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**clark canadian**  
**exploration company**

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**Annual Report**  
**1969**





## **clark canadian** exploration company

(Incorporated under the laws of the State of Texas)

### **DIRECTORS**

Patrick S. Beaird *Denver, Colorado*  
E. B. Clark, Sr. *Wichita Falls, Texas*  
E. B. Clark, Jr. *Denver, Colorado*  
James C. Saks *Calgary, Alberta*  
J. N. Sherrill Jr. *Wichita Falls, Texas*

### **OFFICERS**

E. B. Clark, Sr. *Chairman of the Board*  
E. B. Clark, Jr. *President and Treasurer*  
Patrick S. Beaird *Vice-President*  
J. N. Sherrill Jr. *Secretary*  
Frank I. Pritchett, Jr. *Exploration Manager & Assistant Secretary*

### **COUNSEL**

Sherrill, Pace & Rogers *Wichita Falls, Texas*  
MacKimmie, Matthews, Wood, Phillips & Smith *Calgary, Alberta*  
Stapells, Sewell, Stapells, Patterson & Rodgers *Toronto, Ontario*

### **AUDITORS**

Arthur Andersen & Co. *Denver, Colorado*

### **REGISTRAR AND TRANSFER AGENT**

Canada Trust Company *Toronto, Ontario — Calgary, Alberta*

### **EXCHANGE LISTING**

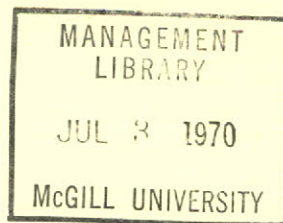
Toronto Stock Exchange *Toronto, Ontario*

### **HEAD OFFICE**

824 Patterson Building, Denver, Colorado 80202

### **BRANCH OFFICE**

307 Fifth Avenue S.W., Calgary 1, Alberta





## To the Shareholders

Your directors have pleasure in presenting your company's third annual report, for the year ended May 31, 1969.

The past year was a period of significant growth for Clark Canadian Exploration Company. Earlier in the year it was transformed from a closely-held company to a publicly-owned corporation which now has more than 500 shareholders. Another important feature of the period was the establishment, through a development drilling program, of oil production from the Muddy Sandstone formation in the Collums, Whitetail, Olmstead and Rocky Point fields of Wyoming.

In February the company concluded an offering of 700,000 of its no par value common shares to the Canadian public at \$2.20 per share. An option on an additional 100,000 shares was granted to Moss, Lawson & Co., Limited, Toronto, Ontario, the underwriter of the public offering; this option has subsequently been fully exercised. The shares of the company were listed on the Toronto Stock Exchange in April of 1969 under the trading symbol "CLX".

The company received \$1,614,800 from the sale of its 800,000 shares before expenses. Net proceeds were applied in fiscal year 1969 to the liquidation of loans totalling approximately \$250,000, payment of the costs of the company's exploratory and development drilling and seismic programs in Alberta and Wyoming, the acquisition of additional properties in the

Foxe Basin, Baffin Island, Labrador Coast and Flemish Cap areas of Northern and Eastern Canada and the payment of support contributions to other oil companies undertaking exploratory drilling in close proximity to your company's Muddy acreage in Montana and Wyoming.

Since the end of the 1969 fiscal year Clark Canadian has drilled five development wells in its Collums field jointly with Pan American Petroleum Corporation. All of these wells have been completed as Muddy Sandstone producers. The company plans to drill three more wells in this field immediately. Your attention is directed to a map of this field.

During the months of June and July of the current year the company purchased approximately 6,200 net acres of oil and gas leases in the Anadarko Basin of Western Oklahoma. Three drilling programs will be assembled during the coming year from these leases for sale to other oil companies. The terms of the sale agreements will provide for exploratory drilling by the purchasing company. This area offers an opportunity for a large return on our initial investment, and the company will retain a significant undivided interest in all programs.

A recent decision has been made for Clark Canadian to participate with nine other companies and individuals in an exploration venture off the coasts of Louisiana and Texas, to be managed by Chambers & Kennedy, a Houston,

Texas based independent oil company with previous experience in this area. The venture will involve a commitment by the company of \$300,000 (U.S.) payable in quarterly instalments of \$25,000 over a three year period, commencing this month, and the company's proportionate part of completing any exploratory wells and the drilling and completion of any development wells together with the operating costs thereof. It is anticipated that approximately 20 exploratory wells will be drilled during the three year period. The company's participation in this venture will be through its recently formed wholly-owned subsidiary, Clark Canadian Offshore, Inc., a Texas corporation.

In April of 1969 the company enlarged its Calgary, Alberta branch office and engaged Rodney W. Handfield, a highly respected and experienced oil geologist formerly employed by major oil companies, to be the regional manager for this area.

The company's operations in fiscal 1969 resulted in a net loss of \$67,638. This loss was mainly attributable to the company's emphasis on its successful Muddy development drilling program and the time devoted by its officers to its initial public offering of shares during the year. The 1969 fiscal year did not yet reflect the earning ability of the public funds, while the expenses of the offering as well as the expenses of enlarging the Calgary, Alberta

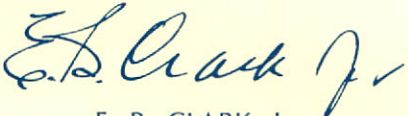
branch office were borne by the company during this period.

During the 1970 fiscal year the company's renewed exploration activities in the Anadarko Basin and the Rocky Mountain areas of Montana and Wyoming will be aided by the employment of additional working capital. The profits which should result from these activities will be augmented by the Muddy oil production and the likelihood of a sale of a portion of your company's interest in some of the large blocks of acreage it owns in the Arctic Islands and Northern and Eastern Canada.

Your management feels that successful investment of the funds received from the public offering will be completed by the end of the first half of the 1970 fiscal year. Your company will continue to benefit from the technical and professional talents of its officers and employees.

The directors believe the company's current ventures and plans hold promise for an active and rewarding year.

On behalf of the board of directors



E. B. CLARK, Jr.,  
President.

July 14, 1969



## Exploration and Development

As of May 31, 1969, the company held working and overriding royalty interests in oil and gas leases, drilling reservations and/or permits in Alberta, Saskatchewan, Hudson Bay, Alaska, the Northwest Territories, Northern and Eastern Canada, the Arctic Islands, Montana and Wyoming. The maps included with this report show the general location of all acreage.

