CLARCAN PETROLEUM CORPORATION

ANNUAL REPORT 1973

CLARCAN PETROLEUM CORPORATION

(Incorporated under the laws of the State of Texas)

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*

REGISTRARS AND TRANSFER AGENTS

First National City Bank, *New York, New York*
The Canada Trust Company, *Toronto, Ontario and Calgary, Alberta*

LISTINGS

Toronto Stock Exchange (CPZT), *Toronto, Ontario*
NASDAQ System (CLCN), *New York, New York*

CORPORATE OFFICE

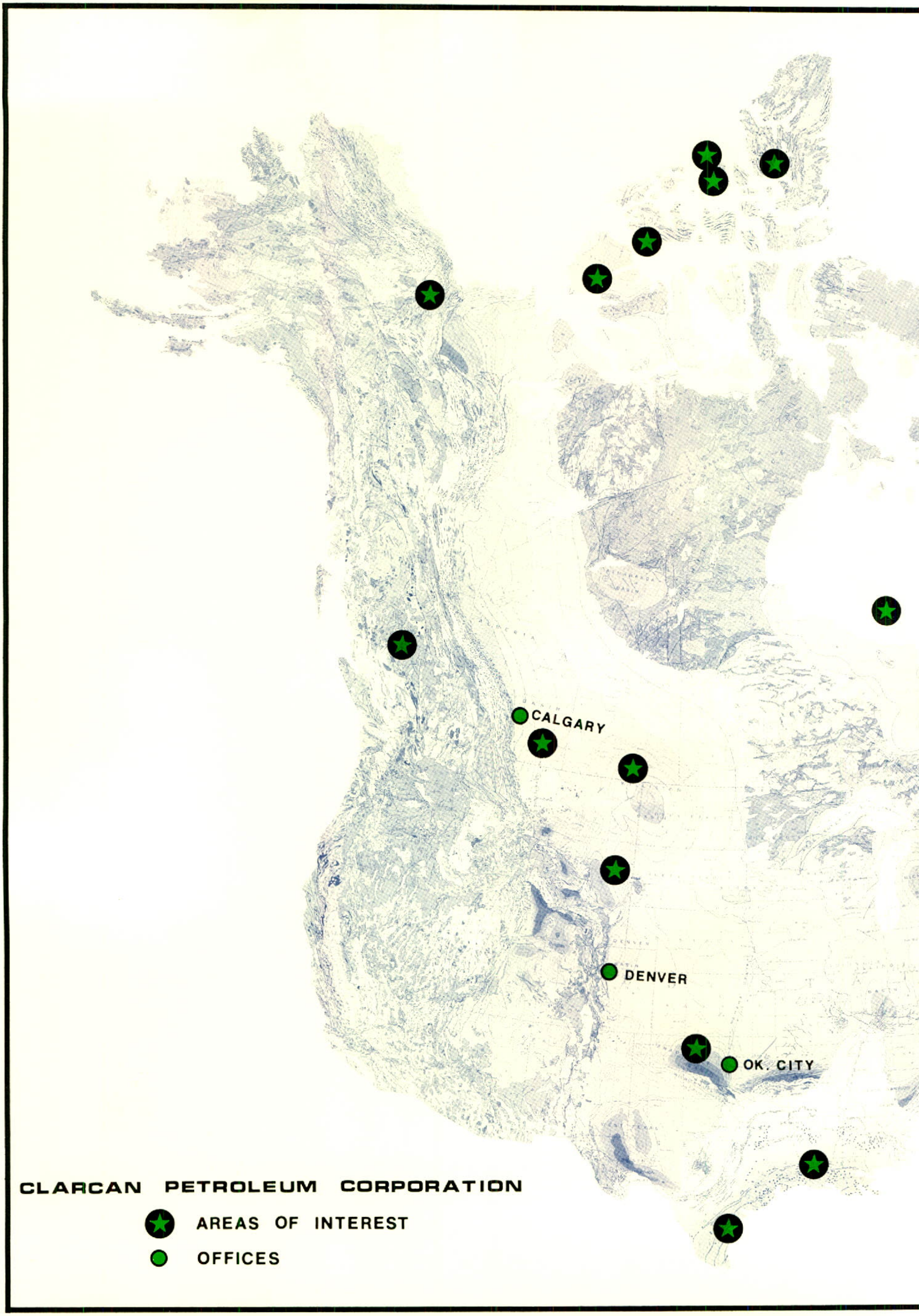
1840 Colorado State Bank Building
Denver, Colorado 80202
(303) 825-2285

