2,096,300 net barrels) in 1972. Gross production remained relatively unchanged, while net production declined as a result of the higher royalties introduced in Alberta January 1st, in Saskatchewan April 1st, and in British Columbia June 1st, 1973. The royalties increased by 16 percent in Alberta, 30 percent in Saskatchewan, and 34 percent in British Columbia. The Province of Saskatchewan, on January 1, 1974, introduced a surcharge on crude oil production which, during the first quarter, had the net effect of a further 150 percent increase. An additional royalty change by Alberta is imminent and, combined with other increases, will again reduce our net production.

As 34 percent of CanDel's gross 1973 crude oil production came from Saskatchewan, the following facts are worthy of note. During

CRUDE OIL AND NATURAL GAS LIQUIDS SALES — BARRELS

	1973		1972	
Field	Gross	Net	Gross	Net
ALBERTA				
Cessford	425,500	351,600	414,500	349,500
Big Lake	191,900	146,900	74,300	56,900
Leduc	99,700	85,300	96,900	83,000
Pembina	84,900	72,800	99,300	87,000
Swan Hills	84,000	63,300	63,000	55,500
Joffre	71,300	58,500	125,300	106,600
Stettler	63,700	53,600	61,200	52,800
Homeglen-Rimbey	29,100	24,300	32,800	27,400
Others	163,600	137,600	131,400	109,500
	1,213,700	993,900	1,098,700	928,200
SASKATCHEWAN				
Fosterton	328,000	258,500	379,600	329,300
Weyburn	228,200	192,400	241,700	204,500
Bone Creek-Instow	108,200	92,300	113,800	100,500
Midale	38,200	33,200	43,200	37,600
Steelman	24,800	21,200	27,400	24,200
Battrum	24,400	20,100	21,900	20,000
Crystal Hills	16,400	14,900	20,100	18,500
Others	50,600	43,100	42,400	35,700
	818,800	675,700	890,100	770,300
BRITISH COLUMBIA				
Peejay	306,200	244,600	360,000	302,000
Weasel	86,600	62,900	103,200	86,400
Others	13,900	11,400	11,000	9,400
	406,700	318,900	474,200	397,800
	2,439,200	1,988,500	2,463,000	2,096,300

ALBERTA GAS ROYALTY



Cents Per Thousand Cubic Feet

February and March, 1974, crude oil from CanDel's properties, located in the southwestern portion of the Province, was selling in the midwestern United States market at $11.18 per barrel, the Company's net realization after operating costs was $1.85, while the Federal and Provincial Governments' share amounted to $8.15. In comparison, prior to the implementation of the Federal export tax and the new Saskatchewan taxes, sales price in that market was $3.80 per barrel, with CanDel's share after operating costs being $2.12. CanDel's revenues from Saskatchewan will be reduced by approximately $300,000 as compared to 1973 if this reduction in net realization continues through 1974. The Federal export tax has caused purchasers to lower crude oil nominations, further reducing CanDel's gross revenue in the first quarter of 1974 by $75,000.

We are hopeful that these conditions will change; however, if they do not, the combined effect of lower nominations and the new taxes levied by the Saskatchewan Government would reduce revenues by $600,000 in 1974.

Natural Gas

Production of natural gas at 28.7 billion gross cubic feet (24.6 billion net cubic feet) was unchanged from 1972. This was achieved primarily through the enhanced recovery schemes in the Cessford, Medicine Hat and Provost fields.

Alberta's new gas royalty scheme became effective January 1, 1974. This royalty, unlike the previous fixed royalty which was 16⅔ percent, progressively increases as price levels exceed 26 cents per thousand cubic feet. As most of CanDel's gas sales are currently at the 26-cent price level, the initial royalty increase to the Company is 31 percent. The royalty graph shown on this page illustrates the royalty-percent to wellhead-price relationship of currently producing properties under the new scheme.

NATURAL GAS SALES — MCF.