Since the end of the 1969 fiscal year, the company has also acquired oil and gas leases in Oklahoma and will participate through a subsidiary in a venture which will earn it a significant undivided interest in oil and gas leases off the coasts of Louisiana and Texas.

**Hay Lake:** In March of 1969 the company, in conjunction with Hudson Bay's Oil and Gas Company, drilled the Hudson Bay-Clark Canadian #1 Hay Lake well on a drilling reservation in the Hay Lake area of Northern Alberta. This well was drilled after an extensive seismic program was conducted by Hudson's Bay in the area. The well was drilled to a total depth of approximately 5,500 feet and discovered gas in the Slave Point formation and oil in the Keg River formation. The well was initially potentialized at 6.5 MCF of gas per day and 196 bbl. of oil per day and is now shut-in awaiting a market. The company presently holds a 5% net interest in 1,280 gross acres in the area.

**Youngstown:** The company has recently concluded the evaluation of the seismic program conducted with Sunlite Oil Company Limited on approximately 35,000 gross acres of leases in this area. The program did not indicate any anomalies of drilling interest in this area and the company's interest has now been terminated.

**La Glace:** The company participated in the drilling of the Fife Petroleum #1 La Glace well in February of 1969. The well was dry and abandoned although shows of oil were encountered. No further drilling activity is contemplated by the company in this area, al-

though its interest will be maintained with a view to farming this acreage out to another oil company.

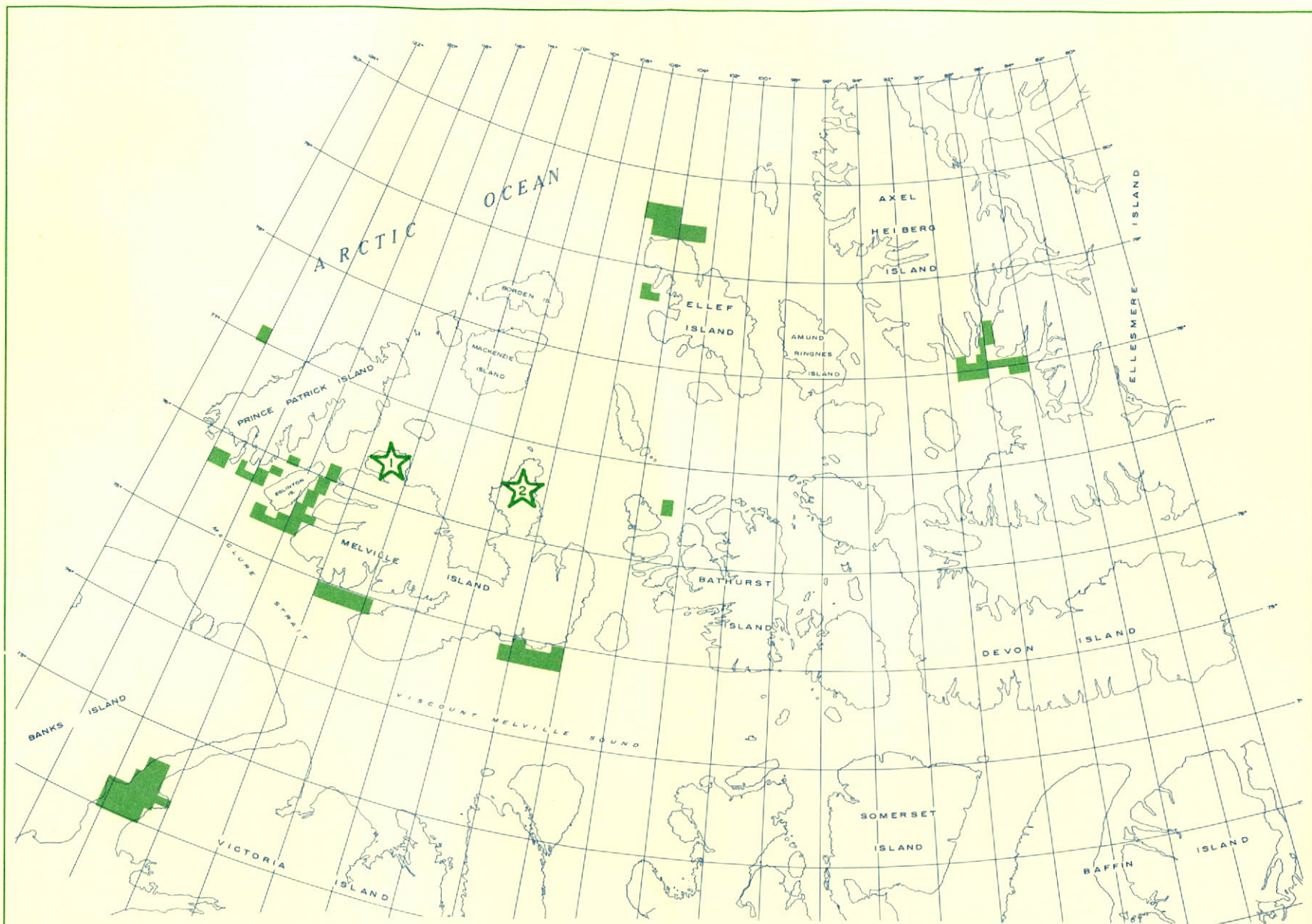
**Hudson Bay:** Negotiations have been completed with Mobil Oil Canada Ltd. for the sale of one-half of Clark Canadian's interest in the exploration permits located in Hudson Bay. The sale reduced the company's net interest in 1,604,870 gross acres from one-third to one-sixth. The company realized a profit over its initial investment in these permits.

**Alaska, Northwest Territories, Arctic Islands:** The company currently holds large blocks of acreage in these areas. The lands were acquired at relatively low costs, and management believes that they are strategically located geologically. These areas have been the focal point of a notable increase in interest by oil companies and the public during the last year, as a result of the oil discovery drilled at Prudhoe Bay in Northern Alaska and the exploratory drilling program undertaken by the Pan Arctic Oil Ltd. consortium in the Arctic Islands.

Weather, accessibility and logistics preclude all but major oil companies from active exploration at the present time. Consequently, the company's efforts in these areas will not include any exploratory drilling, but instead will be concentrated on making sales of portions of its interests from time to time at a profit over the original cost.

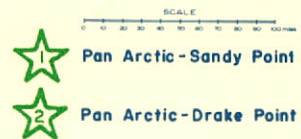
Your attention is directed to the map which indicates the location of the company's Arctic Islands acreage and the locations of the first two exploratory wells currently being drilled by Pan Arctic Oils Ltd.