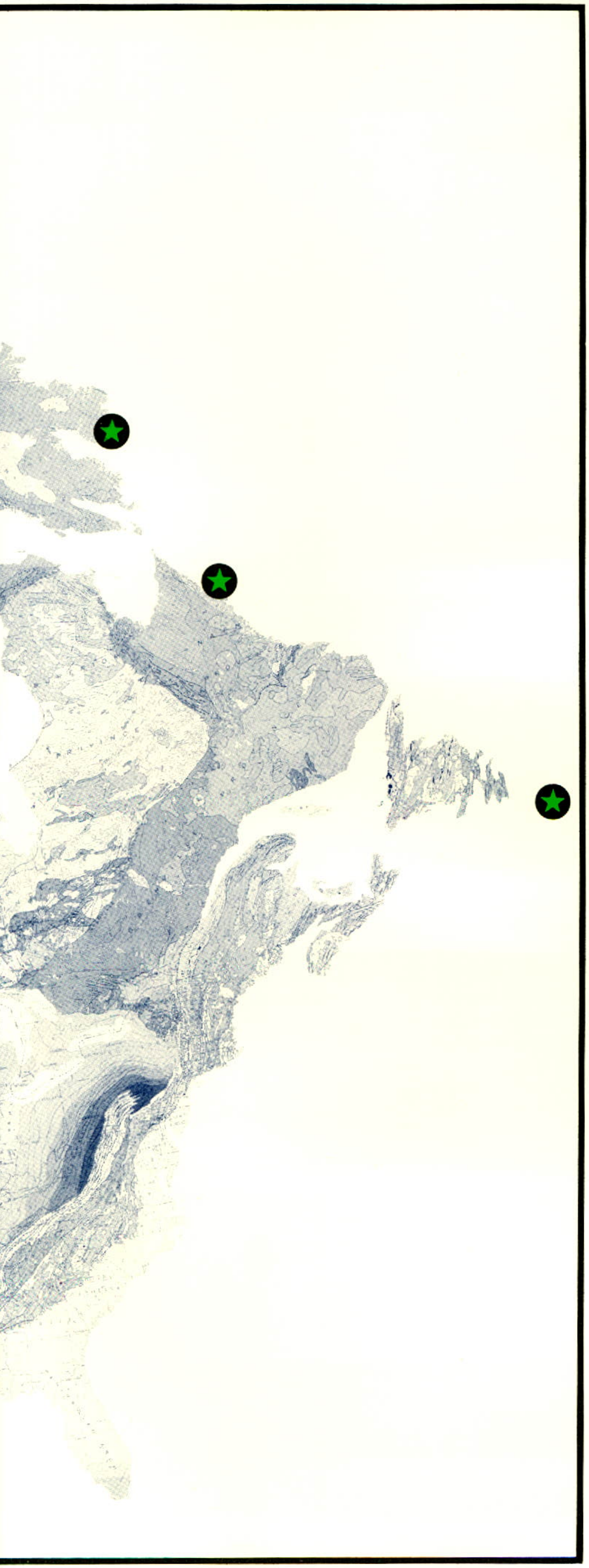
CANADIAN DIVISION

798 Pacific Plaza, *Calgary, Alberta*
(403) 262-9586

OKLAHOMA DIVISION

1704 Fidelity National Building
Oklahoma City, Oklahoma 73102
(405) 239-2561


CALGARY
DENVER
OK. CITY
CLARCAN PETROLEUM CORPORATION
AREAS OF INTEREST
OFFICES



CLARCAN PETROLEUM CORPORATION

SUMMARY OF ACREAGE HOLDINGS MAY 31, 1973

GEOGRAPHICAL AREAS	GROSS ACRES	NET ACRES
PERMITS:		
Labrador Coast	753,404	76,664
Offshore Baffin Island	1,158,884	289,721
Hudson Bay	1,604,870	267,478
Arctic Islands	3,051,441	481,373
Yukon	26,153	2,615
Northwest Territories	78,797	2,051
British Columbia	289,090	4,003
LEASES:		
Alberta	35,991	4,115
Saskatchewan	520	156
British Columbia	38,937	1,366
Montana	22,208	4,151
Wyoming	5,457	1,599
Colorado	7,215	2,244
Oklahoma	75,108	9,561
Texas	16,346	1,370
	7,164,421	1,148,467

REPORT TO SHAREHOLDERS

FINANCIAL

The Company's operations resulted in a net loss of $745,614 or $.98 per average share outstanding in the year ended May 31, 1973, compared to a net income of $20,432 or $.04 per average share outstanding in the prior year. Included in the net loss of $745,614 are an extraordinary charge of $338,033 and an operating charge of $350,000, both of which are more fully explained in the following paragraphs.

Cofan

On August 8, 1972 the Company issued 57,122 common shares to various individuals for $100,000 and a 25% interest in Companhia De Fosfatos De Angola, S.A.R.L. ("Cofan"), a privately held Delaware Corporation. Cofan has a 965 square mile concession covering phosphate mining in the Cabinda District of Portuguese Angola, West Africa.

During the fiscal year 1973, Cofan conducted exploratory work on previously located phosphate deposits to determine their size and extent. Although the work did uncover considerable phosphate showings, much closer spaced coring is required to place the reserves in a proved category because of unexpected variations in the phosphate content of the horizons. Furthermore, although the indicated reserves were sufficient to support the phosphoric acid chemical complex originally projected, a feasibility study undertaken concurrently with the exploration determined that due to sharply increased construction costs, the phosphoric acid project alone was not economically attractive; and the export of phosphate rock concentrate in addition to the acid plant would be required for a commercially profitable venture. Reserve requirements to support both operations were determined to be about twice those required for the acid plant alone.

