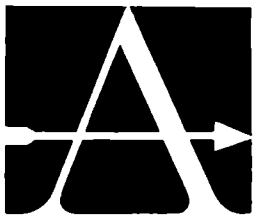
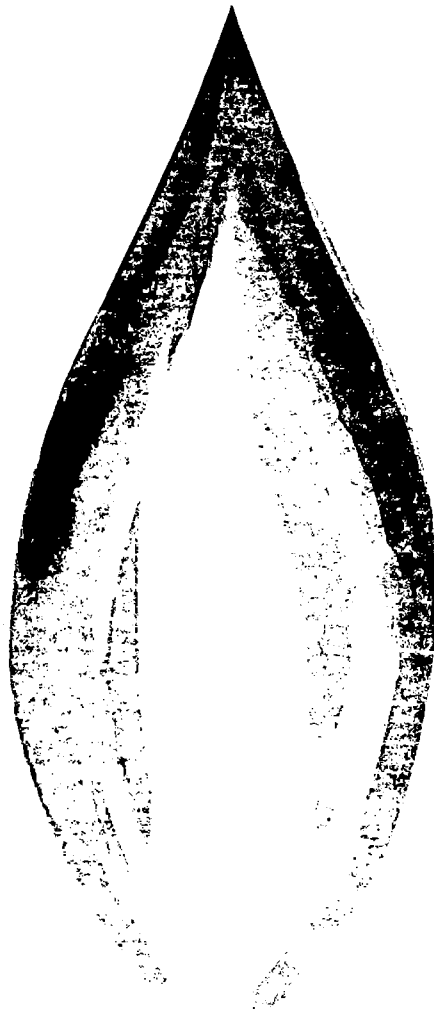


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# ARROW-CAN NATURAL GAS LTD.



**1st ANNUAL REPORT**  
FOR THE YEAR ENDED AUGUST 31, 1971

# ARROW-CAN NATURAL GAS LTD.



The Annual General Meeting of  
**ARROW-CAN NATURAL GAS LTD.**  
will be held in the Chairman's Room  
of the Bayshore Inn  
1601 West Georgia Street,  
Vancouver, B.C.  
at 10:00 o'clock  
in the morning  
April 29, 1972.

## **DIRECTORS**

Samuel J. Dumaresq  
Bernard Ouellette  
Therese Y. Pallard  
Capt. Wm. Lankester  
Thomas S. Gray

## **OFFICERS**

Samuel J. Dumaresq  
President  
Bernard Ouellette  
Executive Vice-President  
Therese Y. Pallard  
Secretary

## **REGISTRAR AND TRANSFER AGENT**

Guaranty Trust Company of Canada

## **AUDITORS**

MacDonald, Currie & Co.

## **SOLICITORS**

David & Company, Vancouver, B.C.  
Saucier, Jones, Black, Gain,  
Stratton & Laycraft, Calgary, Alberta

## **OFFICES**

Head Office:  
27th Floor, The Penthouse,  
Board of Trade Tower,  
1177 West Hastings Street,  
Vancouver, B.C.  
Calgary:  
No. 1007-924-7th Avenue, S.W.

# ARROW-CAN NATURAL GAS LTD.

## DIRECTORS' REPORT

To The Shareholders:

1971 was a Year of Decision for your Board of Directors.

On the eve of the official opening of our field, pipe lines, gathering systems, compressing station and dehydrating facilities, we take pleasure in thanking you for your patience which enabled your Board of Directors to successfully develop your Company's gas leases in the Medicine Hat Gas Field.

Since August 1971, the Board successfully negotiated a contract with Trans-Canada Pipe Lines Ltd. for the sale of all its natural gas at a price of 19-1/2¢ per Mcf. for a period of 25 years, price renegotiable every 5 years with 1/4¢ per Mcf. escalation per year.

In order to get the show on the road the Board had to farm out 16 sections of land in Township 13, Range 3 and 4. This enabled your Company to evaluate its property and from favourable results raised the necessary funds to proceed with a comprehensive drilling program for the production of natural gas.

To date, 21 wells are under farmout in which we now own 35% interest and 29 wells have been drilled on which we own 90% interest. All of the above 50 wells are capable of producing natural gas in commercial quantities for a period of 25 years. Our field deliverability portion of the above wells and our facilities are capable of delivering 11 MMcf. per day with a net present cash value discounted at 7% of two million nine hundred and thirteen thousand four hundred dollars (\$2,913,400.).

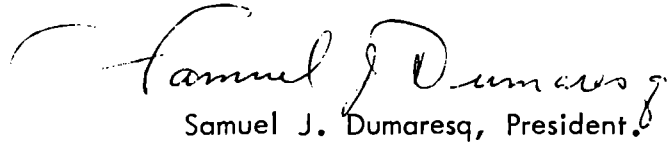
Further exploration wells will be drilled in 1972 provided the Board is successful in obtaining additional leases under farmout agreements. Negotiations are now under way and indications of obtaining additional gas leases are good.