**Montana:** The Muddy acreage in this state has not yet received the intensive exploratory drilling by oil companies that comparable acreage in Wyoming has received. However, the company feels that drilling activity in this area will be significantly increased during the



**Acreage Interests in  
ARCTIC ISLANDS**

CLARK CANADIAN EXPLORATION COMPANY





current fiscal year. In order to evaluate its own properties, management will be active in making support contributions to other oil companies conducting exploratory drilling operations in proximity to its acreage and in evaluating requests from other oil companies for farmouts of the company's acreage.

The company's largest block of acreage in Montana is owned jointly with Pan American Petroleum Corporation and two other independent oil companies in the Northwest Recluse area. The holding aggregates 53,429 gross acres.

The company also plans to build four to five exploratory drilling programs from its existing acreage (9,710 gross acres) in the Northwest Sonnette area and other acreage it will lease, purchase or farm-in during the current year. These programs will be sold to other oil companies for an amount which should pay the cost of drilling any exploratory wells and earn the company a profit. The company will also retain a significant undivided interest in each program.

Similar drilling programs will be assembled in other areas of the Powder River Basin in South-eastern Montana if the necessary additional acreage can be leased or purchased. The company plans to discontinue its interest in its Pocket Creek acreage this summer.

**Wyoming:** The company established production from the Muddy Sandstone formation in four new fields (Collums, Whitetail, Olmstead and Rocky Point) in Campbell County, Wyoming during the year. All fields are encompassed within the Duck Creek area shown on the schedule of the company's acreage holdings.

**Collums:** The most significant discoveries of oil that the company has made in its three-year history are in this field. The company has now participated in the drilling and completion of eight Muddy Sandstone producers in this field since early May. Five of these wells were completed after the close of the company's fiscal year. Three other wells in this field will be

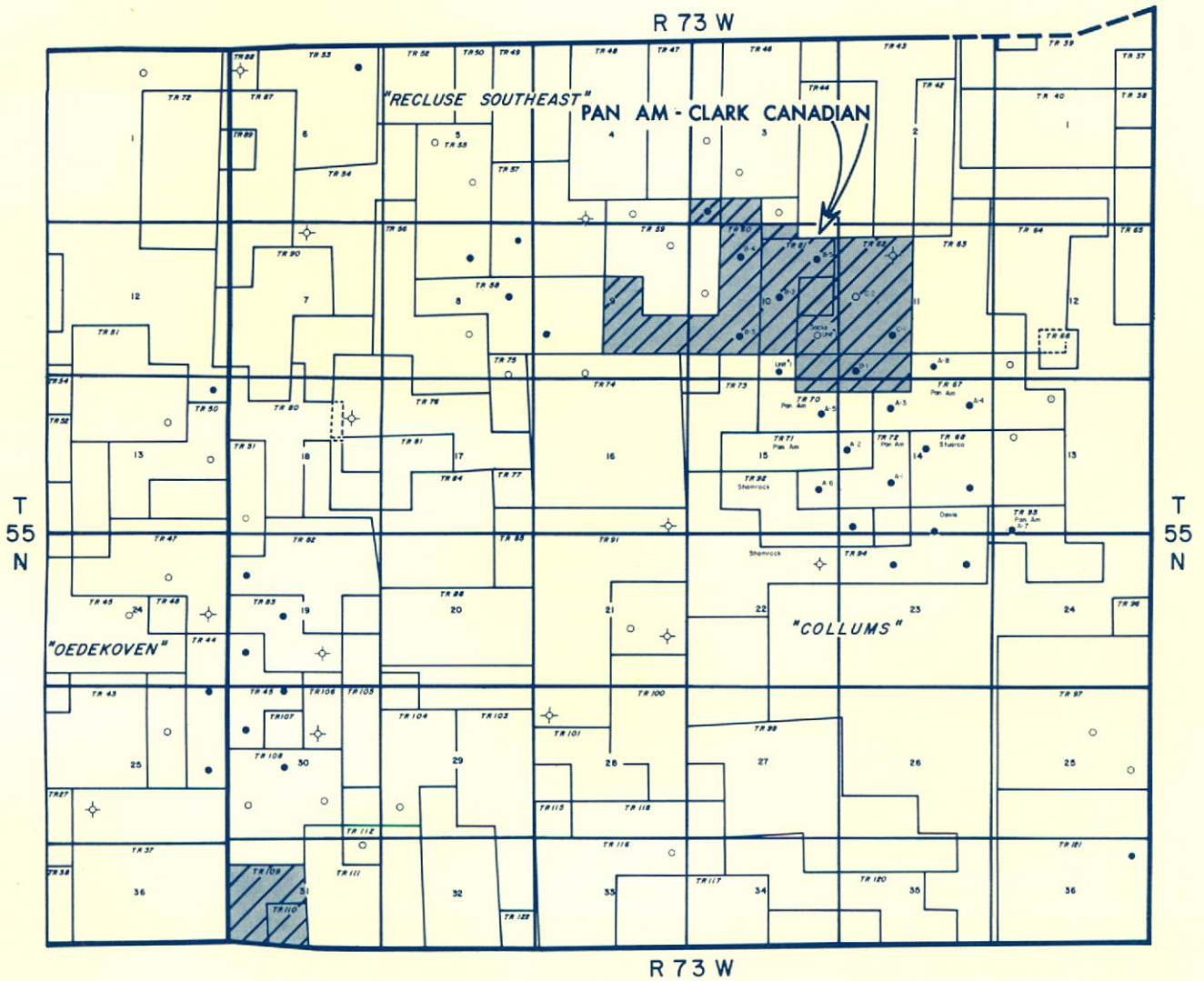
## SUMMARY OF ACREAGE HOLDINGS (as at May 31, 1969)

