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1982

FIFTY-SEVENTH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1982

DALHOUSIE OIL COMPANY, LIMITED

DALHOUSIE OIL COMPANY, LIMITED

REGISTERED OFFICE

80 Richmond Street West
Suite 604-5
Toronto, Ontario M5H 2S9

OFFICERS

TODSON H. BECKER .... President
HOWARD L. BANTING .... Vice-President
I. EILEEN GREEN .... Secretary-Treasurer
KENNETH R. BELL, C.A. .... Assistant Secretary-Treasurer

DIRECTORS

HOWARD L. BANTING
TODSON H. BECKER
JEFFREY J. BECKER
W. STRACHAN CLARK
I. EILEEN GREEN
W. ARTHUR HASTIE

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE

REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA
Toronto

DALHOUSIE OIL COMPANY, LIMITED

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

Your Directors are pleased to present this Fifty-seventh Annual Report of your Corporation, including the Financial Statements as at December 31, 1982, together with the Auditors' Report to the Shareholders.

The net income from Turner Valley Units Nos. 3,5 and 7, after deductions of royalties, taxes, lease rentals and well operations, increased from $90,099 in 1977, to $123,739 in 1978, to $179,895 in 1979, to $301,191 in 1980, to $353,468 in 1981 and to $422,298 in 1982. All three Turner Valley Units again showed increased net profits for the year. Your Corporation also received revenue from a farmout to Gulf Oil Canada Limited from a gas well which came on stream in 1976 in Turner Valley in which a 15% overriding royalty is held. Net production income from this well rose from $26,566 in 1978, to $29,737 in 1979, to $56,656 in 1980, but declined to $39,672 in 1981 and $31,654 in 1982. The total net income from Turner Valley production for the year was $454,525 compared with $393,140 in 1981.

In late 1982 and early 1983, Dalhousie participated in the drilling of two successful wells in Alberta. The first well in which Dalhousie has a 12.5% working interest was drilled by Atlas Yellowknife Resources Limited in the Pembina area and was successfully completed in the Cardium formation as an oil producer. A second well will be drilled shortly at no cost to Dalhousie, but production rates of these wells will be held confidential at this time. In the Wintering Hills area the Company participated as to a 12.5% working interest in the drilling of a successful Glauconite gas well and earned a similar interest in 2,720 acres of land. We are anticipating that the well, which production tested 400 MCF of gas per day, could be placed in production early in 1984.

Your Corporation continues to maintain an approximate 7% interest in Liard Copper Mines Limited. Drilling programs prior to 1981 had increased ore reserves considerably and reserve figures remained at one billion tons with a copper equivalent grade of 0.61% and a waste-to-ore ratio of 1.2 to one. Because of the depressed markets for copper and molybdenum, Teck Corporation understandably has deferred its plans for further work on the Liard property. Teck did not have a work program in 1982 and no work is planned for 1983.

Exploration work was carried out on a newly acquired 13-claim gold property in Beatty and Coulson Townships in Northern Ontario. The property, which has three shafts and five levels of underground development work, was formerly known as the Devon Gold Mine. Work completed by Dalhousie included detailed geophysical and geological surveys and 2,156 feet of diamond drilling. Several of the numerous known gold bearing veins were intersected, with the best value obtained being 0.31 oz.Au over five feet. Further work is planned.

The 37 mining claims that were staked in Marriott and Stoughton Townships in 1982 were optioned to Amax of Canada Limited and later the option was assigned by Amax to Canamax Resources Inc. Canamax carried out a work program in 1982 which consisted of line cutting, ground magnetometer and horizontal loop electro-magnetic surveys. In addition, low level airborne electro-magnetic and magnetic surveys were submitted to fulfill assessment work requirements. A total of 80 days assessment work were submitted on each claim. Stratigraphic or fault related conductive zones were delineated within a linear magnetic low. These conductive horizons will be diamond drilled by Canamax in 1983.

Our 4-claim gold prospect in Tyrrell Township, Northern Ontario, was optioned to Duncan Gold Resources Limited, which Company recently reported a financing to provide their company with $280,000. Geophysical surveys are planned to be followed by 2,500 feet of diamond drilling.

The Rand Reef property in Vogh Township, a Huronian gold/uranium paleoplacer occurrence, was examined. Your Company plans to acquire a property position in this promising type of geology this year.

Working capital, including investments at market value, amounted to over $2.8 million at the year-end and your Corporation will continue to search for new oil and mining ventures.