Accordingly, during the Spring of 1973, Cofan carried out a limited additional exploratory program in an attempt to locate sufficient additional indicated reserves to support a combined phosphoric acid and phosphate rock export project. By May 31, 1973, this work had failed to prove the additional reserves required and exploration was discontinued. Attempts are currently being made by Cofan to interest third parties in carrying forward the exploration in Cabinda to earn an interest in the concession.

In view of these disappointing exploration and feasibility results, your management decided to adopt the financially conservative position of charging to income all of the Company's investment of $338,033 in Cofan; this charge resulted in an extraordinary loss of $.44 per average share outstanding during the 1973 fiscal year.

Petroleum Properties

The Company follows the policy generally known as full cost accounting with respect to its petroleum properties in which all direct costs incurred in the acquisition, exploration and development of oil and gas reserves are capitalized as incurred and amortized on a company wide unit-of-production method based on total estimated recoverable oil and gas reserves.

As of May 31, 1973, the Company decided to adopt a policy whereby unamortized oil and gas property costs, exclusive of undeveloped acreage costs, in excess of 85% of the estimated discounted future net revenues from the Company's proven properties are charged to expense currently. Pursuant to this policy and due primarily to the fact that during the 1973 fiscal year proven oil and gas reserve estimates on two of the Company's properties were reduced substantially by a production failure of two wells in Louisiana and by unsuccessful developmental drilling in Canada, your management made a 1973 fiscal year charge to income of $350,000.

EXPLORATION

The Company continues to maintain its two exploration programs in the Anadarko Basin of Western Oklahoma and Western Canada with Michigan Wisconsin Pipe Line Company and McCulloch Exploration, Ltd., respectively. Both programs, which have been effective since 1970, earn the Company management fees and carried interests in prospects developed.