Geographical Area	Gross Acres	Net Acres
<b>Alberta</b>		
Hay Lake .....	5,120	256
NW Zama Lake .....	320	20
Bassett Lake .....	3,840	96
Youngstown .....	35,040	1,466
La Glace .....	6,240	780
<b>Saskatchewan</b>		
NW Dollard .....	16,009	1,576
Carlyle .....	600	376
W. Workman .....	4,469	1,181
Pleasant Plains .....	2,240	641
Wapella .....	3,892	1,373
<b>Hudson Bay</b> .....	1,604,870	267,478
<b>Alaska</b>		
Chukchi Basin .....	37,940	12,350
Porcupine River .....	58,880	23,552
Norton Sound .....	112,640	45,056
Bethel Basin .....	28,160	3,432
Bristol Bay .....	9,600	1,170
<b>NW Territories</b>		
Beaufort Sea .....	285,821	71,455
<b>Northern and Eastern Canada</b>		
Flemish Cap .....	735,837	183,959
Labrador Coast .....	394,298	98,574
Baffin Island .....	1,158,884	289,721
Foxe Basin .....	493,356	123,339
<b>Arctic Islands</b>		
Melville Island .....	1,553,609	388,402
Prince of Wales Strait	819,883	204,970
Ellef Island .....	650,716	162,679
Ellesmere Island SW .	476,739	119,186
<b>Montana</b>		
Brorson .....	982	982
NW Sonnette .....	9,710	3,483
SE Sonnette .....	960	90
NW Recluse .....	53,429	7,596
N. Remington Creek	4,529	679
Crow-Benteen .....	7,714	1,583
Pocket Creek .....	28,881	28,621
W. Lodge Grass .....	2,220	1,676
<b>Wyoming</b>		
N. Kitty .....	4,219	765
N. Sandbar .....	2,697	382
Duck Creek .....	9,652	2,230
Little Powder River, .	1,028	257
S. Recluse .....	161	18
Wildcat Creek (ORR)	2,640	...
NW Denver Basin ..	22,527	2,816
NW Denver Basin (ORR) .....	72,964	...
<b>Total</b> .....	<b>8,723,316</b>	<b>2,054,266</b>





# COLLUMS FIELD — CAMPBELL COUNTY, WYOMING





commenced immediately, and the company feels that they will be comparable producers.

Your company has a 20.6% net revenue interest in six of these wells, and a 20.3% revenue interest in the other two wells. Pan American has the largest interest in all of these wells. The pay thicknesses of the eight wells range from 12 to 24 feet of net Muddy Sandstone formation.

All of the wells have just commenced commercial production or are being potentialized and/or tested. Management believes that it will be a short period of time before the ultimate long-term potential of all these wells are known. However, the company knows that all of the presently-drilled wells will be successful commercial producers and will significantly augment the company's monthly income from oil production. Your attention is directed to the map which shows the location of the company's acreage, the completed wells and the future drill sites in this field.

**Whitetail:** The company now has a 25% working interest in two producing oil wells in this field. Gross production from the wells averages approximately 100 bbl. of oil per day. The report of J. C. Sproule and Associates Ltd., which was prepared in connection with the company's public offering in February of 1969, estimated the company's net share of remaining reserves in this field to be 64,100 barrels. The company may contribute part of its acreage (approximately 30 acres) to the drilling of an additional unit well in fiscal year 1970, but it will not undertake any further drilling in this area.

**Olmstead:** Clark Canadian has one producing oil well and one shut-in gas well in this field. The initial well was drilled by Texakota Oil Company on a farmout from the company and Pan American Petroleum Corporation. Clark Canadian has an overriding royalty interest in the oil well until such time as the farmee of the acreage has recovered all of its drilling, completion and operating costs with respect to the well. At such time, the company's interest will convert to a 12.5% working

interest. The company has a 25% working interest in the shut-in gas well. No further drilling is contemplated in this area.

**Rocky Point:** Your company has a 6.4% net revenue interest in two producing Muddy Sandstone wells in this area. Both wells were drilled by Love Oil Company on a farmout from the company. Gross production from the wells has averaged approximately 160 bbl. of oil per day since commercial production began in the early part of July. The company plans to contribute acreage to the drilling of two additional wells in this area during the coming year.

**Other Areas:** The company will probably drill an exploratory well on its 161-acre South Recluse tract during the 1970 fiscal year. The company's remaining one-eighth interest in the leasehold acreage of the Northwest Denver Basin area will be terminated as rental payment dates become due this summer.

Wyoming continues to be the center of substantial exploratory and development drilling. The past year has proven that the company's acreage spread in this area is very well located, and management believes that 1970 will also be a fruitful year for Clark Canadian in this state.

#### **Exploratory and Development Drilling**

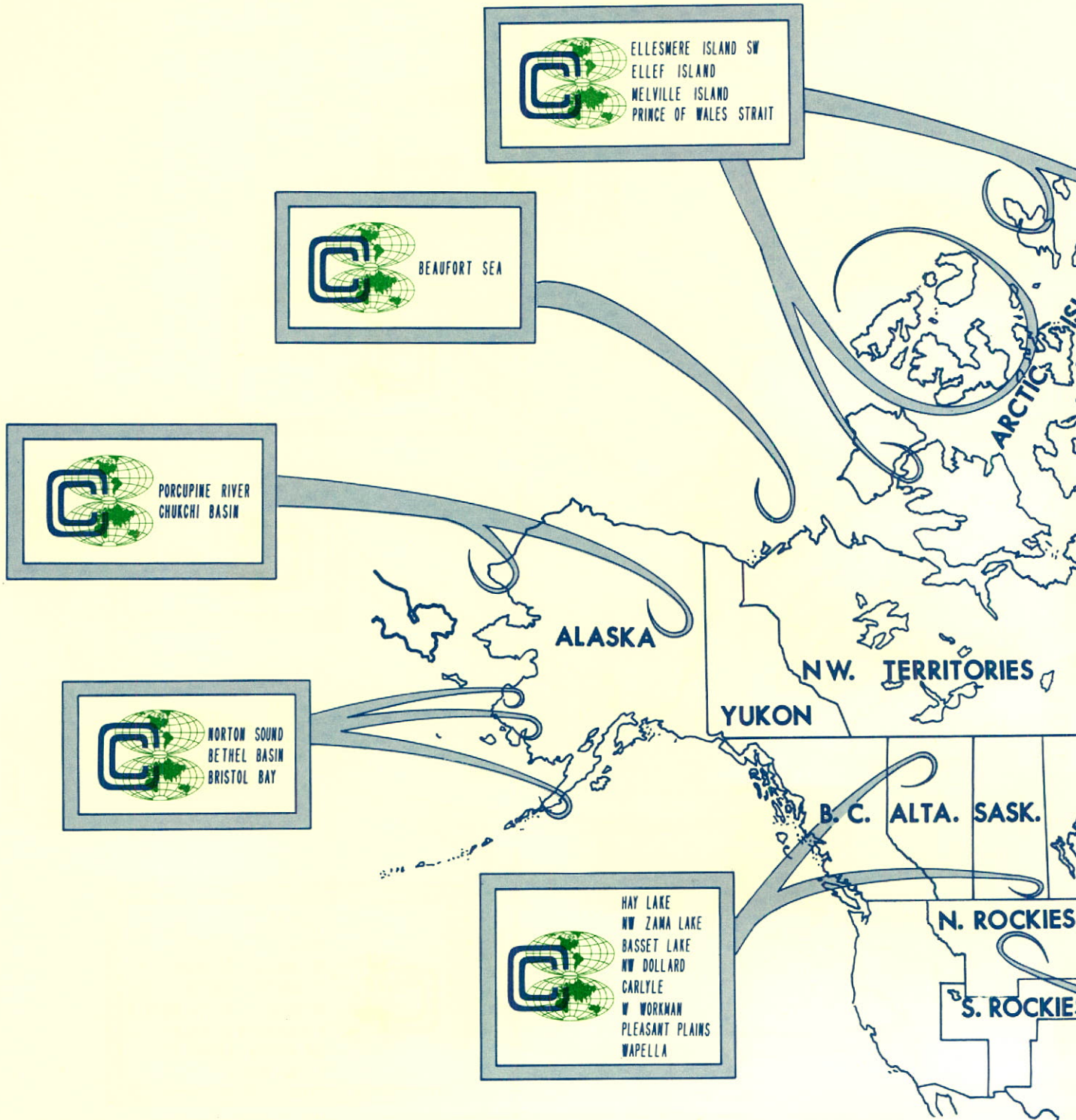
The company is justifiably proud of the number of commercial producers of oil and/or gas it has discovered during the 1969 fiscal year. As the following schedule shows, of the 20 wells which the company participated in drilling during the period, 10 discovered oil and/or gas, while only 4 of the 10 dry holes involved any direct drilling cost to the company. Moreover, the company has participated in the drilling and completion of five additional oil wells in the short interval since the end of the 1969 fiscal year. Twelve of the 15 wells drilled to date, and the last 10 in a row since the company completed its public financing in February, have been completed as oil and/or gas wells. The company hopes that it will be able to maintain a comparable success ratio during 1970.



