



CANADIAN HOMESTEAD OILS ANNUAL REPORT 1973
Limited



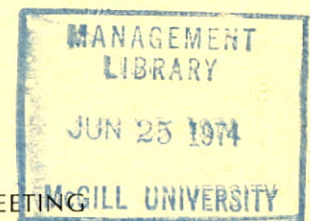


COMPARATIVE SUMMARY

| FINANCIAL | 1973 | 1972 | INCREASE (DECREASE) |
|--------------------------------------------------|--------------|--------------|------------------------|
| Gross income..... | \$ 3,179,000 | \$ 2,951,000 | 8% |
| Cash flow..... | 1,622,000 | 1,419,000 | 14 |
| Per common share..... | .32 | .30 | |
| Net earnings..... | 455,000 | 376,000 | 21 |
| Per common share..... | .09 | .08 | |
| Working capital..... | 3,796,000 | 3,300,000 | 15 |
| Long term debt..... | 3,566,000 | 3,941,000 | (10) |
| Growth expenditures..... | \$ 2,385,000 | \$ 2,568,000 | (7) |
| Shares outstanding | | | |
| Common..... | 5,159,000 | 4,842,000 | 7 |
| Preferred..... | 6,000 | 23,000 | (72) |
| | | | |
| OPERATING | | | |
| Oil and condensate production — net barrels..... | 786,000 | 750,000 | 5 |
| Natural gas sales — net mcf..... | 2,328,000 | 2,212,000 | 5 |
| Land holdings | | | |
| Gross acres..... | 25,362,000 | 12,179,000 | 108 |
| Net acres..... | 8,628,000 | 4,433,000 | 95 |

CONTENTS

| | |
|----------------------------------|----|
| Comparative Summary | 1 |
| Report to the shareholders | 2 |
| Review of Operations | 4 |
| Financial Review | 10 |
| Financial Statements | 11 |
| Ten Year Review | 18 |
| Corporate Information | 20 |



ANNUAL MEETING

The Annual General Meeting of the shareholders of the Company will be held at the head office of the Company on Wednesday, August 22nd, 1973, at 9:00 a.m. Shareholders of record as of July 13th, 1973, will be entitled to vote at this meeting. Notice of meeting, a proxy form and a proxy statement and information circular are enclosed with this report.



CANADIAN HOMESTEAD OILS
Limited

and subsidiaries

REPORT TO THE SHAREHOLDERS

Record levels of performance were attained by Canadian Homestead during its 1973 fiscal year, with increases in gross income (up 8% to \$3,179,000), cash flow (up 14% to \$1,622,000) and net earnings (up 21% to \$455,000).

Crude oil and condensate production averaged 2,153 barrels daily in 1973, while sales of natural gas were 6.4 million cubic feet per day, both 5% over the 1972 averages. Production capability should be further enhanced in 1974 as the result of soon to be completed secondary recovery schemes coupled with development programs arising from previous drilling successes. Higher production, in combination with improved crude oil and natural gas prices, should substantially increase revenue from this source in the coming year.

The Company participated in the drilling of 12 exploratory tests during the year of which 6 were completed as oil or gas producers. The majority of these wells were in the provincial areas of Western Canada, however, one was located in each of the Yukon Territory and Arctic Islands. The latter, Panarctic Tenneco et al Hecla I-69, located on the Sabine Peninsula of Melville Island, was the first successful well to be drilled in the high Arctic on acreage in which Homestead holds an interest. Details on this and other exploration activities are reviewed elsewhere in this report.

Repressive government regulations, particularly with respect to pricing has served to curtail exploration for oil and gas in many regions. The results of this are now evident in the energy shortage being experienced in areas of North America. Recognizing the potential for growth emanating from the rapidly rising worldwide demand for hydrocarbons, many Canadian resource companies have embarked on aggressive land acquisition and exploration programs both in the Canadian frontiers and abroad. Homestead's acreage holdings are double the amount owned a year ago and currently total 25,362,000 gross (8,628,000 net) acres. Much of this acreage is in currently active areas, particularly the Arctic Islands, while overseas, interests are held in both the United Kingdom sector of the North Sea and Kenya, East Africa. Applications are pending in

other foreign jurisdictions. Through its diverse land holdings the Company hopes to obtain maximum exposure to exploration activity at a minimum of cost.

Homestead is financially strong with working capital at year-end of \$3,796,000, an all time high. This, combined with record cash flow and the funds being derived from the Company's exploration agreement with Canadian Propane Gas & Oil Ltd., will allow extensive exploration and development programs. Current and planned drilling on or in close proximity to our Arctic, North Sea and other holdings makes the coming year highly prospective and possibly the most significant in the history of the Company.

The outlook for the petroleum industry in Canada is one of guarded optimism. While there are many indications that it is on the threshold of an era of achievement, unparalleled in its brief history, nevertheless this must be tempered by a growing concern over detrimental government policies as reflected in higher taxes and royalties, legislation affecting foreign capital and often severe environmental restrictions. Also of concern is the apparent deterioration of the industry's image in the eyes of the public. These adverse trends can only be overcome through meaningful dialogue with government at all levels and a concerted effort to create a greater public awareness of the

important contributions made by our industry to the economic well being of the community and the country. These are responsibilities that each of us in the industry must share.

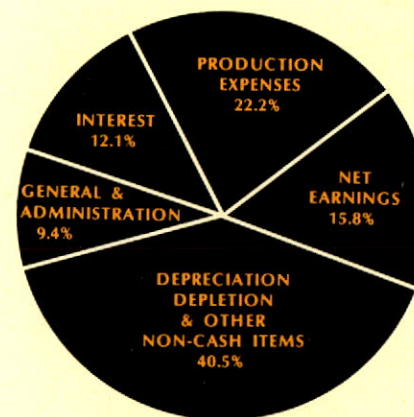
The sincere appreciation of the Directors is extended to our employees for their dedication and support.

FOR THE BOARD OF DIRECTORS



President

Calgary, Alberta
July 24, 1973



REVIEW OF OPERATIONS



EXPLORATION AND DEVELOPMENT

During 1973, Homestead spent \$2,385,000 on oil and gas exploration and development, down 7% from \$2,568,000 in the preceding year. Exploratory costs of \$2,047,000 were slightly higher than in 1972 with approximately two-thirds of the funds being provided under the Company's exploration agreement with Canadian Propane Gas & Oil Ltd. Development expenditures were less in the current year, coincident with a reduction in drilling as noted below.