RESPECTFULLY SUBMITTED ON BEHALF OF THE BOARD

TODSON H. BECKER
President

Toronto, Ontario
June 8, 1983

AUDITORS' REPORT

The Shareholders
Dalhousie Oil Company, Limited: —

We have examined the balance sheet of Dalhousie Oil Company, Limited as at December 31, 1982 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
May 25, 1983

Ralph & Thompson
Chartered Accountants

DALHOUSIE OIL COMPANY, LIMITED

(Incorporated under the Canada Corporations Act)

Balance Sheet as at December 31, 1982

			1982		1981
ASSETS					
Current Assets					
Cash in bank			$ 9,982		$ 14,813
On deposit including treasury bills			313,194		474,640
Accounts receivable, prepaid expenses and accrued interest			369,551		326,247
			$ 692,727		$ 815,700
Note Receivable			37,500		—
Investments in Marketable securities (Market Value 1982 — $2,285,635; 1981 — $1,928,987)	— Note 1 (a)		1,320,590		1,283,218
Non-marketable investments	— Note 6		240,350		31,351
Investments in and advances to Subsidiary company	— Note 1 (b)		100		1,100
Capital Assets	— Note 1 (c) & (d)		51,446		20,467
			$2,342,713		$2,151,836
LIABILITIES					
Current Liabilities					
Accounts payable			$ 19,460		$ 20,813
Income taxes payable			98,809		136,780
Employees tax deductions			116		866
			$ 118,385		$ 158,459
SHAREHOLDERS' EQUITY					
Capital Stock—Note 3					
Authorized: 5,000,000 shares of no par value					
Issued: 3,000,000 shares		$3,000,000		$3,000,000	
Capital Deficit					
Arising largely from appraisals of oil properties and equipment made in 1944 and prior years (unchanged since 1945)		(2,237,807)		(2,237,807)	
Retained Earnings		1,462,135		1,231,184	
			2,224,328		$1,993,377
			$2,342,713		$2,151,836

Approved on Behalf of the Board:
TODSON H. BECKER, Director
HOWARD L. BANTING, Director

DALHOUSIE OIL COMPANY, LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1982

		1982	1981
Operating Income			
Sales	$589,778		
Less — royalties	61,824		
		$ 527,954	$ 456,320
Option payments — Notes 8 and 9		8,000	—
		$ 535,954	$ 456,320
Operating Expenses			
Taxes, lease rental and well operations	$ 73,428		
Allowance for depreciation, depletion and amortization	574		
		74,002	63,181
		$ 461,952	$ 393,139
Exploration Expenditures			
Consultants' fees and expenses	$ 32,742		
Outside exploration	138,529		
Mining taxes	1,334		
		172,605	83,923
		$ 289,347	$ 309,216
Income from Investments		126,817	168,780
		$ 416,164	$ 477,996
General and Administrative Expenses		111,738	73,327
		$ 304,426	$ 404,669
Other			
Gain realized on disposal of marketable securities	$ 35,931		
Gain on foreign exchange	4,667		
		40,598	66,880
Net income before provision for taxes		$ 345,024	$ 471,549
Provision for income and gas production revenue taxes		91,325	159,965
Net income for the year		$ 253,699	$ 311,584
Retained Earnings — beginning of year		1,231,184	951,774
		$1,484,883	$1,263,358
Refundable tax on investment income — Note 4		22,748	32,174
Retained Earnings — end of year		$1,462,135	$1,231,184

DALHOUSIE OIL COMPANY, LIMITED

Statement of Changes in Financial Position for the Year Ended December 31, 1982

	1982		1981
Source of Funds			
From operations			
Net income for the year	$253,699		$311,584
Add amounts charged against income but nor requiring the outlay of funds			
—Depreciation	574		2,219
—Non marketable investment costs amortized	26,026		17,652
—Mining claims abandoned and written off	—		516
		$280,299	$331,971
Repayment of advance to subsidiary		1,000	—
		$281,299	$331,971
Application of Funds			
Loan on note	$ 37,500		—
Additions to capital assets	31,553		5,067
Investments in non marketable securities	235,025		10,000
Payment of refundable tax on investment income	22,748		32,174
Net increase in investments held	37,372		236,019
		364,198	283,260
Increase or (decrease) in Working Capital		$(82,899)	$ 48,711
Working Capital—beginning of year		657,241	608,530
Working Capital—end of year		$574,342	$657,241

DALHOUSIE OIL COMPANY, LIMITED

NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 1982

1. Summary of Significant Accounting Policies

(a) Marketable securities

Marketable securities are valued at a carrying value which is cost (calculated using a weighted average basis) excepting when there has been a market value decline which appears to be other than temporary, in which case the investment is written down to recognize the anticipated loss.