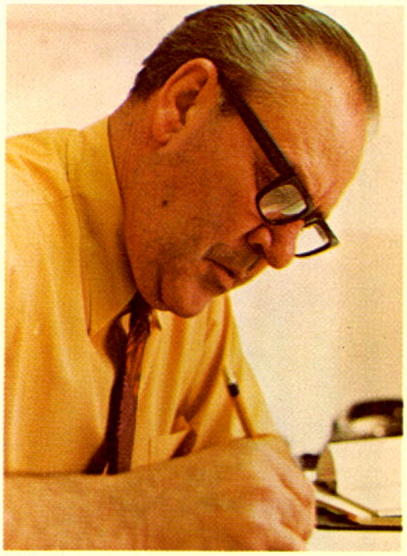
	1973		1972	
Field	Gross	Net	Gross	Net
ALBERTA				
Cessford	14,435,700	12,157,800	14,957,100	12,567,000
Medicine Hat-Roseglen	4,111,300	3,832,900	4,010,300	3,702,500
Minnehik-Buck Lake	2,923,900	2,645,600	2,668,000	2,425,500
Big Bend	1,218,500	938,500	730,000	558,600
Countess	902,300	698,600	936,700	713,000
Provost	652,800	547,000	694,100	640,700
Kaybob	547,800	461,200	603,600	526,500
Homeglen-Rimbey	441,600	398,400	487,500	434,600
Others	1,360,100	1,167,100	1,313,500	1,143,000
	26,594,000	22,847,100	26,400,800	22,711,400
BRITISH COLUMBIA				
Rigel	1,313,400	1,131,500	1,482,400	1,278,200
Kobes	467,800	399,300	308,300	263,200
Kotcho	187,900	158,400	407,900	344,200
Others	109,400	94,800	93,400	80,700
	2,078,500	1,784,000	2,292,000	1,966,300
OTHERS MISCELLANEOUS	13,100	12,700	11,000	9,800
	28,685,600	24,643,800	28,703,800	24,687,500

Reserves

The Company's gross proven reserves, as calculated by our staff, are shown in the following table. The natural gas and sulphur reserves have been converted to barrel equivalents by using 15,000 cubic feet of gas = ½ long ton of sulphur = 1 barrel of oil.

PROVEN GROSS RESERVES

	Crude Oil (Barrels)	Natural Gas Liquids (Barrels)	Natural Gas (Mcf.)	Sulphur (Long Tons)	Total Barrel Equivalents
Remaining reserves at January 1, 1973 . .	24,078,800	1,816,500	347,035,600	62,900	49,158,000
Reserves added . . .	2,178,900	64,000	86,350,000	—	8,000,000
	26,257,700	1,880,500	433,385,600	62,900	57,158,000
Sales	2,299,700	139,500	28,685,600	2,900	4,358,000
Remaining reserves at December 31, 1973 .	23,958,000	1,741,000	404,700,000	60,000	52,800,000

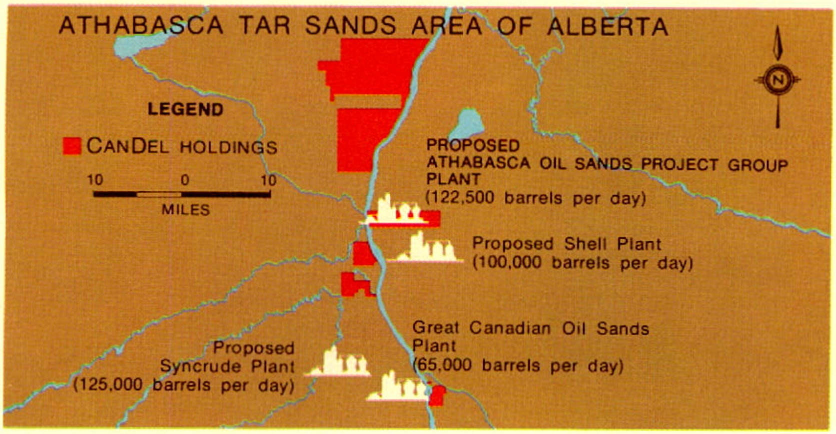


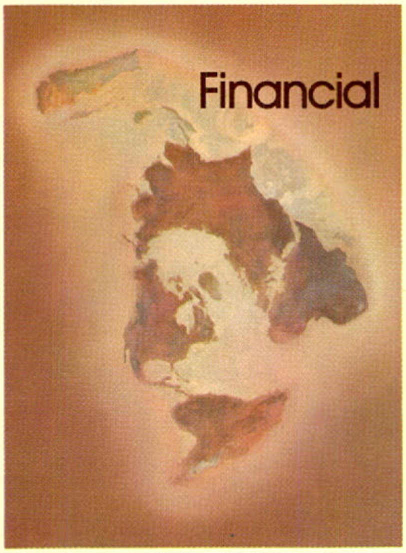
E. W. Bergeson, Assistant Production Superintendent

Our staff further estimates CanDel's bitumen reserves in the Alberta Tar Sands at approximately 200,000,000 gross barrels.