There is a possibility of drilling an additional 43 wells on a 35% interest in Township 13, Range 3 and 4. The go ahead decision for these additional wells are awaiting a meeting with the farmees.

Your Board of Directors are optimistic for the future of your Company.

Respectfully submitted:

ON BEHALF OF THE BOARD

  
Samuel J. Dumaresq, President.



## ARROW-CAN NATURAL GAS LTD.

## SCHEDULE OF DEFERRED, EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE COSTS

ACCUMULATIVE TO FEBRUARY 28, 1972

LEASES		\$
Seven petroleum and natural gas leases		109,573
Two registered mine and mineral leases		<u>2</u>
		109,575
EXPLORATION AND DEVELOPMENT		
Compressing		201,336
Engineering		465
Feasibility study		3,193
Lease Rental charges		13,885
Miscellaneous		31
Pipeline		128,201
Well Costs		517,753
Supervision - management		<u>6,600</u>
		871,464
ADMINISTRATIVE COSTS		
Audit and Accounting		4,304
Bank charges and interest		5,318
Finance charges		1,000
Legal		4,727
Management fees		2,000
Meals and travel		5,236
Miscellaneous		62
Office expenses		3,045
Promotional		2,324
Rent		7,113
Telephone and Telegraph		2,110
Transfer Agent		1,150
Wages - Office		<u>212</u>
		38,601
LESS: Interest Earned	\$1,132	
Other Income	<u>100</u>	<u>1,232</u>
		37,369
Deferred, Exploration, Development and Administrative Costs		<u><u>1,018,408</u></u>

## ARROW-CAN NATURAL GAS LTD.

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

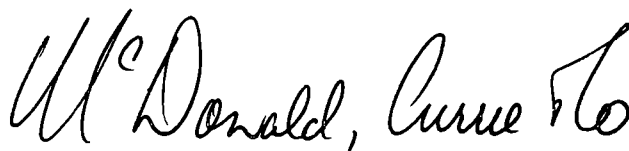
FOR THE SIX MONTHS ENDED FEBRUARY 28, 1972

SOURCE	\$
Loan - Royal Bank of Canada	600,000
Less: current portion	<u>83,333</u>
	516,667
APPLICATION	
Exploration, development and Administrative Costs	<u>875,044</u>
DECREASE IN WORKING CAPITAL	358,377
WORKING CAPITAL DEFICIENCY - AUGUST 31, 1971	<u>9,259</u>
WORKING CAPITAL DEFICIENCY - FEBRUARY 28, 1972	<u>367,636</u>
REPRESENTED BY:	
Current assets	79,852
Current liabilities	<u>447,488</u>
WORKING CAPITAL DEFICIENCY - FEBRUARY 28, 1972	<u>367,636</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Arrow-Can Natural Gas Ltd. as at August 31, 1971 and the statement of source and use of working capital for the period from January 16, 1970 to August 31, 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at August 31, 1971 and the results of its operations and the source and use of its working capital for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.



Vancouver, B.C.  
October 5, 1971

CHARTERED ACCOUNTANTS

## ARROW-CAN NATURAL GAS LTD.

BALANCE SHEET AS AT AUGUST 31, 1971

## A S S E T S

	August 31, 1971 \$	January 15, 1970 \$
CURRENT ASSETS		
Cash	1,542	24,927
Accounts receivable from shareholders	<u>497</u>	<u>          </u>
	2,039	24,927
PETROLEUM AND NATURAL GAS LEASES AND RELATED COSTS (notes 1, 2, 5 and 6)	143,364	109,575
INCORPORATION COSTS	<u>1,895</u>	<u>1,895</u>
	<u>147,298</u>	<u>136,397</u>

## L I A B I L I T I E S

## CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>11,298</u>	<u>397</u>
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## S H A R E H O L D E R S ' E Q U I T Y

## CAPITAL STOCK

Authorized

3,000,000 common shares without par value with  
a maximum consideration of \$1 per share

Issued and fully paid (note 3)

