NATIONAL PETROLEUM CORPORATION LIMITED

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1973 ANNUAL REPORT

DIRECTORS	DALE J. BERTLING, *Houston, Texas* WERNER S. BORCHARDT, *Amsterdam, Holland* SEYMOUR LAZAR, *Palm Spring, California* ALLEN G. RENZ, *Houston, Texas*
OFFICERS	ALLEN G. RENZ, *President* W. G. NICHOLS, *Secretary-Treasurer* CHARLINE MITCHAM, *Assistant Secretary-Treasurer*
AUDITORS	THORNE GUNN & CO. *Calgary, Alberta, Canada*
STOCK EXCHANGE LISTINGS	The shares of the Company are listed on the Toronto, Calgary and Vancouver Stock Exchanges and also trade in the over-the-counter market in the United States.
TRANSFER AGENTS AND REGISTRARS	MARINE MIDLAND BANK NEW YORK, *New York, N. Y.* GUARANTY TRUST COMPANY OF CANADA, *at Calgary, Toronto, Vancouver & Montreal, Canada*
REGISTERED OFFICE	MacKIMMIE MATTHEWS, *240-4th Avenue S.W., Calgary, Alberta, Canada*
ADMINISTRATIVE OFFICES	*10333 Northwest Freeway, Suite 528* *Houston, Texas 77018*

This Annual Report is submitted for the general information of the existing shareholders and is not intended to induce the purchase or sale of the Company's shares.

REPORT TO SHAREHOLDERS

Your present management team assumed responsibility for your Company's operation at the start of the 1973 fiscal year. Shortly thereafter we reported to you that the Company had lost $601,978 before extraordinary items and $725,798 including extraordinary items during 1972.

Our first objectives were (1) to eliminate the maximum amount of expenses possible and still remain in a realistic operating position; and (2) reduce as much debt as possible by liquidating non-productive assets.

The 1973 figures as reported by the financial statements included herein, consolidated with National's subsidiaries, indicate that operating expenses were reduced to $429,583 as compared with $884,418 in 1972. Although the sale of some non-profitable properties caused a slight decrease in revenue, the resulting loss before extraordinary items was reduced to $169,175 as compared to $601,978 in 1972. This was the lowest operating loss for the Company in twelve years. Losses after extraordinary items were reduced to $220,136 as compared to the $725,798 experienced in 1972.

Current liabilities, which were in excess of $400,000 at the start of the year were reduced to $140,706 without selling any income producing assets.

We are also pleased to announce that our producing properties in Canada and West Virginia are both operating on a profitable basis for the first time in many years. A workover program in both of these areas, as well as on our Louisiana leases, has been initiated and we believe that this program will result in significant increased production. The current high prices for "new" oil make this approach highly desirable and should result in a good return on our invested dollar.

Permeator Corporation, in its annual report, has reported similar progress as well as continually increasing acceptance of its PermaFLO* and PermaFIX* chemical sand consolidation and stabilization processes.

Permeator also announced acquisition of Chemergy Corporation, its sand control process applicator and distributor for the Gulf Coast. Chemergy will now function as a wholly owned subsidiary.

Chemergy has begun an aggressive program of signing up distributors throughout the Gulf Coast and has worked up a complete new packaging approach to the sale of chemicals for the PermaFLO* and PermaFIX* processes. This prepackaging approach will allow the company to start selling to the foreign markets without having to greatly expand its management personnel.

The one disappointment during the year was the lack of shareholder response to our mailing regarding the sale of "fractional undivided working interest" in our undeveloped West Virginia gas properties. Since this approach was unsuccessful, we are now attempting to put together a private placement drilling program, in order to raise money to develop these properties.

Your management feels that a great deal was accomplished during 1973 considering the limited amount of assets that were available to work with at the start of the year. The progress reported above continued into the first quarter of 1974 with the Company showing a positive cash flow from operations and we look forward to the possibility of showing a positive cash flow for the entire year.

Your continued cooperation and support will be appreciated.