Growth Expenditures

| | (thousands of dollars) | | | | |
|-------------------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 1973 | 1972 | 1971 | 1970 | 1969 |
| EXPLORATION | | | | | |
| Land and rentals | \$ 322 | \$ 254 | \$ 482 | \$ 607 | \$ 324 |
| Geological and geophysical .. | 221 | 208 | 153 | 275 | 93 |
| Drilling | 151 | 4 | 195 | 397 | 224 |
| Expenditures under "Propane" Agreement .. | 1,353 | 1,507 | 1,182 | 1,116 | 599 |
| | <u>2,047</u> | <u>1,973</u> | <u>2,012</u> | <u>2,395</u> | <u>1,240</u> |
| DEVELOPMENT | | | | | |
| Drilling | 141 | 221 | 160 | 120 | 224 |
| Production equipment .. | 197 | 374 | 325 | 260 | 281 |
| Acquire company | | | | | 151 |
| | <u>338</u> | <u>595</u> | <u>485</u> | <u>380</u> | <u>656</u> |
| TOTAL | <u><u>\$2,385</u></u> | <u><u>\$2,568</u></u> | <u><u>\$2,497</u></u> | <u><u>\$2,775</u></u> | <u><u>\$1,896</u></u> |

Drilling

Drilling activity on Homestead properties declined in 1973 due primarily to completion of development drilling programs undertaken in recent years to maintain the productive capacity of oil and gas units. A total of 12 wells, all exploratory, were drilled in 1973 compared to 26 (13 exploratory) last year and resulted in 1 oil and 5 gas wells with 6 holes being dry. Four of these wells were drilled at no cost to the Company on lands farmed out to others. The following is a tabulation of drilling results.

Wells Drilled

| | Gross Wells | | Net Wells | |
|----------------------------------|------------------|------------------|-------------------|--------------------|
| | 1973 | 1972 | 1973 | 1972 |
| EXPLORATION | | | | |
| Oil | 1 | | .1 | |
| Gas | 5 | 2 | 1.2 | 2.0 |
| Dry | 6 | 11 | 3.5 | 5.9 |
| | <u>12</u> | <u>13</u> | <u>4.8</u> | <u>7.9</u> |
| DEVELOPMENT | | | | |
| Oil | | 7 | | 1.6 |
| Gas | | 4 | | 1.4 |
| Dry | | 2 | | |
| | | <u>13</u> | | <u>3.0</u> |
| TOTAL WELLS | <u><u>12</u></u> | <u><u>26</u></u> | <u><u>4.8</u></u> | <u><u>10.9</u></u> |
| Average Well Participation | | | 40% | 42% |
| Success Ratios: | | | | |
| Exploration | | | 27% | 25% |
| Development | | | | 100% |

Frontier Areas

The focal point for exploration activity continues to be the frontier areas with particular emphasis on the Mackenzie Delta and Arctic Islands. During the year the Company participated in two tests drilled in these regions. At Roland Bay, in the Beaufort Basin West of the Mackenzie Delta, a well, Pacific et al Roland Bay Yt. L-41 was drilled on farmed-in acreage and abandoned prior to reaching its principal objective. On the basis of this drilling and a related seismic survey it has been decided to terminate the current exploration program in this area. The Company will, however, continue to maintain its acreage position which totals 125,000 gross (20,000 net) acres.

On the Sabine Peninsula of Melville Island in the Arctic, the successful Panarctic Tenneco et al Hecla I-69 test was drilled at no cash cost to Homestead, on a 30,000 acre permit in which the Company holds a 37½% interest. This well, which was drilled as a follow-up to the Panarctic Tenneco et al POR Hecla F-62 gas discovery, is located approximately three miles south of the initial discovery and thirty miles west of the Drake Point gas field. The size of the Hecla structure and the extent of its reserves is yet to be determined, however the absolute open flow of the F-62 discovery well was reported to be 96 million cubic feet per day, which indicated a find of some magnitude.

Alberta

At Bigoray, in Central Alberta, two wells, Homestead et al Bigoray 10-19 and 6-29 were drilled as Mississippian tests, both resulting in gas discoveries. Additional drilling will be required to determine the development potential for this area.

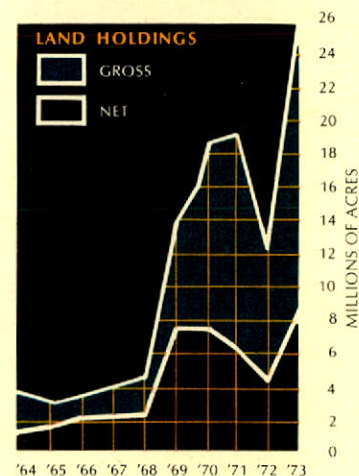
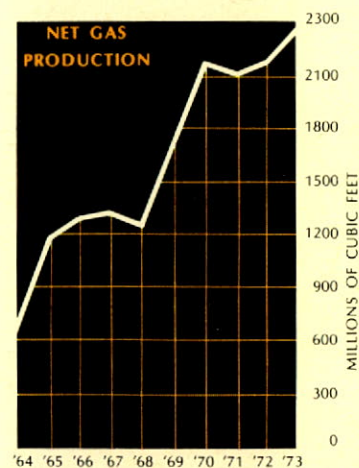
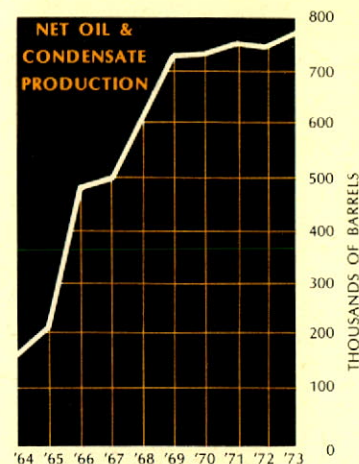
In the prolific Meekwap region of northern Alberta a well, Homestead Meekwap 16-12, was drilled in an unsuccessful attempt to extend the limits of this field.

In the Clarkson, Snipe and Shotgun areas of the province, unsuccessful attempts were also made to follow-up previous oil and gas discoveries. Evaluation work will continue in most of these regions.

Production

Net production of crude oil, condensate and natural gas reached record volumes in 1973 as the result of both increased market demand and improved production capability.

Crude oil and condensate production averaged 2,153 barrels per day in 1973 as compared with 2,049 barrels in 1972, a gain of 5%. This increase is primarily attributable to the Meekwap field which produced an average of 137 barrels daily (net to Homestead) during the year. The productive capacity of this property will be further enhanced by the completion of secondary recovery facilities which are currently under construction.





Arctic wolf



Arctic Poppies

Natural gas sales averaged 6.4 million cubic feet daily, a 5% increase over 1972. The recent installation of compression facilities at our Verger properties coupled with gas conservation facilities built during the 1972 year in the Leafland area, have been the main reasons for this improvement.

Land

Land holdings at May 31, 1973 totalled 25,362,000 gross (8,628,000 net) acres, double the amount held a year ago. The principal additions were to the Company's frontier and overseas acreage.