Anadarko Basin

The Company's exploration and drilling activity in the Anadarko Basin of Western Oklahoma and the Texas Panhandle continued to accelerate during the past year. The Company's exploration staff directed most of its effort toward the discovery of new oil and gas reserves in the Atoka, Morrow, Springer and Hunton formations. The Company had interests in eight wildcat tests during the past year. The eight wildcat tests resulted in one oil discovery well, one deep wildcat test on which we are currently attempting completion, and six dry holes.

The oil discovery, Clarcan #1 Ledrick Ranch located on the May Prospect in Roberts County, Texas, was completed from the Basal Atoka Sandstone formation for a flow of 237 barrels of oil per day. Immediate additional development drilling is planned on the May Prospect area where the Company owns a net thirteen percent working interest in the well and surrounding block of land comprising approximately 6,000 acres. The deep wildcat on which we are attempting completion is the Clarcan #1 Valentine Unit located on the Anthon Prospect in Custer County, Oklahoma. This test was drilled to a Hunton objective of 16,200 feet at which depth it was found to be dry. Possible oil and gas productive zones were encountered in shallower zones in the Cottage Grove, Morrow and Springer formations at depths of approximately 8,800, 12,000 and 12,700 feet, respectively, where completion is currently being attempted.

The Company continues to add to its geological and geophysical control in the Anadarko Basin and has participated in group seismic operations in addition to original seismic data acquired exclusively for its exploration program. Several prospects have been developed along the east flank of the Anadarko Basin where acreage blocks are being assembled in anticipation of drilling during the fall of 1973. In addition, four deep prospects that require test wells ranging from a depth of 14,000 to 20,000 feet have been developed. Acreage blocks are being assembled, and the Company anticipates drilling these prospects during the fiscal year 1974.

Western Canada

Effective June 1, 1973, Clarcan entered into a new agreement with McCulloch Exploration, Ltd., a wholly-owned subsidiary of McCulloch Oil Corporation, for the Joint exploration program in Western Canada for Clarcan's 1974 fiscal year. Under the agreement Clarcan will furnish geological and administrative services to develop oil and gas exploratory prospects in Western Canada. A portion of the prospects are intended exclusively for McCulloch's exploration program, and the remaining prospects will be developed by Clarcan for its own account with industry participation. The agreement also provides for sharing overhead costs with McCulloch.

In Western Canada, the Company drilled three exploratory test wells in the 1973 fiscal year, two of which resulted in dry holes and one of which resulted in an oil discovery on the Keho prospect in Southern Alberta. This well was completed for a flow rate of 52 barrels of oil per day from the Mississippian Elkton zone at approximately 5,100 feet. The Company owns a six percent working interest in the well and surrounding block of land. Although one dry development well was drilled, the current data indicates a need for further drilling which the Company anticipates accomplishing through a farmout.

The Company has delineated several prospects for the 1974 fiscal year, and two wells on one of these prospects await winter drilling. The Company is continuing geologic investigations in other areas of Western Canada to develop drilling prospects.

Canadian Frontier Areas

The Company holds 1,115,236 net acres in 6,568,599 gross acres in the frontier areas of eastern and northern Canada. These lands are operated by other companies with whom the Company has entered into contractual arrangements. Generally, these arrangements provide for the operating companies to conduct exploratory work and maintain the lands in exchange for a share of the Company's interests.

PRODUCTION PURCHASE

On July 18, 1973 the Company purchased from Michigan Wisconsin Pipe Line Company and American Natural Gas Production Company certain Canadian producing oil properties for $1,475,000. The Company paid $925,000 in cash and issued a promissory note for the remaining $550,000. The note is payable in four annual installments of $137,500 plus interest at the prime rate.

The properties are located in the Province of Saskatchewan and consist of interests in 33 producing oil wells. The majority of the production is from the Mississippian Frobisher formation in the Innes Field at a depth of 4,500 feet with the remainder coming from the Griffin, Midale and Wapella fields. The purchase increases the Company's net daily crude oil runs by approximately 500 barrels, which more than doubles the Company's previous production rate, and increases the Company's oil reserves by 1,430,000 barrels of proven developed reserves based on independent engineering reports.