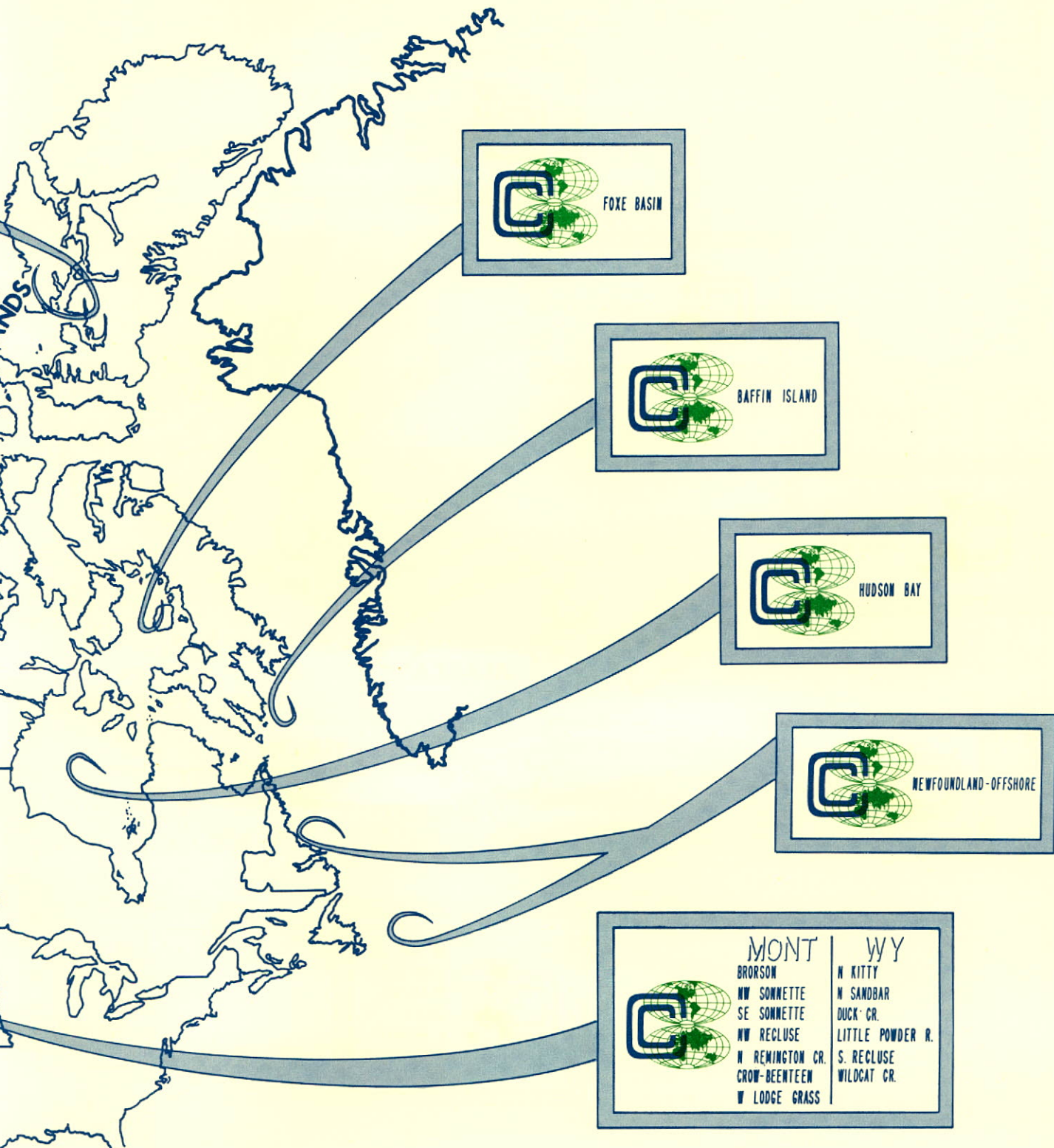
## Schedule of Exploratory and Development Drilling