In the Arctic Islands 4,533,000 gross (1,883,000 net) acres were acquired, increasing acreage holdings in this region to 7,492,000 gross (3,654,000 net) acres. An additional 2,491,000 gross (761,000 net) acres has been added in Hudson Bay. A group of land owners in the area plan a substantial drilling program to commence in 1974, the results of which will help evaluate this large sedimentary basin.

Expansion of Homestead's activities into foreign regions has resulted in the acquisition of an exploration license covering 6,672,000 gross (1,668,000 net) acres in Kenya, East Africa.

AREAS OF INTEREST

CANADA

Arctic Islands

Homestead, through its extensive holdings in the Arctic Islands, continues to benefit from the vast exploration programs being conducted by others in this region. On the Sabine Peninsula of Melville Island, five gas wells have been drilled to date by Panarctic Oils Ltd., a consortium of private companies and the Canadian government. This has proven to be a highly prospective area in which we have a substantial land position. The most recent and only discovery drilled to date on acreage in which Homestead has an interest was the Panarctic Tenneco et al POR Hecla I-69 well, referred to earlier in this report. Attention is now being focused on the Panarctic et al Drake Point D-68 "deep test" currently drilling approximately one mile from the initial Drake Point discovery. The D-68 well, with a projected depth of 18,000 feet, will be the first test of the deeper horizons (below 10,000 feet) on the Peninsula and will be of utmost significance in evaluating Homestead's acreage. Seven miles east of this well, the Company has a 75% interest in 60,000 permit acres directly offsetting the Drake Point gas field. A well, Panarctic Tenneco et al Hmstd. Drake J-68, is to be drilled on this acreage during the coming winter, in an attempt to further delineate the Drake Point structure.

Immediately north of the Hecla and Drake Point discovery areas, a group of companies

headed by Homestead have farmed-in 250,000 acres presently held by Panarctic, Prairie Oil Royalties and B.P. Exploration. The terms of the agreement require the group to conduct an extensive seismic program to be followed by the drilling of a 12,000 foot Triassic test. The seismic has been completed and interpretation work is now being carried out as a prelude to drilling later in the year. Adjoining the farmed-in acreage to the west is a 30,000 acre permit in which the Company has a 75% interest.

The map on page 8 indicates the acreage holdings and wells referred to above.

Western Canada

Despite the new emphasis being placed on frontier and foreign exploration, the main thrust of Homestead's activities will still be concentrated in the provincial areas of western Canada. Several wells are currently in prospect, either in pursuit of new discoveries or to follow up previous drilling successes. Among the latter will be a development drilling program in the Kaybob area of central Alberta with plans for a gas cycling scheme and a plant capable of producing a potential 7,000 barrels per day of hydrocarbon liquids. Homestead's interest in the project will approximate 15%.

As an adjunct to its oil and gas exploration, the Company has recently filed on coal leases

covering some 15,000 acres in an area 60 miles northwest of Edmonton in the province of Alberta.

FOREIGN

North Sea

In the United Kingdom sector of the North Sea an 11¼% interest is held in a 51,000 acre production license covering Block 9/4. This acreage is located approximately seven miles west of the Frigg gas - condensate field and carries a commitment to drill an exploration well before March 16, 1978. Seismic surveys have been conducted on this parcel which in combination with information obtained as the result of drilling by others on adjacent blocks, will determine a future drilling location on this property. An exploratory well, BP/Iranian 3/29-1, is currently drilling seven miles north of Block 9/4 and could be significant in determining its potential.

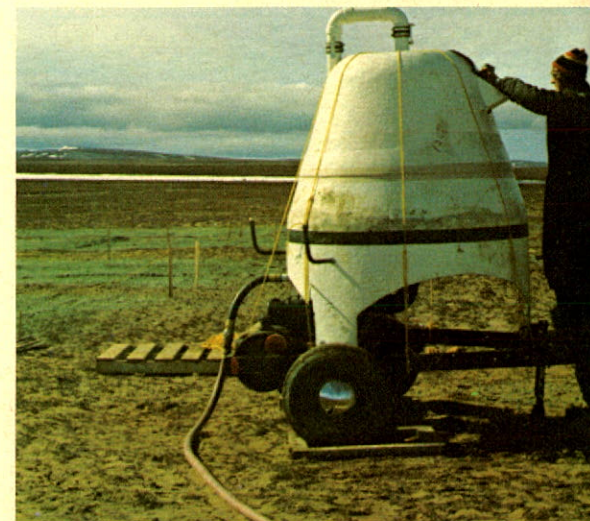
Kenya

The Company, in consort with others, has obtained an exploration license covering some 6,672,000 acres in Kenya, East Africa. Homestead's interest in the license is 25%. Initial activity on this concession has been confined to geophysical evaluation.

Homestead is participating in applications for acreage concessions in other foreign jurisdictions, however, it may take some time before any results are known.