Athabasca Oil Sands Project

During the early part of 1973, the Athabasca Oil Sands Project, in which CanDel has a 6.875 percent interest, completed a feasibility study for the potential development of its 103,000-acre holding in the Alberta Tar Sands. Preliminary plans for a large scale mining operation, located 30 miles north of the currently operating Great Canadian Oil Sands extraction plant, have now been completed. On January 18, 1974, formal application was made to the Alberta Energy Resources Board for approval of the plans. The application contains a proposal to construct facilities for the mining, separation and up-grading of raw bitumen to synthetic crude oil at a rate of 122,500 barrels per day. Subject to obtaining necessary permits, construction is scheduled to start in 1978 with production to commence in 1982. At an estimated total investment of $850,000,000, the project will be one of the largest mining operations in the world.





M. A. Williams, Vice President — Finance and Treasurer

D. N. Goldfeldt, Comptroller and Assistant Treasurer

STATEMENT OF INCOME

In 1973 CanDel earned net income of $2,830,000 compared to $2,078,000 in 1972, an increase of 36 percent. Net income for both years has been reported after giving effect to the retroactive adoption of deferred income tax accounting and the policy of amortizing foreign exploration costs over the term of the exploratory licenses or permits held. The reasons for these changes are explained under "Changes in Accounting Policy."

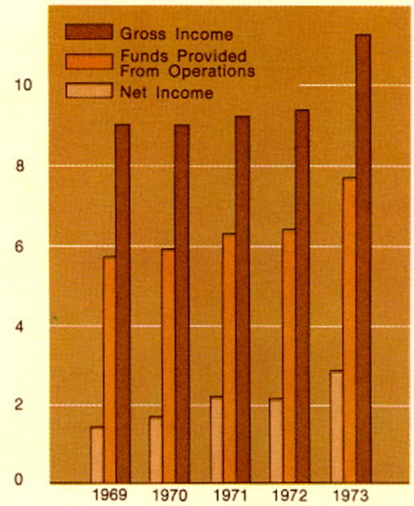
Gross income for 1973 was $10,959,000, an increase of 18 percent from $9,316,000 the previous year. Crude oil and natural gas liquids sales increased to $6,268,000 from $5,301,000 in 1972. Natural gas sales were $4,500,000 compared to $3,867,000.

Expenses, excluding provision for deferred income taxes, totalled $6,677,000 in 1973, an increase of approximately 6 percent over 1972. Operating expenses increased to $2,329,000 from $2,166,000, reflecting the general increase in the cost of materials and services. General and administrative expenses rose to $682,000, an increase of $206,000 from 1972. The increase was mainly due to higher salaries and employee benefit costs, including an amount of $114,000 for distribution under the Key Employee Incentive Bonus Plan. Depletion expense rose slightly to $2,542,000 from $2,406,000 last year. The depletion rate per barrel equivalent produced in 1973 was 61 cents compared to 54 cents in 1972. This rate indicates the historical cost to the Company of finding and developing its oil and gas reserves and the increase resulted from the higher finding and developing costs for the year.

Interest expense on long-term debt was virtually eliminated as a result of the retirement of the 6¼% Secured Notes in April 1973. Interest on bank borrowings increased to $260,000 due to larger amounts being drawn down under the Company's line of credit and the higher rates which prevailed.

E. G. Munoz, Accountant; G. Schlee, Accounting Supervisor

FINANCIAL REVIEW
(MILLIONS OF DOLLARS)



STATEMENT OF SOURCE AND USE OF FUNDS

Funds provided from operations rose to $7,680,000, up 20 percent from $6,397,000 in 1972. Additional funds were received from the disposition of fixed assets and the issuance of shares under the Employees' Stock Option Plan resulting in total available funds of $7,894,000.

Capital expenditures were up sharply in 1973 to $8,386,000, an increase of 84 percent from $4,568,000 the previous year. Exploration costs rose 72 percent to $6,127,000, of which 60 percent was spent in Canada. Expenditures of $2,440,000 were made on exploratory work outside Canada, of which $1,375,000 related to the acquisition of the Transworld properties.

Development expenditures of $2,259,000 increased 124 percent over the year before. Costs were incurred for additional drilling and equipment in older fields under enhanced recovery and optimization schemes and follow up drilling to evaluate new discoveries.