<u>Well Name</u>	<u>Area</u>	<u>Company Interest</u>	<u>Status</u>
Pan-Am — #1 USA Vincent L. White	Montana	15% Carried Working Interest	Dry & Abandoned
Glenn A. Dow — #1 Government Smith	Wyoming	15% Carried Working Interest	Dry & Abandoned
Glenn A. Dow — #1 Government Hondo	Wyoming	33% Working Interest	Dry & Abandoned
Clark Canadian — #1 Conoco Federal	Montana	18.75% Carried Working Interest	Dry & Abandoned
Pan-Am — #1 USA William H. Moore	Wyoming	25% Working Interest	Muddy Sandstone Oil Well
Pan-Am — #1 USA Peter Thomas	Wyoming	15% Carried Working Interest	Dry & Abandoned
Michigan Wisconsin — 3-36-14-1 Wapella	Saskatchewan	33.42% Working Interest	Dry & Abandoned
Pan-Am — #1 W. C. Trusler	Montana	10% Carried Working Interest	Dry & Abandoned
Texakota Oil Co. — #1 Federal	Wyoming	12.5% Working Interest after payout	Muddy Sandstone Oil Well
Pan-Am — USA William H. Moore "B" #1	Wyoming	25% Working Interest	Muddy Sandstone Oil Well
Pan-Am — USA William H. Moore "B" #2	Wyoming	25% Working Interest	Dry & Abandoned
Fife Petroleum — #1 La Glace	Alberta	12.5% Working Interest	Dry & Abandoned
Love Oil Company — #1 State "D"	Wyoming	6.4% Carried Working Interest	Muddy Sandstone Oil Well
Hudson Bay — Clark Canadian #1 Hay Lake	Alberta	5% Carried Working Interest	Slave Point-Gas Well Keg River-Oil Well
Joseph Paine — #1 Federal	Wyoming	6.25% Carried Working Interest	Dry & Abandoned
Pan-Am — USA Clark Canadian "A" #1	Wyoming	25% Working Interest	Muddy Sandstone Gas Well
Love Oil Company — #1 Federal McCulloch	Wyoming	6.4% Working Interest	Muddy Sandstone Oil Well
Pan-Am — USA Clark Canadian "B" #1	Wyoming	25% Working Interest	Muddy Sandstone Oil Well
Pan-Am — USA Clark Canadian Unit #1	Wyoming	12.5% Working Interest	Muddy Sandstone Oil Well
Pan-Am — USA Clark Canadian "C" #1	Wyoming	25% Working Interest	Muddy Sandstone Oil Well

# ACREAGE CLARK CANADIAN E



# HOLDINGS OF EXPLORATION COMPANY





**BALANCE SHEETS (Note 2)**

(Canadian Dollars)

ASSETS	May 31	
	1969	1968 (Restated) (Note 1)
CURRENT ASSETS:		
Cash .....	\$ 334,450	\$ 11,287
Certificates of deposit (Note 9) .....	657,315	—
Cash held in escrow .....	—	12,620
Marketable securities, at cost which approximates market ..	300,255	10,009
Accounts and notes receivable .....	101,042	488,175
Leases held for resale, at cost .....	222,466	26,702
Deposits and prepaid expenses .....	34,329	2,164
Total current assets .....	1,649,857	550,957
PROPERTY AND EQUIPMENT, at cost (Notes 1, 3, 4, 7 and 9):		
Oil and gas properties, including lease and well equipment .	596,174	395,873
Furniture and fixtures .....	14,458	7,020
	610,632	402,893
Less — Reserves for depreciation, depletion and amortization	184,179	162,763
	426,453	240,130
OTHER ASSETS .....	775	1,182
	\$2,077,085	\$ 792,269

<b>LIABILITIES</b>	May 31	
	1969	1968 (Restated) (Note 1)
<b>CURRENT LIABILITIES:</b>		
Short-term notes payable (Note 9) .....	<b>\$ 266,841</b>	\$ 407,914
Current maturities on long-term debt (Note 9) .....	<b>10,893</b>	12,984
Accounts payable .....	<b>78,013</b>	108,173
Accrued liabilities .....	<b>8,418</b>	5,625
Deferred income taxes (Notes 2 and 7) .....	<b>—</b>	76,930
	-----	-----
Total current liabilities .....	<b>364,165</b>	611,626
	-----	-----
DEFERRED INCOME TAXES (Notes 2 and 7) .....	<b>39,015</b>	13,092
	-----	-----
<b>LONG-TERM DEBT (Note 9):</b>		
Note payable to bank, less current maturities above .....	<b>12,346</b>	22,866
	-----	-----
<b>SHAREHOLDERS' INVESTMENT</b>		
(Notes 1, 3, 4, 5, 6 and 8):		
Common stock, no par value —		
Authorized 5,000,000 shares		
Issued 1,914,285 shares .....	<b>1,227,646</b>	—
Common stock, \$1.082 par value —		
Authorized 20,000 shares		
Issued 15,000 shares .....	<b>—</b>	16,230
Capital surplus .....	<b>373,096</b>	—
Retained earnings .....	<b>60,817</b>	128,455
	-----	-----
	<b>1,661,559</b>	144,685
	-----	-----
	<b>\$2,077,085</b>	\$ 792,269
	=====	=====

The accompanying notes to financial statements are an integral part of these balance sheets.



**clark canadian** exploration company

**Statements of Operations (Note 2)**

(Canadian Dollars)

	Year Ended May 31	
	1969	1968 (Restated)
		(Note 1)
<b>OPERATING REVENUES:</b>		
Contract drilling and lease sales .....	<b>\$ 242,284</b>	\$ 865,758
Oil sales .....	<b>32,972</b>	18,960
Geological services and sublease bonus income .....	<b>16,264</b>	93,011
	<b>291,520</b>	977,729
<b>OPERATING EXPENSES (Note 1):</b>		
Cost of contract drilling and lease sales .....	<b>91,556</b>	493,106
Geological expenses .....	<b>53,619</b>	39,180
Production expenses .....	<b>8,936</b>	8,048
General and administrative expenses .....	<b>237,276</b>	170,794
Depreciation, depletion and amortization (including in 1968, a provision of \$70,000 to reduce the investment in developed properties to the estimated fair market value of recoverable oil and gas reserves) (Note 1) .....	<b>21,416</b>	157,634
	<b>412,803</b>	868,762
<b>INCOME (LOSS) FROM OPERATIONS</b> .....	<b>(121,283)</b>	108,967
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense .....	<b>(20,742)</b>	(13,533)
Other .....	<b>25,697</b>	2,337
	<b>4,955</b>	(11,196)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b> .....	<b>(116,328)</b>	97,771
<b>PROVISION FOR DEFERRED INCOME TAXES (Notes 2 and 7) ..</b>	<b>—</b>	(36,788)
<b>TAX BENEFIT OF OPERATING LOSSES (Notes 2 and 7) .....</b>	<b>48,690</b>	—
<b>NET INCOME (LOSS)</b> .....	<b>\$ (67,638)</b>	<b>\$ 60,983</b>
<b>EARNINGS (LOSS) PER COMMON AND COMMON EQUIVA- LENT SHARE (Note 10) .....</b>	<b>\$( .05)</b>	<b>\$ .06</b>
<b>EARNINGS (LOSS) PER COMMON SHARE, ASSUMING FULL DILUTION (Note 10) .....</b>	<b>\$( .05)</b>	

The accompanying notes to financial statements are an integral part of these statements.