The Sabine Peninsula of Melville Island



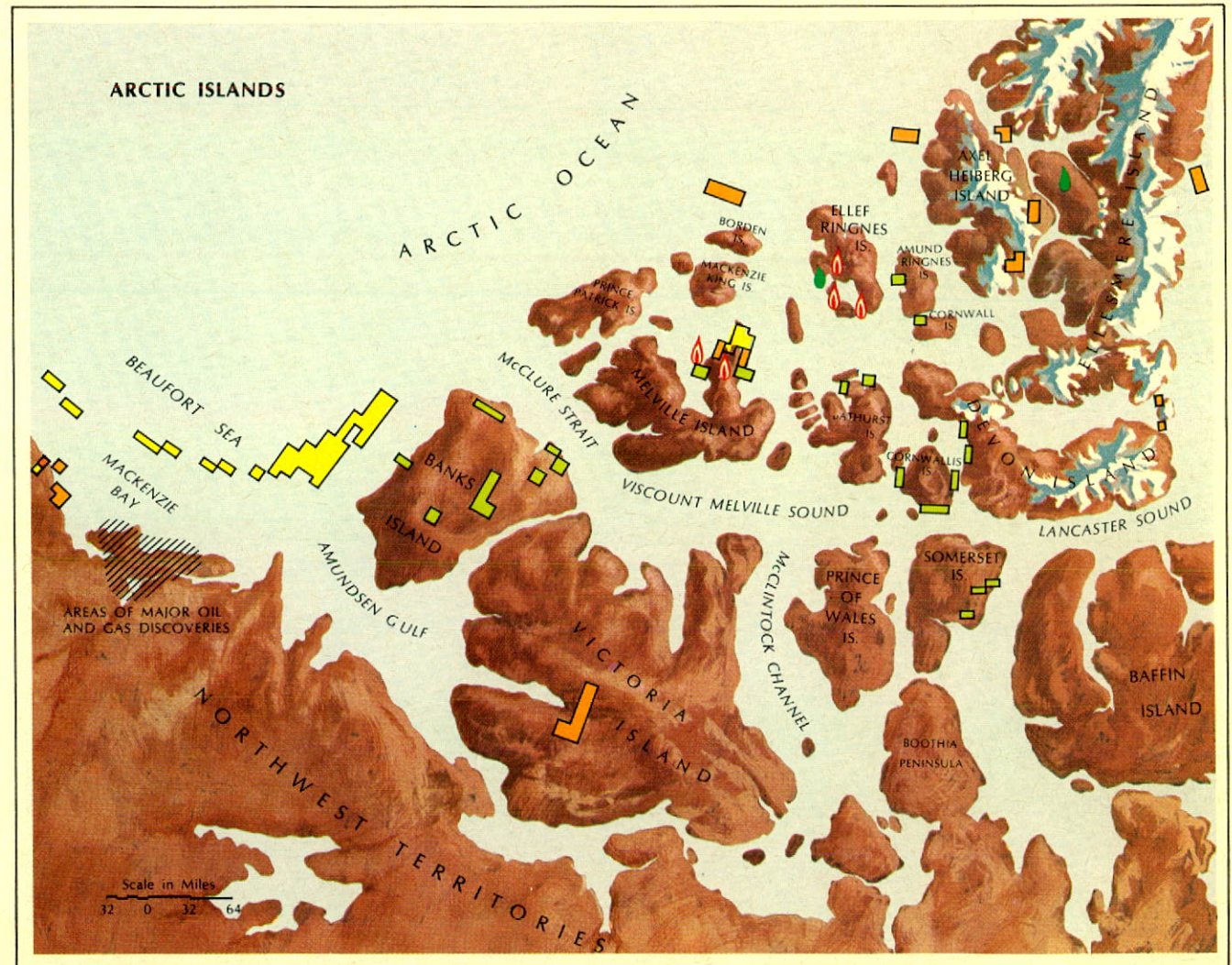
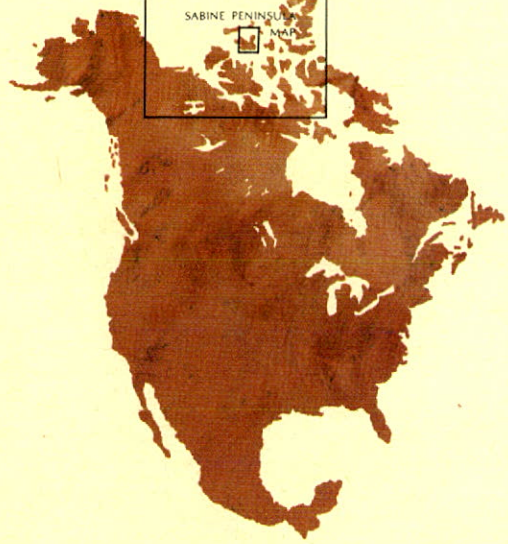
Reclamation research project being conducted by Panarctic Oils.