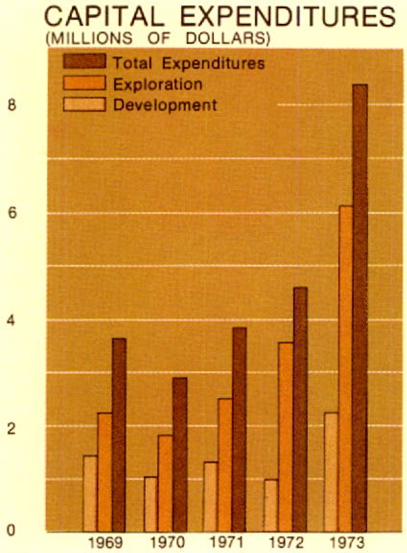
Total funds used of $8,413,000 resulted in a further increase in the working capital deficiency to $3,269,000. At December 31, 1973, the Company had a line of credit of $5,500,000 which may be increased if required.

CHANGES IN ACCOUNTING POLICY

During the year CanDel made two changes in accounting policy in the interests of maintaining a high standard of financial reporting.

Accounting For Foreign Exploration Costs

The Company has been participating in exploration outside North America since 1971. Amounts initially spent in foreign exploration programs were relatively minor and expensing these amounts in the



Shiley DeMale, Accounting Machine Operator

Eleanor Milliken, Office Services

years incurred did not distort earnings. Commencing in 1973, retroactive to 1972, all foreign exploration costs are being capitalized and systematically amortized over the term of exploratory rights held.

Foreign exploration costs are allocated to areas of interest or cost centres as incurred. Amortization of costs is based on the term for which the exploratory rights have been granted in each cost centre. In areas of interest where several exploratory rights are held, such as the North Sea, the amortization period is based on the composite life of the various rights held. When exploratory activities result in the discovery of commercial reserves in an area of interest, no further provision for amortization will be made. Unamortized costs in the area of interest will be depleted on the unit-of-production method, based on estimated recoverable reserves when production commences. If efforts in an area of interest are not successful and exploratory rights are surrendered, all unamortized costs will be charged to income in the year of surrender.

Adoption of the policy of capitalizing and amortizing foreign exploration costs over the term of the exploratory rights held will result in foreign exploration costs being charged to earnings over the period during which the rights are being evaluated.

Accounting For Income Taxes

Under the Canadian Income Tax laws there can be differences in the timing of the deduction of the cost of property, plant and equipment for income tax purposes and the deduction of the related depreciation and depletion in the Company's Statement of Income.

E. V. Johnson and R. S. Danielson, Accounting Supervisors

W. E. Clarke, Manager — Purchasing

Under deferred income tax accounting, the provision for income taxes is related to the accounting income reported for the year. While the Canadian Institute of Chartered Accountants has recommended deferred income tax accounting since 1968, not all companies in the petroleum industry have followed this recommendation.

In response to the request of the Canadian securities commissions to the petroleum industry and the recommendation of the Canadian Institute of Chartered Accountants, deferred tax accounting was adopted on a retroactive basis in 1973. With the adoption of deferred income taxes, CanDel's financial statements will reflect income tax expense in the year in which the related revenues and expenses are recorded. Earnings calculated after provision for deferred taxes more closely reflect the return to the shareholders after providing for all payments which the Company is required to make to Governments.

RETURN ON INVESTMENT

CanDel's net income in 1973 increased by 36 percent to $2,830,000. While this is a significant increase, it must be related to the return earned by the Company and by the industry. Our return on shareholders' equity in 1973 was 10.4 percent compared to 8.5 percent the previous year. While this return compares favourably with that of similar companies, it is low considering the degree of risk associated with investments in the exploration and production segments of the petroleum industry. Higher prices for oil and gas are needed to attract the capital required by the industry.

Consolidated Balance Sheet

DECEMBER 31, 1973
(With Comparative Figures for 1972)

ASSETS

	1973	1972
CURRENT ASSETS:		
Cash	$ 241,000	$ 176,000
Accounts receivable	3,337,000	3,161,000
Materials and supplies—at lower of cost or replacement cost	192,000	292,000
Other current assets	19,000	37,000
Total current assets	3,789,000	3,666,000
PROPERTY, PLANT AND EQUIPMENT at cost (Note 1):		
Petroleum and natural gas leases and rights including exploration and development thereon	55,516,000	48,541,000
Less accumulated depletion and amortization	25,313,000	22,707,000
	30,203,000	25,834,000
Production and other equipment	17,816,000	16,627,000
Less accumulated depreciation	11,030,000	10,271,000
	6,786,000	6,356,000
	36,989,000	32,190,000
OTHER ASSETS	80,000	58,000
	$40,858,000	$35,914,000

Approved on behalf of the Board;

Smiley Raborn, Jr. Director

W C Lauchner Director

See accompanying notes to consolidated financial statements.