The Company intends to begin a program which is expected to increase the oil production and proven oil reserves in the properties by opening additional indicated pay zones and by stimulating existing producing horizons. Since this transaction was completed, the price of crude oil produced from the properties has been increased from $3.08 to $3.48 per barrel.

The increased worldwide demand for petroleum products has outpaced development of new petroleum reserves, and higher wellhead prices are providing the economic incentives needed to bring about increased exploration. Your Company intends to participate successfully in efforts to develop new petroleum reserves.

Gene Clark, Jr., *Chairman of the Board*
August 10, 1973

CLARCAN PETROL
FINANCIAL AND OP

	1967		1968		196
OPERATING REVENUES	$	543,000	$	904,000	$ 269,
NET INCOME (LOSS)	$	112,000	$	90,000	$ (110,
Per Share	$	.46	$	.37	$
PRODUCTION					
Barrels of Oil		4,000		10,000	15,
MCF of Natural Gas		—		—	—
RESERVES					
Barrels of Oil		48,000		38,000	320,
MCF of Natural Gas		—		—	—
ACREAGE HOLDINGS					
Gross		6,000		118,000	8,723
Net		2,000		21,000	2,054
COMMON SHARES OUTSTANDING		243,000		243,000	425

(1) Includes production purchase made on July 18, 1973.

UM CORPORATION
RATING HIGHLIGHTS

	1970	1971	1972	1973
0	$ 747,000	$1,283,000	$1,167,000	$1,207,000
0)	$ (207,000)	$ 111,000	$ 20,000	$ (746,000)
6)	$ (.49)	$ .26	$ .04	$ (.98)
0	102,000	50,000	52,000	77,000
	—	65,000	1,425,000	1,269,000
0	633,000	680,000	732,000	(1) 1,942,000
	—	2,106,000	4,940,000	3,321,000
0	9,900,000	9,993,000	9,255,000	7,164,000
0	2,483,000	2,388,000	1,660,000	1,148,000
0	426,000	427,000	620,000	926,000

CONSOLIDATED BALANCE SHEET

ASSETS	May 31 1973	May 31 1972
CURRENT ASSETS:		
Cash	$ 152,501	$ 123,783
Certificates of deposit	1,199,840	—
U.S. Treasury Bills	885,745	—
Accounts receivable	230,477	257,925
Leases held for resale, at cost (Note 3)	41,904	83,958
Deposits and other assets	15,703	16,172
Total current assets	2,526,170	481,838
PROPERTY AND EQUIPMENT, at cost (Note 3):		
Oil and gas properties	2,956,447	2,694,288
Furniture and fixtures	124,564	112,126
	3,081,011	2,806,414
Less - Reserves for depreciation, depletion and amortization	(1,442,102)	(689,212)
	1,638,909	2,117,202
DEFERRED COSTS	—	17,015
	$4,165,079	$2,616,055
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	$ 174,042	$ 228,042
Accrued liabilities	200	601
Total current liabilities	174,242	228,643
SHAREHOLDERS' INVESTMENT (Notes 2 and 4):		
Common stock, no par value - Authorized 5,000,000 shares, Issued 925,579 shares in 1973, and 619,985 shares in 1972 (Note 5)	3,860,881	1,804,512
Capital surplus	862,630	566,854
Retained earnings (deficit)	(729,568)	16,046
Less - Treasury stock, at cost (310 shares)	(3,106)	—
	3,990,837	2,387,412
	$4,165,079	$2,616,055

Approved on behalf of the Board:
Gene Clark, Jr., *Director*
Patrick S. Beaird, *Director*