**Statements of Shareholders' Investment (Note 2)**

(Canadian Dollars)

	Common Stock (Note 8)				Retained Earnings
	Number of shares Outstanding	\$1.082 Par Value	No Par Value	Capital Surplus	
YEAR ENDED MAY 31, 1968:					
Balances, beginning of year, as previously reported .....	15,000	\$ 16,230	\$ —	\$ —	\$ 48,296
Adjustment to beginning balances—					
Expenses incurred in prior years, capitalized upon retroactive adoption of full cost accounting for oil and gas properties (Note 1) .....					19,176
Balances, beginning of year, as restated .....	15,000	16,230	—	—	67,472
Net income for the year .....					60,983
Balances, end of year .....	<u>15,000</u>	<u>\$ 16,230</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 128,455</u>
YEAR ENDED MAY 31, 1969:					
Balances, beginning of year .....	15,000	\$ 16,230	\$ —	\$ —	\$ 128,455
Common stock issued in connection with merger with Amherst Canadian Oil Company (Note 3) .....	137	148		10,887	
Common stock issued in exchange for producing oil and gas properties (Note 4) .....	155	168		12,352	
Conversion of 15,292 shares of \$1.082 par value common stock into 1,114,285 shares of newly authorized no par value common stock (Note 5) .....	1,098,993	(16,546)	16,546		
Sale of 700,000 shares of no par value common stock (Note 6) .....	700,000		1,050,000	350,000	
Stock issuance expenses (Note 6) .....				(53,843)	
Exercise of option to purchase 100,000 shares of common stock by underwriter (Note 6) .....	100,000		161,100	53,700	
Net (loss) for the year .....					(67,638)
Balances, end of year .....	<u>1,914,285</u>	<u>\$ —</u>	<u>\$1,227,646</u>	<u>\$ 373,096</u>	<u>\$ 60,817</u>

The accompanying notes to financial statements are an integral part of these statements.



**Statements of Source and Application of Funds (Note 2)**

(Canadian Dollars)

	Year Ended May 31	
	1969	1968 (Restated) (Note 1)
<b>FUNDS WERE PROVIDED FROM:</b>		
Net income (loss) for the year .....	<b>\$ (67,638)</b>	\$ 60,983
Add charges (deduct credits) to income not requiring funds		
Depreciation, depletion and amortization (Note 1) ....	<b>21,416</b>	157,634
Increase (decrease) in non-current deferred income taxes (Notes 2 and 7) .....	<b>25,923</b>	(6,760)
	-----	-----
Funds provided from operations .....	<b>(20,299)</b>	211,857
Net proceeds from issuance of common stock		
(Notes 3, 4 and 6) .....	<b>1,561,999</b>	—
Net proceeds from long-term borrowings (Note 9) .....	—	22,866
Reduction in other assets .....	<b>465</b>	494
	-----	-----
	<b>1,542,165</b>	235,217
	-----	-----
<b>FUNDS WERE APPLIED TO:</b>		
Additions to oil and gas properties .....	<b>177,846</b>	327,017
Additions to furniture and fixtures .....	<b>7,438</b>	5,423
Reduction in long-term borrowings (Note 9) .....	<b>10,520</b>	—
	-----	-----
	<b>195,804</b>	332,440
	-----	-----
<b>INCREASE (DECREASE) IN WORKING CAPITAL .....</b>	<b><u>\$1,346,361</u></b>	<b><u>\$ (97,223)</u></b>

The accompanying notes to financial statements are an integral part of these statements.

**Auditors' Report**

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

We have examined the balance sheets of CLARK CANADIAN EXPLORATION COMPANY (a Texas corporation) as of May 31, 1969, and May 31, 1968, and the related statements of operations, shareholders' investment and source and application of funds for the years 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.

In our opinion, the accompanying balance sheets and statements of operations, shareholders' investment and source and application of funds present fairly the financial position of Clark Canadian Exploration Company as of May 31, 1969, and May 31, 1968, and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of accounting for oil and gas properties, as explained in Note 1 to the financial statements.

Denver, Colorado,  
July 9, 1969.

ARTHUR ANDERSEN & CO.,



**Notes to Financial Statements**

**May 31, 1969**

**1. CHANGE IN METHOD OF ACCOUNTING FOR OIL AND GAS PROPERTIES**

Prior to the fiscal year ending May 31, 1969, intangible development costs, dry hole costs, abandonments and lease rentals were charged to expense as incurred; costs of undeveloped leases were capitalized. Lease costs applicable to producing properties were capitalized and amortized over the productive lives of each property on the unit-of-production method, based on the estimated recoverable oil and gas reserves of each property.

During the fiscal year ended May 31, 1969, the Company retroactively changed its method of accounting for costs applicable to oil and gas properties. 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 properties, abandonments, and lease rentals) are now capitalized and amortized on a company-wide unit-of-production method based on total estimated recoverable oil and gas reserves.

The net effect of this change was to reduce the aggregate charges to retained earnings for the period prior to June 1, 1967, by \$19,176, and to reduce net income for the year ended May 31, 1968, by \$1,676, as compared with the amounts previously reported. The accompanying financial statements as of and for the year ended May 31, 1968, have been adjusted to reflect this change.

**2. BASIS OF ACCOUNTING AND REPORTING**

Prior to the fiscal year ending May 31, 1969, the Company maintained its accounts and filed its income tax returns on the cash basis. To present the Company's financial position and the results of its operations in accordance with generally accepted accounting principles, the financial statements were prepared on the accrual basis.

The Company now maintains its accounts on the accrual basis, but will continue to file its income tax returns on the cash basis. This change from maintaining its accounts on the cash basis to the accrual basis has no effect upon the financial statements for the year ended May 31, 1969, or for the years previously reported upon.

The accounts of the Company are maintained in United States currency and have been converted into Canadian dollars at a standard exchange rate of 1.082.

