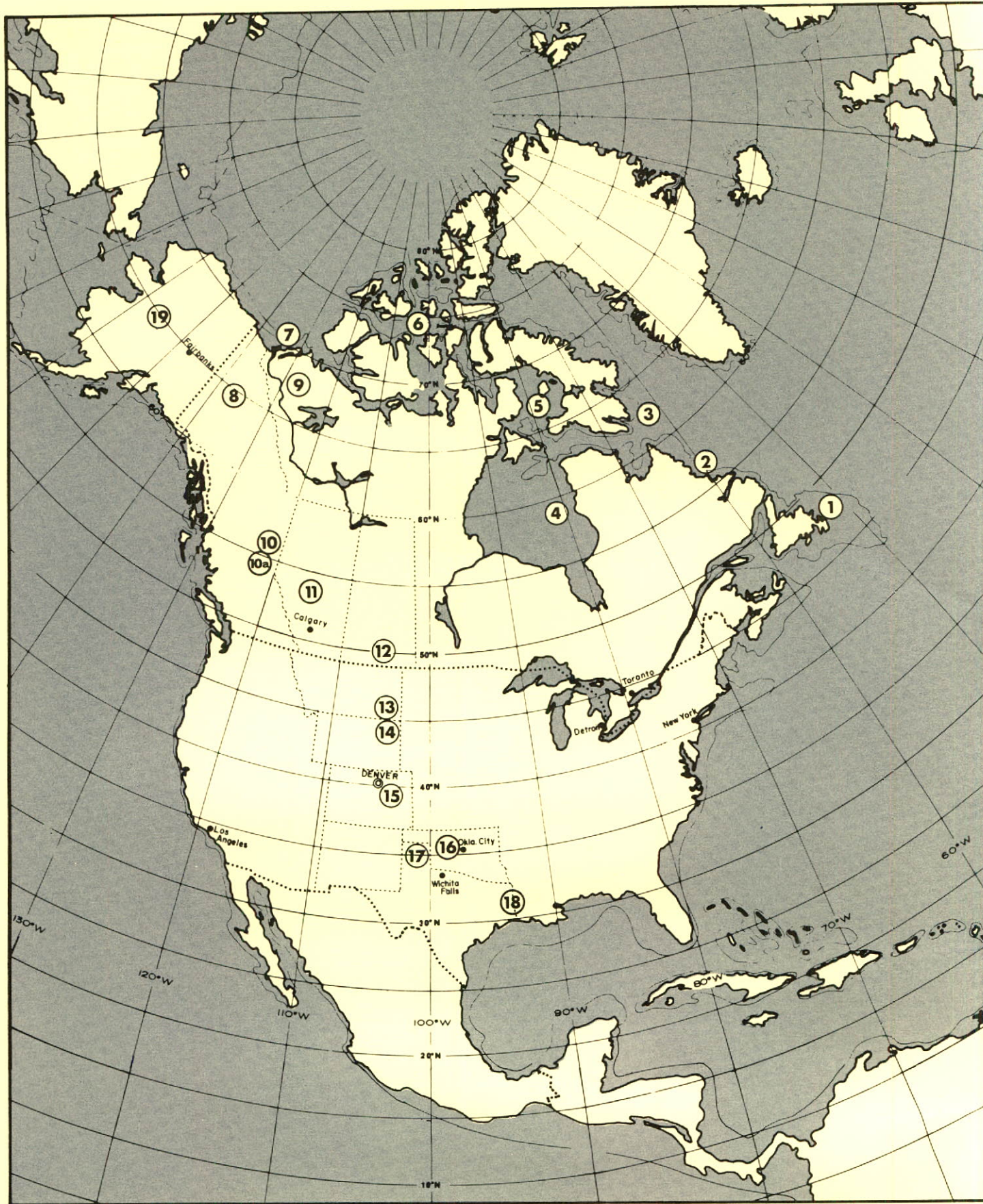


CLARK CANADIAN EXPLORATION COMPANY

ANNUAL REPORT 1972



**CLARK CANADIAN
EXPLORATION COMPANY**

**SUMMARY OF ACREAGE HOLDINGS
MAY 31, 1972**



Geographic areas Gross acres Net acres

Permits:

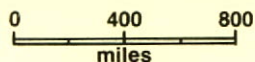
① Flemish Cap	735,837	183,959
② Labrador Coast	753,404	76,664
③ Offshore Baffin Island	1,158,884	289,721
④ Hudson Bay	1,604,870	267,478
⑤ Foxe Basin	493,356	123,339
⑥ Arctic Island	3,500,947	593,746
⑦ Beaufort Sea	285,821	71,455
⑧ Yukon	26,153	2,615
⑨ Northwest Territories	78,797	2,051
⑩ British Columbia	343,366	6,038

Leases:

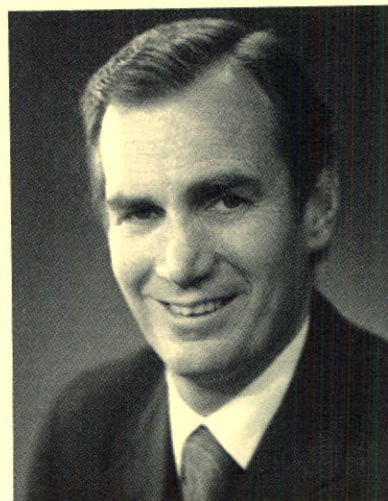
⑩a British Columbia	38,937	1,366
⑪ Alberta	54,349	5,121
⑫ Saskatchewan	839	306
⑬ Montana	39,026	8,200
⑭ Wyoming	10,894	3,048
⑮ Colorado	7,215	2,244
⑯ Oklahoma	54,568	9,320
⑰ Texas	15,679	440
⑱ Texas & Louisiana Gulf Coast	5,024	1,512

Applications

⑲ Alaska	46,640	11,660
	9,254,606	1,660,283



PRESIDENT'S LETTER



During the 1972 fiscal year your Company continued to build a solid corporate base as reflected by increases in petroleum reserves and oil and gas production. Income from oil and gas production, including acquired production, in the 1972 fiscal year was over 2½ times 1971 income from that source. The Company is reporting earnings per share of \$.01 for 1972 compared to \$.06 for 1971, with cash flow increasing to \$.12 per share in 1972 from \$.10 in 1971.

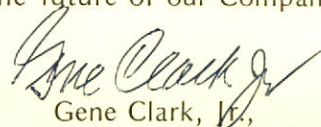
Your Company's exploration activities are centered around the operations of our two Joint Ventures in Canada and Western Oklahoma. The Company plans to drill several exploratory test wells on new prospects in the Claresholm Area of South Central Alberta where the Company made a significant discovery of oil and natural gas in the past year. In addition, an intensive development program has begun in the immediate area of the discovery. In Western Oklahoma the Company is now drilling on its E. Hinton and N. E. Gracemont prospects, two of its exploratory prospects in the Marchand sand trend, presently the most active drilling area in Oklahoma. These wells are programed to subsurface depths of 13,000 feet and 10,800 feet respectively.

The Joint Ventures have acquired and continue in the acquisition of significant land holdings in both Canada and Western Oklahoma and have exploratory prospects in various stages of development in preparation for drilling during the coming fiscal year.

Last January, I reported on the Company's acquisition of all of the outstanding shares of American Resources Company, a Rockefeller family owned corporation. Major assets of American Resources Company consisted of producing gas wells in South Texas

and Southern Louisiana. This acquisition expanded the Company's base for a continuing acquisition program to complement the Company's intensive exploration activities.

I am pleased to report that on August 8, 1972, your company issued 257,049 common shares for \$100,000 in cash and a 35% interest in Companhia de Fosfatos de Angola, S.A.R.L., a privately held Delaware Corporation, which we refer to as COFAN. COFAN holds a concession to explore for and mine phosphate in an area of approximately 965 square miles in the Cabinda District of Angola on the Western Coast of Africa. The Company's interest, which was acquired from Rockefeller family interests, makes the Company the largest single stockholder in COFAN. Substantially all of its remaining capital stock is owned by a Portuguese banking group represented by the Espirito Santo family and by a group of private U.K. bankers and investors. Your Company will use the cash received in the transaction to pay its portion of the costs of conducting exploratory drilling to delineate the size, grade and extent of the phosphate reserves already indicated by prior exploration and, assuming this exploratory drilling proves minimum reserves of 20,000,000 tons of mineable concentrate, to conduct a study to determine the feasibility of constructing a plant near the minesite capable of producing 600,000 tons a year of phosphoric acid for export. Preliminary studies indicate that such a plant would cost approximately \$60,000,000. Your management believes strongly in the future of our Company.