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

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended May 31 1973	1972
OPERATING REVENUES:		
Oil and gas production income	$ 536,216	$ 463,575
Management service fees (Note 1)	652,443	599,810
Lease sales	18,395	103,721
	1,207,054	1,167,106
OPERATING EXPENSES (Note 3):		
Oil and gas production expenses	133,167	122,960
Management service fees	434,898	401,182
Lease sales	30,187	91,463
General and administrative expenses	315,325	297,888
Depreciation, depletion and amortization	402,890	284,142
Valuation reserve for oil and gas properties	350,000	—
	1,666,467	1,197,635
(LOSS) FROM OPERATIONS	(459,413)	(30,529)
OTHER INCOME (EXPENSE):		
Interest	53,619	(712)
Other	(1,787)	7,400
	51,832	6,688
(LOSS) BEFORE EXTRAORDINARY ITEMS	(407,581)	(23,841)
EXTRAORDINARY ITEMS:		
Credit for income taxes from utilization of tax operating loss	—	44,273
(Loss) from investment (Note 2)	(338,033)	—
NET INCOME (LOSS)	$ (745,614)	$ 20,432
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE AND ASSUMING FULL DILUTION (Note 6):		
(Loss) before extraordinary items	$ (.54)	$ (.04)
Extraordinary items	(.44)	.08
Net income (loss)	$ (.98)	$ .04

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

	Common Stock, No Par Value			
	Number of Shares Outstanding (Note 5)	Amount	Capital Surplus	Retained Earnings (Deficit)
BALANCES, May 31, 1971	426,508	$1,141,447	$ 345,832	$ (4,386)
Acquisiton of American Resources Company	190,477	642,860	214,287	
Exercise of share option	2,556	17,205	5,735	
Employee common share bonus	444	3,000	1,000	
Net income for the year				20,432
BALANCES, May 31, 1972	619,985	1,804,512	566,854	16,046
Cash sale from public offering	248,250	1,861,875	620,625	
Underwriting discount			(211,012)	
Share issuance expense			(178,668)	
Acquisition of Cofan (Note 2)	57,122	192,787	64,262	
Exercise of share option	222	1,707	569	
Net (loss) for the year				(745,614)
BALANCES, May 31, 1973	925,579	$3,860,881	$ 862,630	$ (729,568)

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

To the Shareholders and the Board of Directors, Clarcan Petroleum Corporation:

We have examined the consolidated balance sheet of CLARCAN PETROLEUM CORPORATION (a Texas corporation, formerly known as Clark Canadian Exploration Company) and subsidiary as of May 31, 1973, 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 Clarcan Petroleum Corporation and subsidiary as of May 31, 1973, 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.

Denver, Colorado, July 19, 1973. Arthur Andersen & Co.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended May 31 1973	1972
FUNDS WERE PROVIDED FROM:		
Net income (loss)	$ (745,614)	$ 20,432
Add charges to income not requiring funds -		
Depreciation, depletion and amortization (Note 3)	402,890	284,142
Valuation reserve for oil and gas properties (Note 3)	350,000	—
Common shares issued as bonus	—	4,000
Common shares issued for Cofan investment (Note 2)	257,049	—
Funds provided from operations	264,325	308,574
Acquisition of American Resources Company -		
Common shares issued	—	857,147
Oil and gas properties acquired	—	(533,268)
	—	323,879
Issuance of common shares for -		
Share options exercised	2,276	22,940
Cash sale from public offering, net of underwriting discounts of $211,012 and registration costs incurred in 1973 of $161,653	2,109,835	—
	2,112,111	22,940
Total funds provided	2,376,436	655,393
FUNDS WERE APPLIED TO:		
Additions to oil and gas properties (Note 3)	262,159	515,339
Additions to furniture and fixtures	2,509	45,559
Deferred costs	—	17,015
Common shares reacquired	3,106	—
Total funds applied	267,774	577,913
INCREASE IN WORKING CAPITAL	$2,108,662	$ 77,480
INCREASES (DECREASES) IN WORKING CAPITAL BY COMPONENT WERE:		
Cash and certificates of deposit	$1,228,558	$ (20,007)
U.S. Treasury Bills	885,745	—
Accounts receivable	(17,519)	95,093
Leases held for resale	(42,054)	(38,808)
Deposits and other assets	(469)	(14,570)
Short-term bank notes payable	—	100,000
Accounts payable and accrued liabilities	54,401	(44,228)
	$2,108,662	$ 77,480