245,002 common shares for cash

61,250

61,250

747,500 common shares for petroleum and

natural gas leases

74,75074,750992,502136,000136,000147,298136,397

SIGNED ON BEHALF OF THE BOARD

*Samuel Dumais*  
Director

*Laura A. Doo*

Director

## ARROW-CAN NATURAL GAS LTD.

## STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

FOR THE PERIOD FROM JANUARY 16, 1970

TO AUGUST 31, 1971

	Period from January 16, 1970 to August 31, 1971 \$	Period from July 18, 1969 (date of incorporation) to January 15, 1970 \$
<b>SOURCE</b>		
Capital stock issued for cash		61,250
Capital stock issued for petroleum and natural gas leases		<u>74,750</u>
		<u>136,000</u>
<b>USE</b>		
Costs related to petroleum and natural gas leases	33,789	
Incorporation costs		1,895
Petroleum and natural gas leases acquired	<u>          </u>	<u>109,575</u>
	<u>33,789</u>	<u>111,470</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	(33,789)	24,530
<b>WORKING CAPITAL - BEGINNING OF PERIOD</b>	<u>24,530</u>	<u>Nil</u>
<b>WORKING CAPITAL (DEFICIENCY) END OF PERIOD</b>	<u>(9,259)</u>	<u>24,530</u>
<b>REPRESENTED BY:</b>		
Current assets	2,039	24,927
Current liabilities	<u>11,298</u>	<u>397</u>
<b>WORKING CAPITAL (DEFICIENCY) - END OF PERIOD</b>	<u>(9,259)</u>	<u>24,530</u>

ARROW-CAN NATURAL GAS LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD FROM JANUARY 16, 1970

TO AUGUST 31, 1971

1. VALUES

The amounts shown for petroleum and natural gas leases and related costs represent costs to date and do not necessarily reflect present or future values.

2. PETROLEUM AND NATURAL GAS LEASES AND RELATED COSTS

(a) The petroleum and natural gas leases, all located in Alberta, Canada, and related costs are as follows:

	\$
Three petroleum and natural gas leases, Nos. 18403, 18404 and 18407 comprising approximately 10,240 acres, all excluding natural gas from the Medicine Hat Zone designation No. 2540; and all at cost, being the value ascribed to 747,500 shares issued at 10¢ per share as consideration therefor	74,750
Four petroleum and natural gas leases, Nos. 24592, 24593, 24596 and 24598, comprising approximately 5,920 acres, all excluding natural gas from the Medicine Hat Zone designation No. 2554; acquired for cash	34,823
Two registered mine and mineral leases, with specific minerals excepted, comprising approximately 724 acres; at nominal value	<u>2</u>
	109,575
Related costs - per schedule	<u>33,789</u>
	<u>143,364</u>

(b) The petroleum and natural gas leases are subject to annual lease charges and royalties as levied by the Province of Alberta.

(c) The company has entered into an agreement with Elkwater Natural Gas Ltd. with respect to the lands held under the petroleum and natural gas leases, Nos. 18403, 18404 and 18407. Elkwater may earn an undivided 65% working interest in the aforementioned leases by

ARROW-CAN NATURAL GAS LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD FROM JANUARY 16, 1970

TO AUGUST 31, 1971

2. PETROLEUM AND NATURAL GAS LEASE AND RELATED COSTS  
(continued)

drilling two wells and satisfying other conditions of the agreement. Upon earning the 65% undivided interest, Elkwater will become the Operator of the leases as provided by an operating agreement

3. CAPITAL STOCK

245,000 of the 245,002 shares issued for cash are pooled and are to be dealt with in accordance with the instructions of the British Columbia Securities Commission and the Vancouver Stock Exchange.

The 747,500 shares issued for petroleum and natural gas leases are held in escrow to be dealt with in accordance with the instructions of the British Columbia Securities Commission.

4. REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

Management fees totalling \$2,000 were paid to a senior officer of the company in connection with his services rendered during the period. No directors' fees were paid during the period.

5. SUBSEQUENT EVENTS

In September, 1971, the company entered into a 25 year contract for the sale of all gas produced from its lease interests in the Medicine Hat Area, in the Province of Alberta.

6. CONTINGENT LIABILITY

The company is disputing an agreement it entered into in 1969 whereby it may be committed to others for a gross over-riding royalty, varying from 2% to 5%, plus a bonus of \$1,000 for each successful well, with respect to the lands held under petroleum and natural gas leases in specific areas.

## ARROW-CAN NATURAL GAS LTD.

## SCHEDULE OF COSTS RELATED TO PETROLEUM AND NATURAL GAS LEASES

FOR THE PERIOD FROM JANUARY 16, 1970

TO AUGUST 31, 1971

		\$
BALANCE BEGINNING OF PERIOD		Nil
ADMINISTRATION		
Audit	1,658	
Interest and bank charges	585	
Legal	3,846	
Management fees (note 4)	2,000	
Meals and travel	1,090	
Office	1,857	
Parking	480	
Rent	4,625	
Telephone and telegraph	1,739	
Transfer agent	<u>1,047</u>	18,927
EXPLORATION AND DEVELOPMENT		
Engineering	465	
Feasibility study	3,193	
Lease rental charges	12,405	
Miscellaneous	<u>31</u>	<u>16,094</u>
		35,021
Less: Interest earned	1,132	
Other income	<u>100</u>	<u>1,232</u>
BALANCE - END OF PERIOD		<u>33,789</u>