**3. MERGER WITH AMHERST CANADIAN OIL COMPANY**

On August 31, 1968, the shareholders of Clark Canadian Exploration Company and Amherst Canadian Oil Company approved the merger of Amherst into Clark. In connection with the merger Clark issued 137 shares of its \$1.082 par value common stock in exchange for the 20,000 outstanding shares of common stock of Amherst. For accounting purposes the merger has been treated as a purchase and, accordingly, the excess of value received over the par value of the shares issued (\$10,887) has been credited to capital surplus. The results of operations of the properties acquired in the merger with Amherst have been included in the statements of operations, shareholders' investment and source and application of funds since the date of the merger, August 31, 1968.



Amherst's unaudited financial statements for its fiscal year ended August 31, 1968, showed a loss from operations of approximately \$13,700.

#### 4. PRODUCING PROPERTY ACQUISITION

On September 1, 1968, the Company issued 155 shares of its \$1.082 par value common stock in exchange for certain producing oil and gas properties. The excess of value received over the par value of the stock issued of \$12,352 has been credited to capital surplus.

#### 5. INCREASE IN COMMON STOCK AUTHORIZED AND OUTSTANDING

On December 30, 1968, the Articles of Incorporation of the Company were amended to increase the common stock authorized to 5,000,000 shares without par value, and the 15,292 common shares then outstanding were converted into 1,114,285 shares of the newly authorized common stock with no par value.

#### 6. SALE AND ISSUANCE OF 700,000 SHARES OF COMMON STOCK

Under the terms of an underwriting agreement dated January 3, 1969, and amended on February 7, 1969, between the Company and Moss, Lawson & Co., Limited, of Toronto, Ontario (the underwriter), the Company agreed to sell 700,000 shares of its newly authorized no par value stock at \$2.00 a share. The underwriter agreed to purchase all such shares and to offer such shares to the public at \$2.20 per share.

The Company also granted the underwriter an option to purchase an additional 100,000 shares of common stock at 80 percent of the market bid price on the date of the exercise of the option, but not less than \$2.00 per share. The underwriter exercised its option as follows:

<u>Date Exercised</u>	<u>Number of Shares</u>	<u>Price</u>
February 11, 1969	54,000	\$2.00
February 13, 1969	10,000	2.36
February 14, 1969	20,000	2.24
April 28, 1969	16,000	2.40
	- - - -	
	<u>100,000</u>	

The proceeds to the Company from the sale of the 700,000 shares and the exercise of the option by the underwriter to purchase the additional 100,000 shares totaled \$1,614,800. In accordance with the statutes of the State of Texas, the state in which the Company is incorporated, 75 percent of the proceeds from the sale of the no par value common stock has been credited to common stock, and the remainder has been credited to capital surplus.

#### 7. INCOME TAXES

As explained in Note 1 to the financial statements the Company follows the policy, generally known as full cost accounting, of capitalizing all direct costs incurred in the acquisition, exploration and development of oil and gas reserves. The allowable amounts of these capitalized costs are deducted for income tax purposes. To properly match costs and related revenues, the Company has charged to income as part of the income tax provision an amount equivalent to the related tax benefits.



The Company also files its income tax returns on the cash basis but the provision for income taxes in the statements of operations and the deferred income tax liability in the balance sheet have been computed on the accrual basis. That portion of deferred taxes attributable to the differences between the cash tax basis and the accrual accounting basis is included in current liabilities. The portion of deferred taxes resulting from the difference in timing of deductions applicable to oil and gas property cost (see Note 1) has been shown as a noncurrent liability.

The tax benefit of the operating loss for the year ended May 31, 1969, has been used to reduce the deferred income tax liability provided on income in prior years.

## 8. STOCK OPTIONS

Pursuant to a resolution by the Board of Directors of the Company on January 3, 1969, stock options consisting of 75,000 shares of no par value common stock were granted to officers and key employees of the Company. These options are exercisable at any time for a period of five years from January 3, 1969, at \$2.00 per share. An additional option for 5,000 shares was granted to an employee on May 20, 1969. This option is exercisable at any time for a period of two years from April 25, 1969, at \$2.67 per share. None of these options have been exercised as of May 31, 1969.

## 9. NOTES PAYABLE

Notes payable are summarized as follows:

	May 31, 1968	
	<u>Current Maturities</u>	<u>Long-Term</u>
6½ % note for \$159,595, due September 19, 1968, and 8% note for \$27,050, due July 24, 1968, payable to Mrs. E. B. Clark, Sr.; \$27,050 secured by 4,000 acres of nonproducing leases in Campbell County, Wyoming .....	\$ 186,645	\$ —
7½ % note payable to a bank, due June 28, 1968; secured by \$201,252 of accounts receivable .....	201,252	—
7¾ % notes payable to a bank, due on demand; guaranteed by shareholders .....	20,017	—
	-----	-----
	407,914	—
	-----	-----
8% note payable to a bank, payable from oil production; secured by oil production from three producing wells ...	12,984	22,866
	-----	-----
	<u>\$ 420,898</u>	<u>\$ 22,866</u>
	May 31, 1969	
	<u>Current Maturities</u>	<u>Long-Term</u>
8¼ % note payable to bank, due August 25, 1969; secured by certificate of deposit for \$108,200; note paid in June, 1969	\$ 108,200	\$ —
8¼ % notes payable to bank, due on demand; notes paid in June, 1969 .....	158,641	—
	-----	-----
	266,841	—
	-----	-----
8¼ % note payable to bank, payable from oil production; secured by oil production from three producing wells ....	10,893	12,346
	-----	-----
	<u>\$ 277,734</u>	<u>\$ 12,346</u>



## 10. EARNINGS PER SHARE

Earnings per common and common equivalent share and earnings per common share assuming full dilution have been determined in accordance with Opinion #15 of the Accounting Principles Board of the American Institute of Certified Public Accountants. The effect of the conversion of common stock discussed in Note 5 to the financial statements has been reflected in the determination of earnings per share for 1969 and 1968.

Earnings per common and common equivalent share have been determined as if outstanding options had been exercised when granted and the proceeds of exercise used to purchase common stock at the average market price for the period. There were no options outstanding during the year ended May 31, 1968.

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).

The computations of earnings per share do not include the effect of the outstanding options for any period where their inclusion would result in increasing the earnings per share or decreasing the loss per share.

### ANNUAL MEETING

*You are cordially invited to attend the annual meeting of the shareholders of the company to be held on Tuesday, the 19th day of August, 1969, at 10:00 a.m. at the Penthouse, 19th Floor, Canada Trust Company Building, 110 Yonge Street, Toronto, Ontario. Officers and employees of the company will be present to discuss the company's acreage and drilling programs with shareholders who desire to do so after the conclusion of such meeting.*



**CLARK CANADIAN EXPLORATION COMPANY**

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