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MAY 31, 1973

(1) EXPLORATION PROGRAMS

The Company is the operator of two exploration programs formed in 1970 for the purpose of exploring for oil and gas. During the year ended May 31, 1973, the Company received a substantial portion of its revenues from management service fees for operating these programs. In addition, in consideration for its services, the Company received a carried interest in the activities of the programs.

For fiscal 1974, the Company has entered into a new agreement for operating one of the above exploration programs. Under the new agreement, approximately one-half of the oil and gas exploratory prospects developed by the Company in Western Canada will be for the exploration program. It is intended that the remaining prospects be developed for the Company's own account with industry participation. Management service fees for operating this exploration program will be reduced accordingly in fiscal 1974.

(2) ACQUISITION

On August 8, 1972, the Company issued 57,122 common shares to various individuals, including a principal Clarcan shareholder and a Clarcan director, for $100,000 and a 25% interest in Companhia De Fosfatos De Angola, S.A.R.L. ("Cofan"), a privately held U.S. corporation. Cofan has a 965 square mile concession covering phosphate mining in the Cabinda District of Angola, West Africa.

During the past year, Cofan performed exploratory work on its concession and a feasibility study to determine if commercially mineable phosphate deposits exist from which phosphoric acid could be economically produced. The amount committed for this project has been expended at May 31, 1973, and the feasibility of the project has not been established. Exploratory work has been discontinued, and accordingly, the Company's investment in Cofan has been charged to income in the accompanying consolidated financial statements. Cofan is attempting to interest third parties in doing additional exploratory work.

The former shareholders of Cofan from which the Company purchased its interest may, after one year, require the Company to register, at its cost, the shares issued to the former shareholders.

(3) 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 as incurred and amortized on a company-wide unit-of-production method based on total estimated recoverable oil and gas reserves.

As of May 31, 1973, the Company adopted a policy whereby unamortized oil and gas property costs, exclusive of undeveloped acreage costs, in excess of 85% of the estimated discounted future net revenues from the Company's proven properties are charged to expense currently. A current year charge of $350,000 made pursuant to this policy resulted from: (1) a significant reduction during the current year of proven oil and gas reserve estimates on two of the Company's properties and (2) costs of exploration and development since May 31, 1972, being in excess of 85% of the estimated discounted future net revenues of new reserves developed during the period.

Profits or losses are recognized on the disposition of undeveloped leases held in inventory for resale.

(4) SHARE OPTIONS

Pursuant to resolutions by the Board of Directors, stock options were outstanding at May 31, 1973, for 21,669 shares of common stock which have been granted to officers and key employees of the Company. These options are exercisable at any time for a period of five years from the date of grant at $7.50 to $13.77 per share and terminate at varying dates through March 5, 1978.

(5) REVERSE SHARE SPLIT AND CHANGE OF CORPORATE NAME

In August, 1972, the Board of Directors approved resolutions to effect a 1-for-4.5 reverse share split and to change the Company's name from "Clark Canadian Exploration Company" to "Clarcan Petroleum Corporation." The amendments to the Article of Incorporation, which were approved by the shareholders on October 24, 1972, became effective on January 24, 1973.

The effect of these amendments has been retroactively reflected in the Company's financial statements.

(6) EARNINGS PER SHARE

Earnings per common and common equivalent share have been determined based on the weighted average (as restated to reflect the recapitalization effect by the 1-for-4.5 reverse share split, see Note 5) 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).

(7) SUBSEQUENT EVENT

On July 18, 1973, the Company purchased certain Canadian producing oil and gas properties for $1,475,000. At closing, the Company paid $925,000 in cash and issued a promissory note for the remaining $550,000. The note is payable in equal annual installments of $137,500 plus interest at the prime rate.