(b) Investment in subsidiary company

It is the company's practice not to consolidate the subsidiary company as it is inactive, not wholly owned and not considered significant to the affairs of the company.

(c) Mining claims

The total amount of mining claims, at cost, represents accumulated costs and is not intended to reflect current or future values. The cost is $9,305.

The company has claims in the following Ontario townships: Beatty, Coulson, Knight, Taylor, Tyrell, Stock, Clerque, Cook, Maisonville, Eby, Stoughton and Marriott.

(d) Turner Valley oil properties

The net book value of Turner Valley oil properties and equipment is recorded at a value determined in 1944 by an independent geologist, with subsequent additions at cost.

Leases	$1,883,488	
Less accumulated depletion	1,873,820	
		$ 9,668
Wells and equipment	$ 345,407	
Less accumulated amortization	341,194	
		4,213
		$13,881

(e) Exploration costs

Exploration costs are written off in the year they are incurred.

2. Subsidiary Company

The financial statement of the subsidiary company, Tyranite Mines Limited is summarized as follows:

i Balance Sheet		
Current assets	$ 8,158	
Mining property assets	2	
		$ 8,160
Current liabilities	$ 835	
Demand loan to parent company plus accrued interest	487,458	
		488,293
Shareholders' Deficiency		$480,133
ii Statement of Profit and Loss and Deficit		
Net loss for the year		$ 44,407
Deficit — beginning of year		886,916
— end of year		$931,323

The demand loan was largely acquired by the parent company when it acquired the shares. It is 73% owned by Dalhousie Oil Company, Limited.

3. Options

Options are outstanding to certain directors on 250,000 shares of capital stock at $0.50 per share, exercisable at any time up to July 12, 1988.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1982 (Continued)

4. Taxation

In 1982 taxes for the current year totalled approximately $114,000 of which $22,748 is refundable tax on investment income which has been charged to retained earnings. This tax can be recovered in the event of taxable dividends being paid on appropriate amounts. The refundable dividend tax accumulated is approximately $137,000. The 1982 taxes also include approximately $30,000 petroleum and gas revenue tax.

5. Directors' and Officers' Remuneration

Aggregate remuneration of the six directors, as directors, amounted to $7,500 in 1982 and 1981. Three officers are also directors. Remuneration paid to officers totalled $23,400 in 1982 and $20,700 in 1981.

6. Non Marketable Investments Consist of the Following Items

a) Investments in shares, debentures, etc. These are valued at cost.	$215,749
b) Resource Certificate This is valued at original cost of $4,650 less amounts expended for exploration and 30% of development expenses.	720
c) Investment in Limited Partnerships These are valued at original cost less amounts expended for exploration and 30% of development expenses, and 10% of Canadian oil and gas property expenditures and income or losses incurred.	22,883
d) Investment in escrowed shares These shares are valued at cost.	998
	$240,350

7. Related Party Transactions

Secretarial and administrative services and rent are provided to the company by a related company. The company is related to Dalhousie Oil Company, Limited by virtue of common management control.

Fees for these services in 1982 were $15,600 and $6,000 for rent.

A note in the amount of $37,500 is receivable from another company also related to Dalhousie Oil Company, Limited by virtue of common management control.

8. Agreement with Amax of Canada Limited

On August 15, 1982, Dalhousie Oil Company, Limited (the company) entered into an agreement with Amax of Canada Limited (Amax) whereby Amax was given an option to purchase the company's thirty-seven mining claims in Stoughton and Marriott Townships, Ontario. The agreement provides for further payments to extend the option, required expenditures on the property, and a royalty based on net profits when the purchase option is exercised.

9. Agreement with Duncan Gold Resources Inc.

On November 15, 1982, Dalhousie Oil Company, Limited (the company) entered into an agreement with Duncan Gold Resources Inc. (Duncan) whereby Duncan was given an option to explore, develop and purchase the company's four mining claims in Tyrell Township, Ontario. The agreement provides for further payments to extend the option, required expenditures on the property, and a royalty based on net proceeds should the property be brought into production.