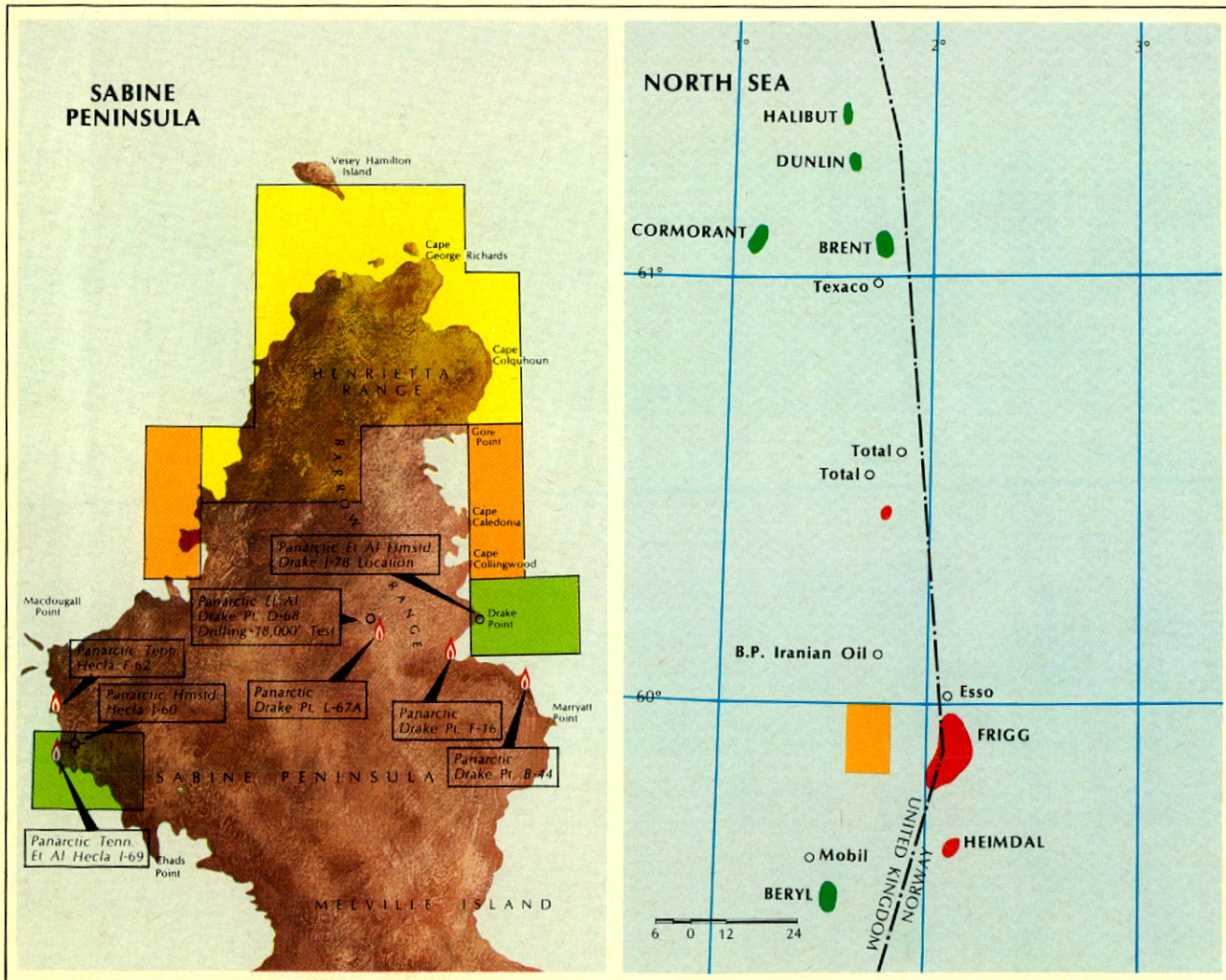
Photos by Ian Watson



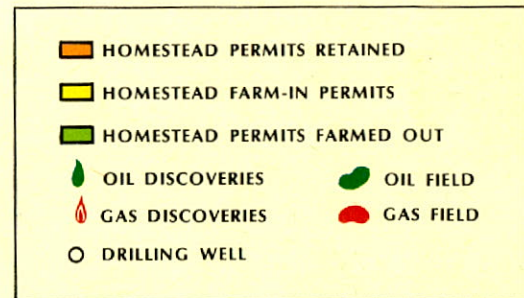
AREAS OF INTEREST

INDEX MAP





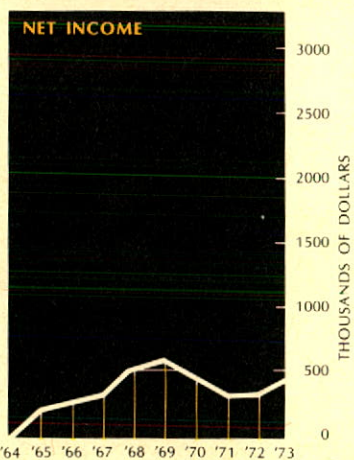
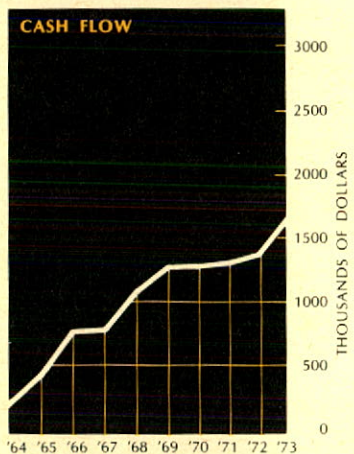
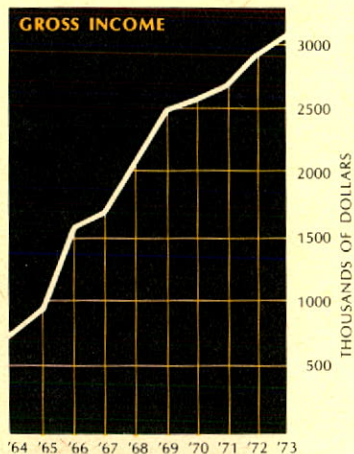
LEGEND



LAND HOLDINGS SUMMARY

May 31, 1973

| | Acres | |
|-------------------------------|-------------------|------------------|
| | Gross | Net |
| CANADA | | |
| Alberta | 570,000 | 263,000 |
| British Columbia | 179,000 | 36,000 |
| Saskatchewan | 444,000 | 75,000 |
| Manitoba | 3,000 | 3,000 |
| Nova Scotia | 92,000 | 5,000 |
| Newfoundland (offshore) | 710,000 | 180,000 |
| Northwest Territories | 394,000 | 295,000 |
| Yukon Territory | 337,000 | 56,000 |
| Ungava Bay | 350,000 | 175,000 |
| Gulf of St. Lawrence | 419,000 | 419,000 |
| Hudson Bay | 7,649,000 | 1,793,000 |
| Arctic Islands | 7,492,000 | 3,654,000 |
| OVERSEAS | | |
| U.K. North Sea | 51,000 | 6,000 |
| Kenya | 6,672,000 | 1,668,000 |
| | <u>25,362,000</u> | <u>8,628,000</u> |



FINANCIAL REVIEW

For the eleventh consecutive year Canadian Homestead has experienced a rise in gross income, reaching a record level of \$3,179,000 in 1973, up 8% from \$2,951,000 in 1972. This improvement results primarily from higher oil and gas revenue, reflecting increases in production and in the price of crude oil, the latter amounting to 55 cents per barrel during the year. Interest and other income also rose due to improved earnings on short term investments.

GROSS INCOME

| | 1973 | 1973 Change | |
|--------------------------------|--------------------|-------------------|----------|
| | | Amount | % |
| Net oil sales..... | \$2,112,000 | \$ 207,000 | 11 |
| Net gas sales..... | 352,000 | 24,000 | 7 |
| Royalty income..... | 202,000 | (4,000) | (2) |
| Oil and gas revenue .. | 2,666,000 | 227,000 | 9 |
| Management fees..... | 298,000 | (26,000) | (8) |
| Interest and other income..... | 215,000 | 27,000 | 14 |
| | <u>\$3,179,000</u> | <u>\$ 228,000</u> | <u>8</u> |

Cash flow of \$1,622,000 was 14% greater than the \$1,419,000 realized in the preceding year. Based on the average number of common

shares outstanding (5,064,000 in 1973 vs. 4,757,000 in 1972) this equalled 32¢ and 30¢ per share respectively, for the comparative years.

Net earnings of \$455,000 in 1973 was 9¢ per common share compared to \$376,000 or 8¢ per common share in 1972, an increase of 21%. Cash expenses of \$1,557,000 were relatively unchanged from those of the previous year, with increased production costs being offset by reduced general and administrative expense and lower interest on long term debt.

Expenditures for growth totalled \$2,385,000 in 1973 (\$2,568,000 in 1972) of which \$2,047,000 was spent on land and exploration while \$338,000 went for development work. Details can be found in the Growth Expenditures summary on page 4.

Working capital at year end was \$3,796,000 as compared to \$3,300,000 in 1972. The principal source of funds, in addition to the cash flow from operations, was the proceeds on issue of common shares in the amount of \$1,527,000. Sources and use of funds in addition to those noted above are to be found in the Source And Use Of Funds statement on page 14.

DISTRIBUTION OF THE INCOME DOLLAR (in Cents)

| | 1973 | 1972 | 1971 | 1970 | 1969 |
|-------------------------------------------------------------------|-------|-------|-------|-------|-------|
| GROSS INCOME | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Production expense | 22.2 | 21.9 | 26.1 | 22.1 | 21.8 |
| General and administrative expense — net of management fees | 9.4 | 9.9 | 11.2 | 12.4 | 10.9 |
| Interest on long term debt | 12.1 | 14.2 | 5.9 | 7.1 | 8.6 |
| CASH FLOW | 56.3 | 54.0 | 56.8 | 58.4 | 58.7 |
| Depreciation and depletion | 40.2 | 36.6 | 39.5 | 36.3 | 31.0 |
| Other expenses (income) | .3 | 3.1 | 1.5 | .7 | (.4) |
| NET EARNINGS | 15.8 | 14.3 | 15.8 | 21.4 | 28.1 |