Respectfully submitted,

Allen G. Renz

Allen G. Renz
President

May 31, 1974

*Servicemark of Permeator Corporation — Reg. U. S. Patent Office

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED NOVEMBER 30, 1973

(with comparative figures for 1972)

	1973	1972
Revenue		
Sales and service	$ 177,183	$ 224,514
Interest and miscellaneous	2,041	3,622
	179,224	228,136
Expense		
Cost of sales and service	142,446	269,828
Research and development (recovered)	(3,933)	87,774
Selling and travel	7,112	24,042
General and administrative	50,507	146,128
Rentals	3,732	10,628
Professional fees	28,423	73,202
Consulting services	8,000	12,287
Salaries	66,001	97,168
Transfer fees and annual meeting	20,058	31,703
	322,346	752,760
Depreciation and depletion	86,056	108,271
Amortization of patents and franchises	21,181	23,387
	429,583	884,418
Loss before undernoted items	250,359	656,282
Gain on sale of assets	81,184	
Loss before minority interest and extraordinary items	169,175	656,282
Minority interest in losses of subsidiary companies (note 8)		54,304
Loss before extraordinary items	169,175	601,978
Extraordinary items		
Decline in value of investment in partnership (note 4)	50,961	
Loss on sale of property and equipment (note 6)		272,470
Sale of use of rights and licences		148,650
	50,961	123,820
LOSS FOR THE YEAR (note 9)	$ 220,136	$ 725,798
LOSS PER SHARE		
Loss before extraordinary items	3¢	12¢
Loss for the year	4¢	14¢

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CONSOLIDATED BALANCE S

(with comparative fig

ASSETS

	1973	1972
CURRENT ASSETS		
Cash	$ 13,014	$ 41,379
Accounts receivable		
Trade	64,904	69,292
Affiliated companies		30,260
Inventories, at lower of cost and net realizable value	9,887	13,160
Prepaid expenses	3,656	4,920
	91,461	159,011
INVESTMENT IN OTHER COMPANY (note 2)	128,784	382,629
OTHER ASSETS		
Investment in limited partnership (note 4)	15,000	65,433
Cash surrender value of life insurance, less loans of $159,971		15,628
Royalties, at cost less amortization (note 5)	39,731	43,026
Advances to joint venture	13,182	12,911
Sundry deposits and advances	8,904	8,932
	76,817	145,930
PROPERTY AND EQUIPMENT, at cost (note 6)	3,026,691	3,047,539
Less accumulated depreciation and depletion	1,751,143	1,677,441
	1,275,548	1,370,098
INTANGIBLES AND DEFERRED CHARGES (note 7)		
Patent rights, applications and development costs less amortization	63,412	77,320
Property offering costs	9,799	
	73,211	77,320
	$1,645,821	$2,134,988

Approved by the Board

DALE J. BERTLING, Director
ALLEN G. RENZ, Director

CORPORATION LIMITED

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EET — NOVEMBER 30, 1973

at November 30, 1972)

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
7½% Promissory notes payable		$ 200,000
Accounts payable and accrued liabilities	$ 140,706	201,801
Other notes payable		7,936
	140,706	409,737

SHAREHOLDERS' EQUITY

	1973	1972
CAPITAL STOCK (note 12)		
Authorized		
10,000,000 shares, par value 25¢ each		
Issued		
4,999,872 shares	1,249,968	1,249,968
CONTRIBUTED SURPLUS	3,489,945	3,489,945
DEFICIT	(3,234,798)	(3,014,662)
	1,505,115	1,725,251
	$1,645,821	$2,134,988

Subsequent event (note 12)

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED NOVEMBER 30, 1973
(with comparative figures for 1972)

	1973	1972
Deficit at beginning of year	$3,014,662	$2,288,864
Loss for the year	220,136	725,798
Deficit at end of year	$3,234,798	$3,014,662

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED NOVEMBER 30, 1973
(with comporartive figures for 1972)