Gene Clark, Jr.,
Chairman of the Board

August 14, 1972

CANADIAN JOINT VENTURE

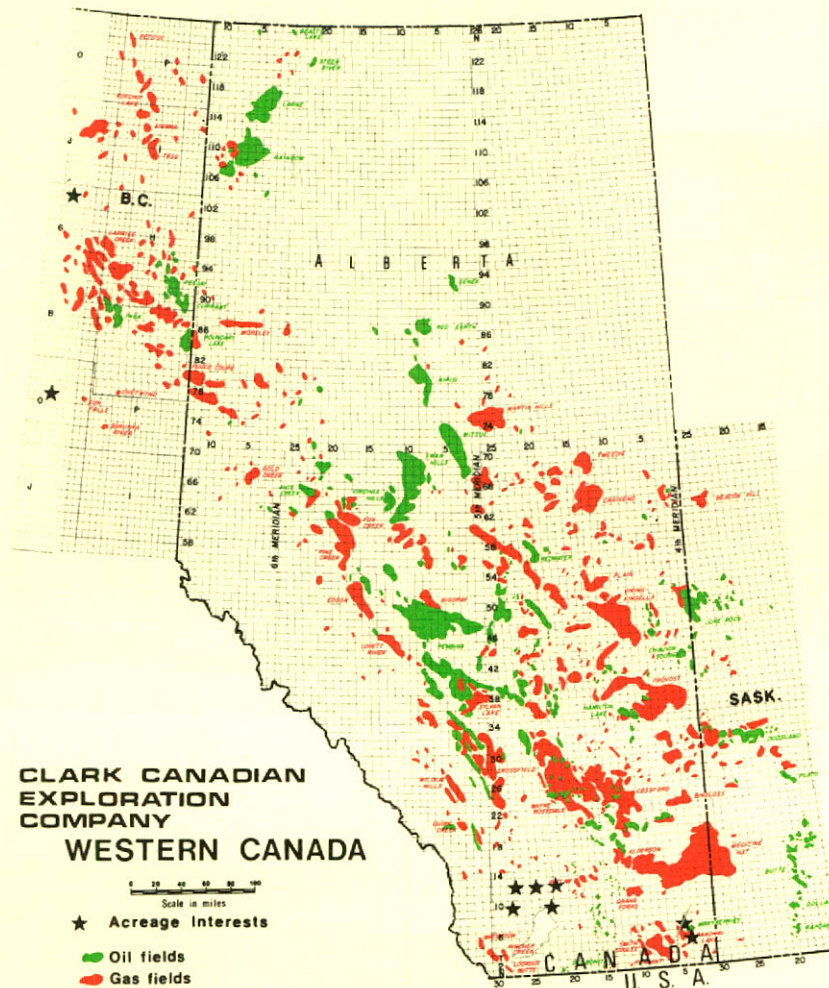
During the past year operations under the joint exploration program in Western Canada resulted in a significant oil and gas discovery in South Central Alberta, the drilling of several other major prospects and acquisition of land in highly prospective areas.

Late in 1971, the Company drilled a discovery well in the Claresholm Area of South Central Alberta. This well encountered an appreciable thickness of oil bearing dolomite in the Mississippian Turner Valley formation at approximately 6,700 feet and was completed as an oil producer. In addition, casing has been set at an offset development well which encountered natural gas also at a depth of approximately 6,700 feet. Additional development drilling on the Company's lands in this area is now in progress.

The Company joined Atlantic Richfield Canada Ltd. in the drilling of two remote wild-cat wells in the Fort Good Hope area of the Northwest Territories. The wells were drilled

to the lower Devonian and, although unproductive, produced geologic information to warrant further geophysical and drilling operations on the 78,797 acre block in which the Company earned an interest. The Company also drilled a Middle Devonian test well in the Buckinghorse area of northeastern British Columbia, in an attempt to locate major natural gas reserves. The Company elected not to participate in a completion operation on the well, but plans to join in the drilling of another test well in the coming year. An interest in 38,937 acres was earned by the drilling of this test well.