CANADIAN HOMESTEAD OILS
Limited

and subsidiaries

**CONSOLIDATED
STATEMENT OF
EARNINGS**

YEAR ENDED MAY 31, 1973

(with comparative figures for 1972)

| | <u>1973</u> | <u>1972</u> |
|-------------------------------------------------------------|--------------------------|-------------------|
| Income: | | |
| Oil and gas revenue..... | \$2,666,000 | \$2,439,000 |
| Management fees..... | 298,000 | 324,000 |
| Interest and other..... | 215,000 | 188,000 |
| | <u>3,179,000</u> | <u>2,951,000</u> |
| Expenses: | | |
| Production..... | 639,000 | 574,000 |
| General and administrative..... | 568,000 | 585,000 |
| Interest on long term debt..... | 350,000 | 373,000 |
| | <u>1,557,000</u> | <u>1,532,000</u> |
| Cash flow from operations | <u>1,622,000</u> | <u>1,419,000</u> |
| Deduct: | | |
| Depreciation and depletion..... | 1,157,000 | 961,000 |
| Note discount and expense amortized | 11,000 | 8,000 |
| Loss (gain) on disposal of capital assets..... | (1,000) | 74,000 |
| | <u>1,167,000</u> | <u>1,043,000</u> |
| Net earnings for the year (Note 8) | <u>\$ 455,000</u> | <u>\$ 376,000</u> |
| Earnings per common share based on weighted average | | |
| number of shares outstanding during the year..... | 9¢ | 8¢ |
| Fully diluted earnings per common share assuming the issue | | |
| of contingent shares, exercise of options and conversion of | | |
| 6% preferred shares | 6¢ | 5¢ |

See accompanying notes.

CANADIAN HOMESTEAD OILS
Limited

and subsidiaries

**CONSOLIDATED
BALANCE SHEET**

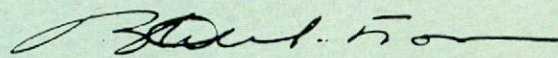
MAY 31, 1973

(with comparative figures for 1972)

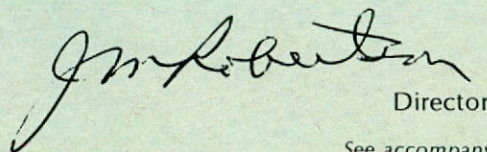
ASSETS

| | <u>1973</u> | <u>1972</u> |
|--------------------------------------------------------------------------------------------------------|----------------------------|---------------------|
| Current: | | |
| Cash and short term deposits | \$ 3,685,000 | \$ 3,219,000 |
| Accounts receivable | 1,371,000 | 969,000 |
| Prepaid expenses | 17,000 | 14,000 |
| Total current assets | <u>5,073,000</u> | <u>4,202,000</u> |
| Property and Equipment — at cost (Notes 2 and 3): | | |
| Oil and gas properties less accumulated depletion \$4,790,000 (1972 - \$3,906,000) | 13,838,000 | 12,557,000 |
| Production and other equipment less accumulated depreciation \$2,704,000 (1972 - \$2,435,000) | 575,000 | 667,000 |
| | <u>14,413,000</u> | <u>13,224,000</u> |
| Other: | | |
| Sundry investments — at cost | 74,000 | 93,000 |
| Drilling and other deposits | 93,000 | 148,000 |
| Unamortized note discount and expense | 135,000 | 145,000 |
| | 302,000 | 386,000 |
| | <u>\$19,788,000</u> | <u>\$17,812,000</u> |

Approved on behalf of the Board:



Director



Director

See accompanying notes.



LIABILITIES

| | <u>1973</u> | <u>1972</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Current: | | |
| Accounts payable and accrued liabilities..... | \$ 908,000 | \$ 602,000 |
| Current portion of long term debt..... | <u>369,000</u> | <u>300,000</u> |
| Total current liabilities | <u>1,277,000</u> | <u>902,000</u> |
| | | |
| Long term debt (Note 3) | <u>3,566,000</u> | <u>3,941,000</u> |
| | | |
| Shareholders' equity: | | |
| Share capital (Note 4): | | |
| 6% Cumulative redeemable convertible sinking fund preferred shares with a nominal or par value of \$10 per share. Authorized 250,000 shares; issued 6,295 shares (1972 - 22,610 shares)..... | 63,000 | 226,000 |
| Common shares with a nominal or par value of 10 cents per share. Authorized 7,500,000 shares; issued 5,159,010 shares (1972 - 4,842,180 shares)..... | 516,000 | 484,000 |
| Paid-in surplus | 11,648,000 | 9,990,000 |
| Capital redemption reserve fund..... | 50,000 | 50,000 |
| Retained earnings..... | <u>2,668,000</u> | <u>2,219,000</u> |
| | <u>14,945,000</u> | <u>12,969,000</u> |
| | | |
| Contingent liabilities (Note 7) | | |
| | <u>\$19,788,000</u> | <u>\$17,812,000</u> |

**CONSOLIDATED STATEMENT OF
 RETAINED EARNINGS**

YEAR ENDED MAY 31, 1973
 (with comparative figures for 1972)

| | 1973 | 1972 |
|-------------------------------------------|---------------------|--------------------|
| Balance at beginning of year | \$ 2,219,000 | \$1,857,000 |
| Net earnings for the year | 455,000 | 376,000 |
| | 2,674,000 | 2,233,000 |
| Dividends on preferred shares ... | 6,000 | 14,000 |
| Balance at end of year | \$ 2,668,000 | \$2,219,000 |

**CONSOLIDATED STATEMENT OF
 PAID-IN SURPLUS**

YEAR ENDED MAY 31, 1973
 (with comparative figures for 1972)

| | 1973 | 1972 |
|-----------------------------------------------------|---------------------|--------------------|
| Balance at beginning of year | \$ 9,990,000 | \$8,491,000 |
| Premium on issue of common shares (Note 4) | 1,658,000 | 1,499,000 |
| Balance at end of year | \$11,648,000 | \$9,990,000 |

**CONSOLIDATED STATEMENT OF SOURCE
 AND USE OF FUNDS**

YEAR ENDED MAY 31, 1973
 (with comparative figures for 1972)

| | 1973 | 1972 |
|-------------------------------------------------|--------------------|------------------|
| Source of funds: | | |
| Cash flow from operations | \$1,622,000 | \$1,419,000 |
| Net proceeds on issue of common shares | 1,527,000 | 1,511,000 |
| Sales of properties and equipment | 39,000 | 206,000 |
| Other — net | 74,000 | (29,000) |
| | 3,262,000 | 3,107,000 |

| | | |
|-------------------------------------------------------------|--------------------|--------------------|
| Use of funds: | | |
| Additions to properties and equipment | 2,385,000 | 2,568,000 |
| Retirement of long term debt | 375,000 | 286,000 |
| Dividends on preferred shares ... | 6,000 | 14,000 |
| | 2,766,000 | 2,868,000 |
| Increase in working capital | 496,000 | 239,000 |
| Working capital beginning of year | 3,300,000 | 3,061,000 |
| Working capital end of year | \$3,796,000 | \$3,300,000 |

See accompanying notes.