CanDel
OIL LTD.

LIABILITIES

	1973	1972
CURRENT LIABILITIES:		
Due to bank—secured by producing properties and accounts receivable	$ 3,500,000	$ 3,700,000
Accounts payable and accrued expenses	3,558,000	2,079,000
6¼% secured notes	—	637,000
Total current liabilities	7,058,000	6,416,000
DEFERRED INCOME TAXES (Note 2)	6,494,000	5,042,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Common stock of a par value of $3 per share:		
Authorized 6,250,000 shares		
Outstanding 4, 179,431 shares (1972—4,177,182 shares)	12,538,000	12,532,000
Contributed surplus (Note 3)	54,000	40,000
Retained earnings	14,714,000	11,884,000
	27,306,000	24,456,000
CONTINGENCIES (Note 4)		
	$40,858,000	$35,914,000

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1973
(With Comparative Figures for 1972)

	1973	1972
INCOME:		
Crude oil and natural gas liquids sales	$ 6,268,000	$ 5,301,000
Natural gas sales	4,500,000	3,867,000
Other	191,000	148,000
	10,959,000	9,316,000
EXPENSE:		
Operating	2,329,000	2,166,000
General and administrative	682,000	476,000
Depletion	2,542,000	2,406,000
Depreciation	787,000	798,000
Amortization of foreign exploration costs (Note 1)	65,000	—
Interest and expense on long-term debt	8,000	143,000
Other interest	260,000	133,000
Mineral exploration costs	4,000	159,000
	6,677,000	6,281,000
NET INCOME before deferred income taxes	4,282,000	3,035,000
Deferred income taxes (Note 2)	1,452,000	957,000
NET INCOME	$ 2,830,000	$ 2,078,000
NET INCOME PER SHARE	$.68	$.50

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1973
(With Comparative Figures for 1972)

	1973	1972
RETAINED EARNINGS, January 1		
As previously reported	$16,890,000	$13,891,000
Retroactive adjustments:		
Foreign exploration (Note 1)	36,000	—
Deferred income taxes (Note 2)	(5,042,000)	(4,085,000)
	11,884,000	9,806,000
Net income for the year	2,830,000	2,078,000
RETAINED EARNINGS, December 31	$14,714,000	$11,884,000

See accompanying notes to consolidated financial statements.

CanDel Oil Ltd.

Consolidated Statement of Source and Use of Funds

YEAR ENDED DECEMBER 31, 1973

(With Comparative Figures for 1972)

	1973	1972
SOURCE OF FUNDS:		
Net income	$ 2,830,000	$ 2,078,000
Add charges to income not requiring funds:		
Depletion	2,542,000	2,406,000
Depreciation	787,000	798,000
Mineral exploration costs charged to income	4,000	159,000
Amortization of foreign exploration costs	65,000	—
Provision for deferred income taxes	1,452,000	957,000
Other	—	(1,000)
Funds provided from operations	7,680,000	6,397,000
Sales of assets	194,000	200,000
Sales of common shares	20,000	—
	7,894,000	6,597,000
USE OF FUNDS:		
Additions to property, plant and equipment	8,386,000	4,568,000
Retirement of long-term debt	—	605,000
Other	27,000	2,000
	8,413,000	5,175,000
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY	$ 519,000	$ (1,422,000)
WORKING CAPITAL DEFICIENCY AT DECEMBER 31	$ 3,269,000	$ 2,750,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1973

1. ACCOUNTING PRINCIPLES

(a) FULL COST METHOD OF ACCOUNTING

The Company and its subsidiaries follow the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells and overhead directly related to exploration activities. Exploration and development costs are allocated to the following cost centres:

(1) North America — Canada and the United States

(2) North Sea — United Kingdom, Netherlands and Norwegian sectors of the North Sea

(3) North Africa — Egyptian Gulf of Suez and Tunisia

(4) Peru — Amazon Basin of Peru

(5) Others — Additional cost centres have been established for each country in which the companies are conducting exploratory activities.

