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**INTERIM REPORT**  
**SECOND QUARTER**  
**1983**



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
CED  
MCGILL UNIVERSITY

***Lochiel  
Exploration  
Ltd.***

## **TO THE SHAREHOLDERS**

### **FINANCIAL**

For the six months ended July 31, 1983, oil and gas sales were \$5,896,000 compared to \$3,825,000 during the same period of 1982, an increase of 54 percent. Cash flow from operations increased 263 percent to \$2,452,000 from \$675,000 a year earlier. Net income for the period was \$291,000 compared to a loss of \$840,000 during the same period of 1982.

The initial closing for \$2,000,000 of a \$10,000,000 "Flow-Through Share Issue" occurred in July and units continue to be sold to residents of B.C. The proceeds of this Issue will be primarily used to finance Lochiel's continuing obligations for the remainder of 1983 in the Beaufort Sea, where the Company is a participant with Esso Resources Canada Limited and others.

### **EXPLORATION AND DEVELOPMENT**

During the second quarter Lochiel continued to be active in the Peace River Arch oil play in north central Alberta. Five further wells were drilled at Utikuma Lake resulting in three oil wells, one suspended well and one abandonment. To date Lochiel has participated in a total of twenty wells resulting in thirteen oil wells, one suspended well and six dry holes. All of the oil wells are now on production under allowables at rates from 32 to 195 barrels of NORP oil per day. At least two additional wells will be drilled between now and year end. The net interest of Lochiel in this program averages ten percent. Lochiel now has drilling and seismic options in the Peace River Arch play on lands totalling 16,160 acres (6 540 hectares).

#### **Canadian Frontier**

Off the eastcoast of Canada, the S.W. Banquereau F-34 well was abandoned earlier this summer. A new location has been proposed by the opera-

# *Lochiel Exploration Ltd.*

and Subsidiary Companies

## CONSOLIDATED STATEMENT OF INCOME

for six months ended July 31, 1983  
(unaudited)

	<u>1983</u>	<u>1982</u>
REVENUE		
Oil and gas sales .....	\$5,896,000	\$3,825,000
Less: royalties and mineral taxes .....	<u>1,259,000</u>	<u>929,000</u>
Net sales .....	4,637,000	2,896,000
Other income .....	<u>35,000</u>	<u>128,000</u>
	4,672,000	3,024,000
EXPENSES		
Operating .....	914,000	699,000
General and administrative .....	577,000	642,000
Interest on long-term financing .....	975,000	1,170,000
Royalty tax recovery .....	<u>(246,000)</u>	<u>(162,000)</u>
	<u>2,220,000</u>	<u>2,349,000</u>
FUNDS FROM OPERATIONS .....	<u>2,452,000</u>	<u>675,000</u>
NON-CASH CHARGES		
Depletion, depreciation and amortization .....	2,106,000	1,535,000
Deferred income taxes .....	<u>55,000</u>	<u>(20,000)</u>
	<u>2,161,000</u>	<u>1,515,000</u>
NET INCOME (loss) FOR THE PERIOD .....	<u>\$ 291,000</u>	<u>\$ (840,000)</u>
RESULTS PER SHARE		
Funds from operations		
Class A common .....	17.7¢	4.8¢
Class B common .....	14.9¢	4.1¢
Net income (loss) for the period		
Class A common .....	2.1¢	(6.2¢)
Class B common .....	1.8¢	(5.2¢)



## Overseas

In the United Kingdom, production from the Buchan Field in the North Sea totalled 4,733,023 barrels of oil (42,957 barrels net to Lochiel), an average of 51,446 barrels per day (467 barrels per day net to Lochiel). Total production from the field since start-up in May of 1981 has been 25,569,518 barrels (232,074 barrels net to Lochiel).

A new exploration well on the Buchan Block 21/1-AF is expected to spud during the fourth quarter of 1983. No other drilling activity is expected during the remainder of 1983 though acquisition of seismic has been completed on two offshore permits in the North Sea in which Lochiel's interest is ten percent. Seismic is planned in the South Wales coal field area onshore in which the Company has a 100 percent interest.

In the Egyptian Western Desert, the processing of 244 miles (390 kilometres) of seismic has been completed on the Sheiba Concession. It is expected that a well will be spudded late in 1983.

Respectively submitted,

A handwritten signature in black ink, appearing to read 'N. W. Taylor', with a stylized flourish at the end.

N. W. Taylor  
President

tor near the Sauk A-57 abandonment drilled earlier which appears to have an untested reservoir. Lochiel is being carried at no cost in these wells for a two percent working interest.

In the Beaufort Sea the Dome Natiak O-44 well, in which Lochiel has a 0.567 percent gross overriding royalty and a 1.4 percent net carried interest, was spudded in August 1983. The well has been drilled to 3 674 metres with total depth scheduled at 4 877 metres. Operations have been suspended due to ice movements and the drillship has been moved to a more secure well site.

Through the Esso-Home consortium, three wells have been readied for drilling onshore with two additional wells expected to be spudded during the fourth quarter. Offshore, the Kadluk O-07 location will be spudded during the third quarter from a steel caisson retained island. The interest of Lochiel in these wells ranges from 4.25 percent to five percent.

## **United States**

In Kansas, two wells were drilled on the Breeden prospect resulting in two oil wells. Five wells have now been drilled resulting in four oil wells, all of which are on production. The recent discoveries are all producing at their allowables of 73 barrels of oil per day although they are capable of production exceeding 100 barrels of oil per day. The interest of Lochiel in these wells is 18.75 percent. A seismic program has been completed to evaluate two new locations on recently acquired lands adjacent to this prospect.

Elsewhere in Kansas, four of the six gas discoveries which came on production earlier this year are being reworked to increase gas flows and diminish water production. One development well has been proposed for the next quarter with other development locations being contingent upon successful re-working of the discovery wells.

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## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for six months ended July 31, 1983  
(unaudited)

	<u>1983</u>	<u>1982</u>
SOURCES OF FUNDS		
From operations		
Net income (loss)		
for the period . . . . .	\$ 291,000	\$ (840,000)
Add (deduct) items not requiring current outlay of funds		
Depletion, depreciation and amortization . . . . .	2,106,000	1,535,000
Deferred income taxes . . .	55,000	(20,000)
FUNDS FROM OPERATIONS . . . . .	2,452,000	675,000
Increase in long-term debt, net . . . . .	648,000	926,000
Increase in deferred revenue . . . . .	—	7,000
Unrealized foreign currency translation gain . . . . .	208,000	(26,000)
	<u>3,308,000</u>	<u>1,582,000</u>
USE OF FUNDS		
Property, plant and equipment . . . . .	4,293,000	2,116,000
Increase in investments and long term receivables . . .	(13,000)	112,000
Dividends paid on preferred shares . . . . .	21,000	21,000
Financing costs . . . . .	37,000	—
Purchase of Subsidiary . . .	40,000	—
	<u>4,378,000</u>	<u>2,249,000</u>
DECREASE IN WORKING CAPITAL . . . . .	1,070,000	667,000
(WORKING CAPITAL) DEFICIENCY AT BEGINNING OF YEAR . . .	<u>1,588,000</u>	<u>395,000</u>
DEFICIENCY AT END OF PERIOD . . . . .	<u><u>\$2,658,000</u></u>	<u><u>\$1,062,000</u></u>