NOTES TO
CONSOLIDATED
FINANCIAL STATEMENTS

MAY 31, 1973

1. Basis of consolidation:

The accompanying consolidated financial statements include the accounts of Canadian Homestead Oils Limited and all its subsidiary companies.

2. Accounting Policy:

The companies follow the full-cost method of accounting wherein all costs and expenses of exploring for and developing oil and gas reserves are capitalized and depleted on the composite unit of production method.

3. Long term debt:

| | |
|----------------------------------------------------------------------------------------------|--------------------|
| 8¾% Secured note, Series A due June 30, 1985 | \$1,984,000 |
| 8½% Secured note, Series B due June 30, 1985 (payable in U.S. Funds of \$1,884,000) | 1,951,000 |
| | <u>3,935,000</u> |
| Less current portion | 369,000 |
| | <u>\$3,566,000</u> |

The notes are secured by an assignment and mortgage of the interest of the Company and a subsidiary in certain oil and gas properties. The minimum principal payments required in each of the next five fiscal years are set out below:

| | Series A Note | Series B Note (U.S. Funds) |
|------------------------------|------------------|-------------------------------|
| Year ended May 31, 1974..... | \$150,000 | \$150,000 |
| 1975..... | 142,000 | 142,000 |
| 1976..... | 120,000 | 120,000 |
| 1977..... | 120,000 | 120,000 |
| 1978..... | 120,000 | 120,000 |

Additional principal payments are required under certain circumstances.

NOTES TO
CONSOLIDATED
FINANCIAL STATEMENTS

MAY 31, 1973

4. Share capital:

Details of common shares issued during the year are as follows:

| | Number of shares | Credited to | | Total consideration |
|-------------------------------------------------------|------------------------|------------------|--------------------|------------------------|
| | | Share capital | Paid-in surplus | |
| Conversion of preferred shares | 32,330 | \$ 3,000 | \$ 160,000 | \$ 163,000 |
| Stock options exercised for cash | 38,500 | 4,000 | 170,000 | 174,000 |
| Canadian Propane Gas & Oil Ltd. (Note 5) | 246,000 | 25,000 | 1,328,000 | 1,353,000 |
| | <u>316,830</u> | <u>\$32,000</u> | <u>\$1,658,000</u> | <u>\$1,690,000</u> |

The preferred shares are redeemable in whole or in part at the option of the Company at \$10.30 per share to February 15, 1976 and thereafter at redemption prices reducing to \$10.10 after February 15, 1979.

So long as any of the preferred shares are outstanding the Company shall establish a sinking fund. However, no sinking fund payments are required until 1985.

At the option of the holder each preferred share may be converted into 1½ common shares on or before August 15, 1976. During the year, 16,315 preferred shares were converted into common shares.

So long as any of the preferred shares are outstanding the rights attached to the preferred shares place certain restrictions on the payment of dividends on common shares and reduction of capital.

Common shares have been reserved for issue as follows:

| | |
|------------------|--------------------------------------------------------------------------------|
| 9,443 | shares for exercise of conversion privilege attaching to the preferred shares. |
| <u>1,971,201</u> | shares pursuant to an agreement with Canadian Propane Gas & Oil Ltd. (Note 5). |
| <u>1,980,644</u> | |

Subsequent to May 31, 1973 the Company issued an additional 115,000 common shares pursuant to the agreement referred to in Note 5.

5. Agreement:

On September 13, 1968 the shareholders approved an agreement whereby Canadian Propane Gas & Oil Ltd. ("Canadian Propane") is committed to expend an aggregate of \$9,000,000 in exploration and drilling operations on properties of the Company. All wells drilled and all production obtained will belong to the Company but Canadian Propane will retain the expenditures under the agreement. The Company agreed to issue to Canadian Propane 1,636,363 common shares at the rate of one share for each \$5.50 of the monies so expended. In addition Canadian Propane has an option to acquire a further 1,381,838 common shares at \$6.66 - 2/3 per share by committing to and making further expenditures in the aggregate amount of \$9,212,000.

6. Remuneration:

The aggregate remuneration of directors and senior officers amounted to \$126,000 for the year ended May 31, 1973 (1972 - \$137,000).

7. Contingent liabilities:

The Company has issued to and deposited with the Governments of Canada and Alberta non-interest bearing demand notes to be held as security for the performance of work obligations in respect to certain exploratory rights. The aggregate of such notes amounted to approximately \$556,000 at May 31, 1973.

8. Income taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. For 1973 the companies do not intend to claim excess capital cost allowance but will claim the other specified deductions in an amount sufficient to eliminate taxable income, and expenditures remain to be carried forward and applied against future taxable income as follows:

| | |
|---------------------------------------------------------|-------------|
| Drilling, exploration and lease acquisition costs | \$2,553,000 |
| Undepreciated capital cost | 857,000 |

If the tax allocation basis had been followed for all timing differences between taxable income and reported earnings, deferred income taxes of \$264,000 (\$192,000 in 1972) would have been provided and net earnings for the year would have been reduced accordingly. The accumulated income tax reductions, relating to all timing differences in the current and prior years amount to approximately \$1,326,000 at May 31, 1973.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Homestead Oils Limited and subsidiaries as of May 31, 1973 and the consolidated statements of earnings, retained earnings, paid-in surplus 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 its subsidiaries at May 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.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
July 12, 1973

CANADIAN HOMESTEAD OILS *Limited*

TEN YEAR REVIEW

FINANCIAL (in thousands of dollars except per share figures)

| | 1973 |
|-------------------------------------------------------------------|----------|
| INCOME AND EXPENSES | |
| Oil and gas revenue (after royalties) | \$ 2,666 |
| Management fees | 298 |
| Interest and other income | 215 |
| Gross income | 3,179 |
| Production expense | 639 |
| General and administrative expense | 568 |
| Interest on long term debt | 350 |
| Cash flow | 1,622 |
| Per share | .32 |
| Depreciation and depletion expense | 1,157 |
| Note discount and expense amortized | 11 |
| Other expenses (income) | (1) |
| Net earnings (loss) | 455 |
| Per share | .09 |
| BALANCE SHEET | |
| Working capital | 3,796 |
| Property and equipment — net | 14,413 |
| Long term debt | 3,566 |
| Shareholders' equity | 14,945 |
| GROWTH EXPENDITURES | |
| Exploration | 2,047 |
| Development (includes capital assets of acquired companies) | 338 |
| Total | \$ 2,385 |
| OPERATING | |
| PRODUCTION — net | |
| Oil and condensate (thousands of barrels) | 786 |
| Daily average — barrels | 2,153 |
| Natural gas (millions of cubic feet) | 2,328 |
| Daily average — mmcf | 6.4 |
| DRILLING ACTIVITY | |
| Working interest wells — gross | 12 |
| — net | 4.8 |
| Net oil wells | .1 |
| Net gas wells | 1.2 |
| Net dry wells | 3.5 |
| LAND HOLDINGS (thousands of acres) | |
| Gross acres | 25,362 |
| Net acres | 8,628 |