Included in the exploratory drilling prospects being developed by the Canadian Joint Venture is an exploration permit covering 26,153 acres in the Alder area of the Yukon on a pronounced surface anticline. An extensive seismic survey has been completed and interpreted and plans are currently being formulated for the drilling of a deep test well in the prospect area.



OKLAHOMA JOINT VENTURE

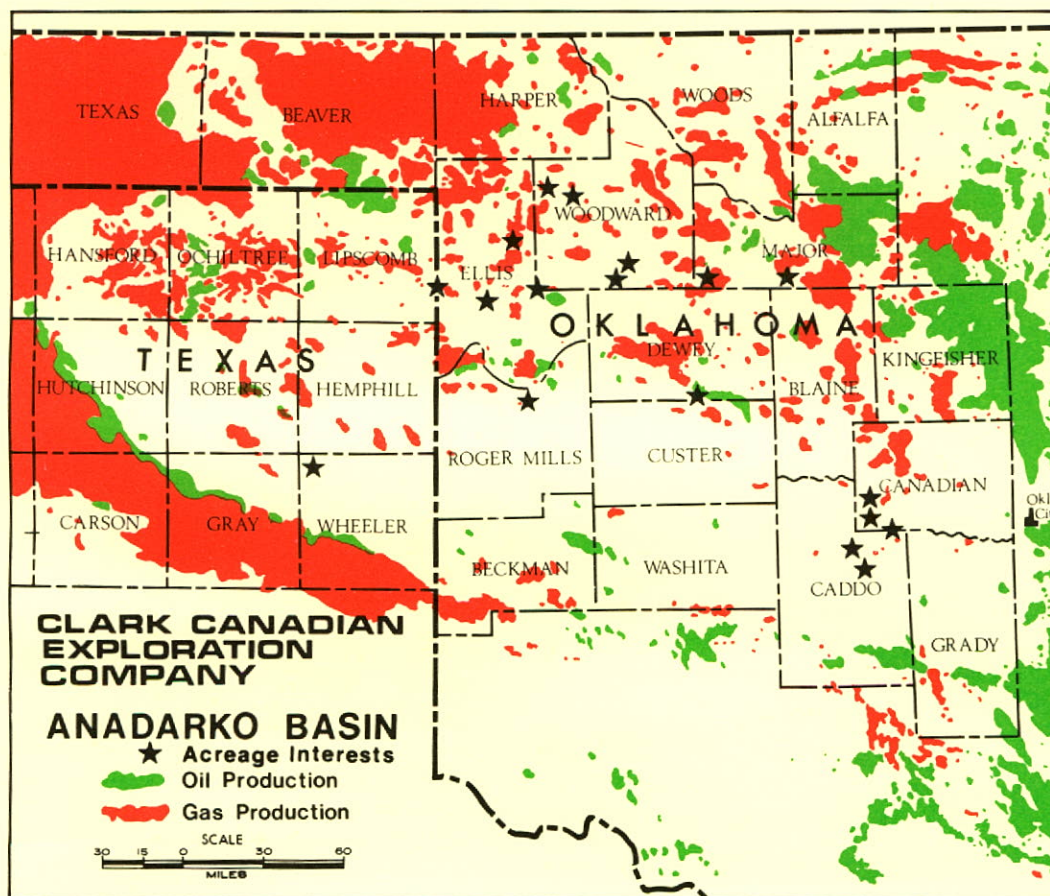
The Anadarko Basin of Oklahoma and the Texas Panhandle is regarded by the Company as one of the prime areas in North America for the conduct of petroleum operations. Several factors contribute to this evaluation including availability of oil and gas leases in prospective areas at reasonable prices, increasing wellhead price for newly discovered oil and gas, many potential horizons to drill, structural type traps which can be detected and delineated by geophysics and anticipation of recovery of high reserves per acre in deeper reservoirs.

In the past year the Company participated in the drilling of four wildcat test wells which resulted in one natural gas discovery well, one oil well and two dry holes. Drilling was completed on the Wickham Ranch Prospect to 19,450 feet and the well was subsequently completed at 14,576 feet in the lower Morrow sand as a natural gas discovery. Development plans will be delayed until a deep wildcat test well offsetting the Company's 10,000 acre block to the southwest has been drilled to a proposed total depth of 19,500 feet. This well is currently drilling below 17,000 feet. Also,

another deep wildcat test well is presently drilling offsetting the Company's acreage block to the south.