Costs capitalized in the North American cost centre are being depleted on the unit-of-production method based on estimated recoverable North American reserves as determined by Company engineers.

Prior to 1973 exploration costs incurred outside North America were charged to income as incurred. In 1973 the Company retroactively adopted the policy of capitalizing such exploration costs by cost centre as set out above. The change in accounting practice was adopted retroactively to January 1, 1972 prior to which time exploration costs outside North America were not significant. The adoption of the policy of capitalizing foreign exploration costs has resulted in an increase in the Company's property, plant and equipment at December 31, 1972 and 1973 and an increase in the net income previously reported for 1972 and the net income that would have been reported for 1973 on the previous basis. The 1972 financial statements have been restated to reflect the change and the effect for the years 1972 and 1973 is set out below:

	Increase in Property, Plant and Equipment at December 31,	Increase in Net Income	
		Total	Per Share
1972	$ 36,000	$ 36,000	$ .01
1973	$512,000	$476,000	$ .11

Costs incurred outside North America are being amortized over the composite life of the various exploratory rights held in each cost centre. No amortization has been provided in 1972 on foreign exploration costs of $36,000 incurred in that year as such amortization would not be significant. When exploratory efforts are successful in a cost centre, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred to be depleted on the unit-of-production basis. If all of the exploratory rights in any cost centre are surrendered, the balance of unamortized exploration costs will be charged to income. At December 31, 1973, costs remaining to be amortized in cost centres outside North America amounted to $1,931,000.

(b) DEPRECIATION

Production and other equipment is depreciated at rates which are estimated to amortize the cost of the assets over their useful lives.

Notes to Consolidated Financial Statements continued

DECEMBER 31, 1973

(c) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CanDel Oil Ltd. and its subsidiary companies all of which are wholly owned. The Company's subsidiaries, which are all listed below, have been formed in connection with exploration and development activities outside Canada.

CanDel Oil Corporation
CanDel Oil (U.S.) Inc.
CanDel Petroleum (U.K.) Limited
CanDel Oil (U.K.) Inc.
CanDel Oil (Netherlands) Inc.
CanDel Oil (Egypt) Inc.
CanDel Oil (Tunisia) Inc.
CanDel Oil (Peru) Inc.

Current assets and liabilities of foreign subsidiaries have been converted to Canadian dollars using the exchange rate at the balance sheet date. Exploration and development costs and related amortization have been converted at the rate in effect at the date the transactions occurred. None of the subsidiaries had producing operations in 1973.

2. 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, 1972 and 1973 sufficient capital cost allowances and exploration, development and lease acquisition costs have been or will be claimed to eliminate taxable income.

In 1973 the Company retroactively adopted the tax allocation basis of accounting for income taxes. Under tax allocation, deferred income taxes are provided to the extent that current income taxes have been reduced by claiming capital cost allowances and exploration, development and lease acquisition costs in excess of the related depreciation and depletion provided in the financial statements. Retroactive adoption of the tax allocation basis of accounting for income taxes resulted in a cumulative provision for deferred taxes of $5,042,000 at January 1, 1973 ($4,085,000 at January 1, 1972) and a corresponding reduction in the previously reported retained earnings.

The retroactive adoption of the tax allocation basis of accounting has resulted in a net decrease in the Company's net income previously reported for 1972 and the net income that would have been reported for 1973 on the previous basis. The 1972 financial statements have been restated to reflect the change and the effect for the years ended December 31, 1972 and 1973 is set out below:

	Decrease in Net Income	
Year Ended December 31:	Total	Per Share
1972	$ 957,000	$ .23
1973	$1,452,000	$ .35

At December 31, 1973, the following amounts remained to be carried forward and applied against future taxable income:

Exploration, development and lease acquisition costs	$13,200,000
Unclaimed capital cost allowances (to the maximum amount permitted in any one year by the Income Tax Regulations)	$ 6,500,000

Of the $13,200,000 shown above, approximately $2,500,000 is being disputed by the Canadian Income Tax authorities.