(1) The above statistics are for Canadian Homestead Oils Limited and its subsidiary companies at May 31.



| 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 |
|----------|----------|----------|----------|----------|----------|----------|----------|--------|
| \$ 2,439 | \$ 2,306 | \$ 2,153 | \$ 2,108 | \$ 1,772 | \$ 1,436 | \$ 1,354 | \$ 697 | \$ 435 |
| 324 | 333 | 323 | 296 | 293 | 269 | 239 | 221 | 239 |
| 188 | 59 | 102 | 111 | 42 | 30 | 29 | 42 | 71 |
| 2,951 | 2,698 | 2,578 | 2,515 | 2,107 | 1,735 | 1,622 | 960 | 745 |
| 574 | 617 | 498 | 485 | 380 | 307 | 302 | 134 | 84 |
| 585 | 598 | 602 | 537 | 404 | 395 | 375 | 313 | 424 |
| 373 | 140 | 160 | 190 | 226 | 223 | 133 | 18 | 3 |
| 1,419 | 1,343 | 1,318 | 1,303 | 1,097 | 810 | 812 | 495 | 234 |
| 30 | 30 | 29 | 29 | 30 | 24 | 24 | 15 | .07 |
| 961 | 935 | 817 | 688 | 526 | 432 | 526 | 306 | 111 |
| 8 | 34 | 15 | 14 | 14 | 16 | | | |
| 74 | 1 | 2 | (23) | (9) | | (4) | (49) | 127 |
| 376 | 373 | 484 | 624 | 566 | 362 | 290 | 238 | (4) |
| .08 | .08 | .10 | .13 | .15 | .11 | .08 | .07 | |
| 3,300 | 3,061 | 625 | 1,164 | 1,522 | 87 | 635 | 481 | 976 |
| 13,224 | 11,868 | 10,426 | 8,511 | 7,383 | 6,491 | 5,546 | 3,184 | 1,441 |
| 3,941 | 4,227 | 1,974 | 2,333 | 2,767 | 3,332 | 3,308 | 908 | |
| 12,969 | 11,097 | 9,525 | 7,805 | 6,494 | 3,606 | 3,242 | 2,916 | 2,678 |
| 1,973 | 2,012 | 2,395 | 1,240 | 369 | 810 | 336 | 109 | 149 |
| 595 | 485 | 380 | 656 | 1,141 | 560 | 2,579 | 2,046 | 605 |
| \$ 2,568 | \$ 2,497 | \$ 2,775 | \$ 1,896 | \$ 1,510 | \$ 1,370 | \$ 2,915 | \$ 2,155 | \$ 754 |
| 750 | 757 | 735 | 733 | 615 | 492 | 477 | 221 | 169 |
| 2,049 | 2,074 | 2,013 | 2,008 | 1,681 | 1,348 | 1,308 | 607 | 463 |
| 2,212 | 2,105 | 2,201 | 1,770 | 1,266 | 1,360 | 1,307 | 1,186 | 714 |
| 6.0 | 5.8 | 6.0 | 4.9 | 3.5 | 3.7 | 3.6 | 3.3 | 2.0 |
| 26 | 52 | 54 | 24 | 31 | 25 | 27 | 30 | 39 |
| 10.9 | 16.2 | 11.9 | 19.1 | 13.3 | 7.8 | 7.5 | 4.4 | 3.2 |
| 1.6 | 3.3 | 2.4 | .6 | 11.3 | 2.5 | 2.8 | 1.3 | 1.5 |
| 3.4 | 2.1 | .6 | 7.3 | .4 | .4 | .7 | .7 | |
| 5.9 | 10.8 | 8.9 | 11.2 | 2.0 | 4.9 | 4.7 | 2.4 | 1.7 |
| 12,179 | 16,990 | 16,982 | 13,755 | 4,037 | 3,805 | 3,282 | 3,010 | 3,658 |
| 4,433 | 6,488 | 7,431 | 7,840 | 2,324 | 2,128 | 1,932 | 1,295 | 1,319 |

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1965.

DIRECTORS

H. ROSS BOLTON,
Texas City, Texas
Manager of Oil and Gas Division
Texas City Refining, Inc.

MARC H. DHAVERNAS,
Montreal, Quebec
Executive

JOHN R. LEARN,
Montreal, Quebec
Vice-President and Director of
Nesbitt, Thomson and Company,
Limited

PAUL M. MARSHALL,
Calgary, Alberta
President of Canadian
Hydrocarbons Limited

RAYMOND A. RICH,
Chairman of the Board of
Canadian Hydrocarbons Limited

JOHN M. ROBERTSON, Q.C.,
Calgary, Alberta
Partner in Fenerty, McGillivray,
Robertson, Brennan, Prowse,
Fraser, Bell & Hatch

J. GRANT SPRATT,
Calgary, Alberta
Petroleum Consultant

BRUCE W. WATSON,
Calgary, Alberta
President of the Company

DAVID R. WILLIAMS JR.,
Tulsa, Oklahoma
Chairman of the Board,
The Resource Sciences Corporation

OFFICERS

BRUCE W. WATSON,
President

A. GORDON SAVAGE,
Vice-President Operations

DUANE E. WIKANT,
Vice-President and Treasurer

JOHN M. ROBERTSON, Q.C.,
Secretary

HEAD OFFICE

630 - 6th AVENUE S.W.,
CALGARY, ALBERTA, T2P 0S9

AUDITORS

PEAT, MARWICK,
MITCHELL & CO.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENTS

CROWN TRUST COMPANY
Calgary, Vancouver, Toronto,
Montreal

REGISTRAR AND TRANSFER
COMPANY
New York, Jersey City

SHARES LISTED

COMMON SHARES
Toronto, Canadian and American
Stock Exchanges

PREFERRED SHARES
Toronto Stock Exchange

BANKERS

THE ROYAL BANK OF CANADA
Calgary, Alberta

SUBSIDIARY COMPANIES

Canadian Admiral Oils Co.

Canadian Homestead Development
Limited

Canadian Homestead Minerals
Limited

Canadian Homestead Oils (U.K.)
Limited

Canadian Homestead Resources
Limited

Petcal Company Limited





CANADIAN HOMESTEAD OILS
Limited