An intensive geological and geophysical investigation by the Company is in progress in the southern portion of the Anadarko Basin in an effort to delineate further prospects in the Morrow, Hunton, Viola, Simpson and Arbuckle formations. This investigation will culminate this fiscal year and should lead to the drilling of test wells to deeper depths on prospects with major potential.

Following a similar geologic investigation in the southeast portion of the Anadarko Basin, the Company established an acreage position in the prolific Marchand sand producing trend, comprising approximately 15,500 acres in five prospect areas. In addition to the Marchand, the Des Moines, Cherokee, Morrow and Springer formations are prospective in the area. Test wells on the E. Hinton and N. E. Gracemont prospects, two of the Company's exploratory prospects in this area, are now being drilled and are programed to subsurface depths of 13,000 feet and 10,800 feet respectively.



CLARK CANADIAN EXP FINANCIAL OPERA



	<u>1967</u>	<u>1968</u>
OPERATING REVENUES	\$543,000	\$904,000
NET INCOME (LOSS)	\$112,000	\$ 90,000
Per Share.....	\$.10	\$.08
POSITIVE (NEGATIVE) CASH FLOW	\$116,000	\$236,000
Per Share	\$.11	\$.22
PRODUCTION		
Barrels of Oil	4,000	10,000
MCF's of Natural Gas	—	—
RESERVES		
Barrels of Oil.....	48,000	38,000
MCF's of Natural Gas	—	—
ACREAGE HOLDINGS		
Gross.....	6,000	118,000
Net.....	2,000	21,000
AVERAGE COMMON SHARES OUTSTANDING	<u>1,093,000</u>	<u>1,093,000</u>

(1) The 1972 results were for the first fiscal year in which the Company exclusively operated its Canadian and Oklahoma Joint Ventures and did not sell interests in individual prospects, such sales being reflected in 1971 and prior years. In accordance with generally accepted accounting principles, your Company's carried working interests in exploratory prospects of the Joint Ventures cannot be reflected in our income statement on a current basis despite the fact that these exploratory activities enhance our petroleum reserves and production income.

EXPLORATION COMPANY

FINANCIAL HIGHLIGHTS



<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
\$269,000	\$747,000	\$1,283,000	(1) \$1,167,000
\$(110,000) \$ (.08)	\$(207,000) \$ (.11)	\$ 111,000 \$.06	\$ 20,000 \$.01
\$ (90,000) \$ (.07)	\$ (55,000) \$ (.03)	\$ 198,000 \$.10	\$ 309,000 \$.12
15,000 —	102,000 —	50,000 65,000	52,000 1,425,000
320,000 —	633,000 —	680,000 2,106,000	732,000 4,940,000
8,723,000	9,900,000	9,993,000	9,255,000
2,054,000	2,483,000	2,388,000	1,660,000
<u>1,353,000</u>	<u>1,916,000</u>	<u>1,919,000</u>	<u>2,497,000</u>

CONSOLIDATED BALANCE SHEET

ASSETS	May 31	
	1972	1971
CURRENT ASSETS:		
Cash	\$ 123,783	\$ 143,790
Accounts and notes receivable	257,925	162,832
Leases held for resale, at cost (Note 3).....	83,958	122,766
Deposits and other assets	16,172	30,742
Total current assets	481,838	460,130
PROPERTY AND EQUIPMENT, at cost (Notes 3 and 4):		
Oil and gas properties (Note 2)	2,694,288	1,645,681
Furniture and fixtures	112,126	69,661
	2,806,414	1,715,342
Less- Reserves for depreciation, depletion and amortization	(689,212)	(408,164)
	2,117,202	1,307,178
DEFERRED COSTS	17,015	—
	\$2,616,055	\$1,767,308
LIABILITIES		
CURRENT LIABILITIES:		
Short-term bank note payable, 5½%, unsecured	\$ —	\$ 100,000
Accounts payable.....	228,042	183,829
Accrued liabilities.....	601	586
Total current liabilities.....	228,643	284,415
SHAREHOLDERS' INVESTMENT (Notes 2, 3, 4 and 5):		
Common stock, no par value Authorized 5,000,000 shares Issued 2,789,932 shares in 1972 and 1,919,285 shares in 1971	1,804,512	1,141,447
Capital surplus	566,854	345,832
Retained earnings (deficit)	16,046	(4,386)
	2,387,412	1,482,893
	\$2,616,055	\$1,767,308
Approved on behalf of the Board: Gene Clark, Jr., <i>Director</i> Patrick S. Beard, <i>Director</i>		