Notes to Consolidated Financial Statements continued

DECEMBER 31, 1973

3. CAPITAL STOCK

The Company has an Employees' Stock Option Plan whereby shares of the Company may be purchased by employees. Under the plan 200,000 shares were initially reserved for issuance to employees and at December 31, 1973, there are 68,851 shares on which further options may be granted. At December 31, 1973, options were outstanding to purchase 128,900 shares (58,650 at $8.75, 66,250 at $11.125 and 4,000 at $11.25). During 1973 options to purchase 5,000 shares were granted, options to purchase 2,249 shares were exercised for a total cash consideration of $20,000 (of which $6,000 has been credited to capital stock and $14,000 to contributed surplus) and options to purchase 15,501 shares were cancelled. The options which are exercisable from time to time on a cumulative basis expire on 58,650 shares in 1976, on 65,250 shares in 1977 and on 5,000 shares in 1978.

4. CONTINGENCIES

During 1973 the Company entered into an agreement to acquire interests in certain foreign exploratory rights. Under the agreement, the Company is required to expend an additional $6,500,000 within the next three years to retain the interest in the rights so acquired.

5. AMOUNTS PAID TO DIRECTORS AND OFFICERS

During 1973 the Company paid remuneration of $364,000 to the Company's twelve officers in their capacity as officers. No remuneration was paid to the nine persons who served as directors for their services as directors. Three of the officers were also directors of the Company.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of CanDel Oil Ltd. and subsidiary companies as at December 31, 1973 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 Company and subsidiary companies as at December 31, 1973 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 basis consistent with that of the preceding year after giving retroactive effect to the change in the method of accounting for foreign exploration costs as explained in Note 1 and deferred income taxes as explained in Note 2, which changes we approve.

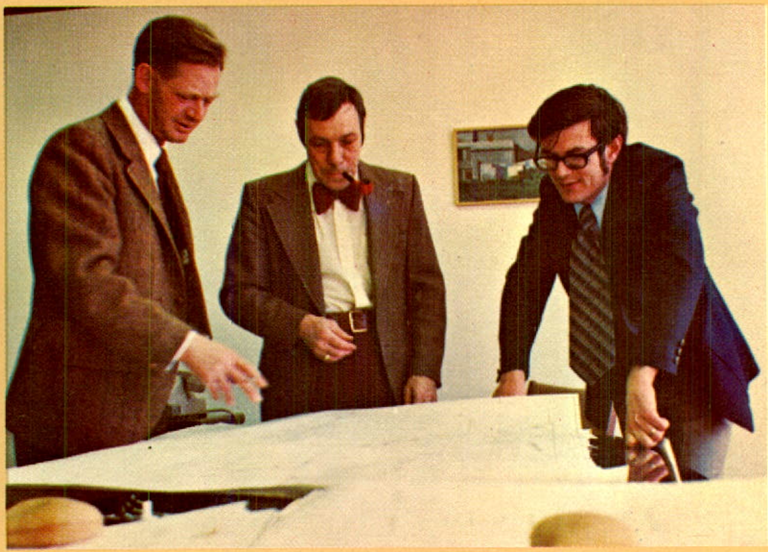
January 28, 1974
Calgary, Alberta

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Financial and Operating Review

	1973	1972	1971	1970	1969
FINANCIAL					
GROSS INCOME	$10,959,000	9,316,000	9,237,000	9,034,000	9,050,000
FUNDS PROVIDED FROM OPERATIONS	$ 7,680,000	6,397,000	6,275,000	5,896,000	5,676,000
Per Share	$1.84	1.53	1.50	1.41	1.36
NET INCOME	$ 2,830,000	2,078,000	2,109,000	1,672,000	1,496,000
Per Share	$ .68	.50	.50	.40	.36
CAPITAL EXPENDITURES:					
Exploration	$ 6,127,000	3,560,000	2,491,000	1,821,000	2,215,000
Development	$ 2,259,000	1,008,000	1,338,000	1,054,000	1,418,000
Total	$ 8,386,000	4,568,000	3,829,000	2,875,000	3,633,000
PROPERTY, PLANT AND EQUIPMENT – NET	$36,989,000	32,190,000	31,184,000	30,487,000	31,538,000
LONG-TERM DEBT	$ —	—	605,000	3,821,000	7,463,000
DEFERRED INCOME TAXES	$ 6,494,000	5,042,000	4,085,000	2,995,000	2,025,000
SHAREHOLDERS' EQUITY	$27,306,000	24,456,000	22,378,000	20,268,000	18,596,000
RETURN ON SHAREHOLDERS' EQUITY	10.4%	8.5	9.4	8.2	8.0
SHARES OUTSTANDING	4,179,431	4,177,182	4,177,182	4,177,182	4,177,182
OPERATIONS					
GROSS PRODUCT SALES					
Crude Oil and Natural Gas Liquids:					
Sales – Barrels	2,439,200	2,463,000	2,493,700	2,713,800	2,679,000
Sales – Barrels Per Day	6,683	6,730	6,832	7,435	7,340
Natural Gas:					
Sales – Mcf.	28,686,000	28,704,000	28,404,000	28,306,000	29,803,000
Sales – Mcf. Per Day	78,591	78,426	77,819	77,551	81,652
NET WELLS DRILLED					
Oil	3.9	.8	.6	1.8	2.7
Gas	33.0	—	1.4	1.5	3.1
Dry	7.2	4.5	5.5	5.6	4.6
	44.1	5.3	7.5	8.9	10.4
NET WELLS OWNED					
Oil	150.1	147.9	147.1	143.5	145.4
Gas	142.6	109.6	109.6	108.2	110.3
	292.7	257.5	256.7	251.7	255.7
LAND HOLDINGS					
Gross Acres	8,419,827	4,722,322	3,455,403	2,045,169	2,201,405
Net Acres	1,663,945	1,333,337	1,126,931	1,012,352	1,068,604
NUMBER OF EMPLOYEES	95	96	82	71	71