The accompanying notes to consolidated financial statements are an integral part of this balance sheet.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended May 31	
	1972	1971
	(Note 2)	
OPERATING REVENUES:		
Lease and service sales (Note 1).....	\$ 703,531	\$1,100,248
Oil and gas production income.....	463,575	182,390
	1,167,106	1,282,638
OPERATING EXPENSES (Note 3):		
Cost of lease and service sales.....	492,645	769,592
Oil and gas production expenses.....	122,960	58,687
General and administrative expenses.....	297,888	259,162
Depreciation, depletion and amortization.....	284,142	87,786
	1,197,635	1,175,227
INCOME (LOSS) FROM OPERATIONS	(30,529)	107,411
OTHER INCOME (EXPENSE):		
Interest expense.....	(712)	(2,981)
Gain on sale of securities.....	44,273	—
Other	7,400	6,092
	50,961	3,111
NET INCOME (Note 4)	\$ 20,432	\$ 110,522
EARNINGS PER COMMON AND COMMON		
EQUIVALENT SHARE (Note 6)	\$.01	\$.06
EARNINGS PER COMMON SHARE,		
ASSUMING FULL DILUTION (Note 6)	\$.01	\$.06

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

	<u>Common Stock, No Par Value</u>			
	<u>Number Of Shares Outstanding</u>	<u>Amount</u>	<u>Capital Surplus</u>	<u>Retained Earnings (Deficit)</u>
BALANCES, May 31, 1970	1,916,285	\$1,136,947	\$ 344,332	\$ (114,908)
Exercise of stock option	3,000	4,500	1,500	
Net income for the year				110,522
	-----	-----	-----	-----
BALANCES, May 31, 1971	1,919,285	1,141,447	345,832	(4,386)
Acquisition of American Resources Company (Note 2)	857,147	642,860	214,287	
Exercise of stock option	11,500	17,205	5,735	
Stock bonus	2,000	3,000	1,000	
Net income for the year				20,432
	-----	-----	-----	-----
BALANCES, May 31, 1972	<u>2,789,932</u>	<u>\$1,804,512</u>	<u>\$ 566,854</u>	<u>\$ 16,046</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended May 31	
	1972	1971
FUNDS WERE PROVIDED FROM:		
Net income	\$ 20,432	\$ 110,522
Add charges to income not requiring funds —		
Depreciation, depletion and amortization (Note 3)	284,142	87,786
Common stock issued as stock bonus	4,000	
Funds provided from operations	308,574	198,308
American Resources Company acquisition (Note 2) —		
Common stock issued	857,147	
Oil and gas properties acquired	(533,268)	
	323,879	
Issuance of common stock for stock options exercised	22,940	6,000
Total funds provided	655,393	204,308
FUNDS WERE APPLIED TO:		
Additions to oil and gas properties	515,339	451,953
Additions to furniture and fixtures	45,559	39,323
Deferred costs	17,015	
Total funds applied	577,913	491,276
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 77,480	\$ (286,968)
INCREASES (DECREASES) IN WORKING CAPITAL BY COMPONENT WERE:		
Cash	\$ (20,007)	\$ (47,707)
Accounts and notes receivable	95,093	121,960
Leases held for resale	(38,808)	(336,512)
Deposits and other assets	(14,570)	(25,981)
Short-term bank notes payable	100,000	119,571
Accounts payable and accrued liabilities	(44,228)	(118,299)
	\$ 77,480	\$ (286,968)

The accompanying notes to consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 1972

(1) JOINT VENTURES

The Company is the operator of two joint ventures formed for the purpose of exploring for oil and gas. During the year ended May 31, 1972, the Company received a substantial portion of its revenues from management service fees for operating these ventures. In addition, in consideration for its services, the Company received a carried interest in the activities of the joint ventures.