G. V. Goett, General Counsel and Corporate Secretary



J. Karberg, Vice President — Engineering; R. J. Forgie, Chief Engineer; R. G. Gosse, Reservoir Engineer

BOARD OF DIRECTORS

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Montreal, Quebec
Vice President
Nesbitt Thomson and Company Limited

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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 M. HATCH,
Toronto, Ontario
Chairman and President
McLarens Foods Ltd.

WILLIAM C. LEUSCHNER,
Calgary, Alberta
Executive Vice President and Chief Operating Officer of the Company

ROSS A. MacKIMMIE, Q.C.,
Calgary, Alberta
Senior Partner
MacKimmie Matthews

JAMES A. MILLARD,
Calgary, Alberta
Partner
MacKimmie Matthews

SMILEY RABORN, JR.,
Calgary, Alberta
President and Chief Executive Officer of the Company

L. CHASE RITTS,
New York, New York
Vice President – Petroleum
St. Joe Minerals Corporation

CORPORATE OFFICERS

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Chairman of the Board of Directors

SMILEY RABORN, JR.,
President and Chief Executive Officer

WILLIAM C. LEUSCHNER,
Executive Vice President and Chief Operating Officer

MICHAEL A. WILLIAMS,
Vice President – Finance and Treasurer

DOUGLAS H. CHURCH,
Vice President – Drilling and Development

DONALD M. ERICSON,
Vice President – Exploration

JORGEN KARBERG,
Vice President – Engineering

A. ROSS LONG,
Vice President – Land

RICHARD K. TERRELL,
Vice President – Production

GARRY V. GOETT,
General Counsel and Corporate Secretary

DONALD N. GOLDFELDT,
Comptroller and Assistant Treasurer

MORLEY R. WOLFER,
Manager – Personnel and Assistant Secretary

OTHER EXECUTIVES

ROBERT H. BURTON,
Chief Geologist

WILBERT E. CLARKE,
Manager – Purchasing

HOWARD M. DANCEY,
Chief Accountant

ROBERT J. FORGIE,
Chief Engineer

RUSSELL J. ZAHARKO,
Production Superintendent

Esther Emmett, Executive Secretary

H. M. Dancey, Chief Accountant; M. R. Wolfer, Manager — Personnel and Assistant Secretary

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

HEAD OFFICE

28th Floor, One Calgary Place
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Calgary, Alberta T2P 0L4

STOCK LISTING

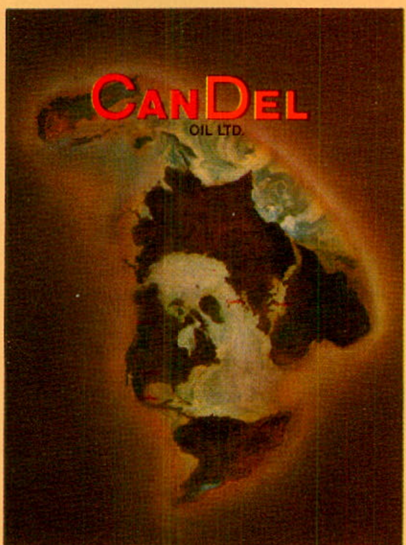
Toronto Stock Exchange

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

SOLICITORS

MacKimmie Matthews
Calgary, Alberta



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