(2) ACQUISITION

Effective September 30, 1971, the Company acquired, in a nontaxable transaction, all of the outstanding stock of American Resources Company (ARC) in exchange for 857,147 shares of the Company's common stock. The assets of ARC consisted of producing oil and gas wells, cash and marketable securities. This acquisition has been accounted for as a purchase transaction and the results of operations of ARC since September 30, 1971, have been included in the consolidated financial statements.

Consolidated pro forma (unaudited) data, including the pro forma operations of ARC since June 1, 1970, are as follows:

	Year Ended May 31	
	1972	1971
Operating revenues	\$1,277,100	\$1,490,200
Net income	69,500	204,956
Earnings per share	\$.02	\$.07

Depreciation, depletion and amortization of the ARC oil and gas properties have been based on the purchase price of such properties in determining pro forma net income.

The former shareholders of ARC may require the Company to register, at its cost, the shares issued to them.

(3) METHOD OF ACCOUNTING FOR OIL AND GAS PROPERTIES

The Company follows the policy generally known as full cost accounting in which all direct costs incurred in the acquisition, exploration and development of oil and gas reserves (including intangible development costs, dry

hole costs, costs of undeveloped leases, abandonments, lease rentals and a portion of division and home office administration costs) are capitalized and amortized on a company-wide unit-of-production method based on total estimated recoverable oil and gas reserves. Profits or losses are recognized on the disposition of undeveloped leases held in inventory for resale.

(4) INCOME TAXES

Because of the deductibility for tax purposes of oil and gas exploration and development costs capitalized for financial reporting purposes, no income taxes are currently payable by the Company. Deferred income taxes are not provided for these timing differences provided estimated future statutory depletion and other tax benefits equal or exceed the capitalized cost of oil and gas properties.

(5) STOCK OPTIONS

Pursuant to resolutions by the Board of Directors, stock options were outstanding at May 31, 1972, for 95,500 shares of common stock which have been granted to officers and key employees of the Company. These options are exercisable at any time at \$2.00 to \$3.06 (Canadian dollars) per share and terminate at varying dates through February 1, 1977. Options covering an additional 5,000 shares have been granted to key employees but have not been approved by the Toronto Stock Exchange as of July 24, 1972.

(6) EARNINGS PER SHARE

Earnings per common and common equivalent share have been determined based on the weighted average of the shares outstanding and as if outstanding options which are dilutive had been exercised when granted and the proceeds of exercise used to purchase common stock at the average market price for the period.

Earnings per common share assuming full dilution have been determined as if options had been exercised when granted and the proceeds of exercise used to purchase common stock at the market price at the close of the period (or at date exercised as to options exercised during the period).

CLARK CANADIAN EXPLORATION COMPANY

(Incorporated under the laws of the State of Texas)

To the Shareholders and the Board of Directors,
Clark Canadian Exploration Company:

We have examined the consolidated balance sheet of CLARK CANADIAN EXPLORATION COMPANY (a Texas corporation) and subsidiary as of May 31, 1972, and the related consolidated statements of operations, shareholders' investment 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Clark Canadian Exploration Company and subsidiary as of May 31, 1972, and the results of their operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Denver, Colorado,
July 24, 1972



DIRECTORS

Patrick S. Beaird, *Denver, Colorado*
Gene Clark, Jr., *Denver, Colorado*
Peter O. Crisp, *New York, New York*
Edward R. Hewitt, *Denver, Colorado*
Christopher D. Illick, *New York, New York*
D. G. Lawson, *Toronto, Ontario*
Claude R. Nash, *Denver, Colorado*
J. N. Sherrill, Jr., *Wichita Falls, Texas*

OFFICERS

Gene Clark, Jr., *Chairman, President and Chief Executive Officer*
J. N. Sherrill, Jr., *Vice-President and General Counsel*
Patrick S. Beaird, *Vice-President*
Edward R. Hewitt, *Vice-President*
Claude R. Nash, *Secretary, Treasurer and Chief Financial Officer*

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company, *Toronto, Ontario*
and Calgary, Alberta

EXCHANGE LISTING

Toronto Stock Exchange, *Toronto, Ontario*

CORPORATE OFFICE

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OKLAHOMA DIVISION

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