	1973	1972
SOURCE OF FUNDS		
Proceeds from sale of property and equipment	$ 84,384	$ 15,078
Sundry deposits refunded, net	41	2,528
Proceeds from sale of investment in other companies	316,490	
Proceeds from sale of royalty interest	11,000	
Proceeds from surrender of life insurance	14,227	
Loans on insurance policy		12,720
Sale of use of rights and licences		148,650
Issue of shares of subsidiary companies		29,730
Repayment of advances to other company		10,999
	426,142	219,705
APPLICATION OF FUNDS		
Funds applied to operations	139,000	521,252
Additions to property and equipment	67,668	69,993
Increase in cash surrender value of life insurance		7,398
Additions to intangibles and deferred charges	17,072	13,448
Increase in advances to joint venture		1,904
Addition to royalty interest	921	
	224,661	613,995
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	201,481	(394,290)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR		
As previously reported	(271,422)	122,868
Reclassification of advances to joint venture	20,696	20,696
As restated	(250,726)	143,564
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 49,245	$ 250,726

NATIONAL PETROLEUM CORPORATION LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED NOVEMBER 30, 1973

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of National Petroleum Corporation Limited; its wholly-owned subsidiary, National Oil Field Service Ltd., and Permeator Corporation, a 53% owned subsidiary, and its wholly-owned subsidiary, Permeator Corporation (Canada) Ltd. The accounts of Permaco Inc., a wholly-owned subsidiary of Permeator Corporation, have not been consolidated herein as it is inactive and the inclusion of its accounts would have no material effect on these consolidated financial statements.

The subsidiary companies' accounts maintained in United States dollars have been translated to Canadian dollars as follows:

Current assets and current liabilities, at exchange rates prevailing at period end; other assets at rates in effect at dates of acquisition; revenue and expense at average rates for the year except for depreciation, depletion and amortization which are on the same basis as the related assets.

The gain or loss resulting from the translation of currencies is included in general and administrative expenses in the consolidated statement of income.

2. INVESTMENT IN OTHER COMPANY

	1973	1972
Northland Oils Limited, 5.4% owned (15.7% in 1972) 577,000 shares, at cost (quoted market value 1973, $121,770; 1972, $918,000)	$128,784	$372,864
Advances		9,765
	$128,784	$382,629

Because of the number of shares held, the quoted market value is not necessarily indicative of the amount that could be realized if the shares were sold. Subsequent to November 30, 1973, the company realized a gain of $1,600 on the sale of 148,500 shares which cost $33,145.

3. NOTES RECEIVABLE

As a result of providing services to various drilling funds, the companies hold various non-recourse notes receivable secured by specified interests in petroleum properties. The companies estimate the value of the properties securing the notes receivable to be $76,805 which is not reflected in these consolidated financial statements as the properties were acquired at no cost.

4. INVESTMENT IN LIMITED PARTNERSHIP

Subsequent to November 30, 1973 the companies' investment in General Hydrocarbons Limited Partnership was disposed of in partial settlement of debts. This investment has been written-down to the agreed upon value at date of disposition. The write-down of $50,961 is reflected as an extraordinary item in the consolidated statement of income.

5. ROYALTIES

These represent the cost of interests in production proceeds from oil and gas leases. The costs are being amortized at the rate of 25% of the annual proceeds received from the properties. During 1973 and 1972 no proceeds from the leases were received.

6. PROPERTY AND EQUIPMENT

	1973			1972
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petroleum properties and development costs	$1,649,628	$ 627,126	$1,022,502	$1,047,034
Equipment	1,377,063	1,124,017	253,046	323,064
	$3,026,691	$1,751,143	$1,275,548	$1,370,098

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED NOVEMBER 30, 1973

The companies follow the full-cost method of accounting wherein all costs related to the exploration for and development of oil, gas and related reserves are capitalized. Such costs include acquisition costs, geological and geophysical expense, carrying charges on non-productive properties and costs of drilling both productive and unproductive wells. Proceeds received on disposal of properties are credited against such costs. Depletion on these net costs is provided using a composite unit of production method based on total estimated proven developed reserves. Gains or losses realized on the sale of the last property in an area of interest are reflected in the consolidated statement of income as an extraordinary item.

Depreciation on equipment is provided on a straight-line basis over its estimated useful life.

7. INTANGIBLES AND DEFERRED CHARGES

The costs of patent rights, applications and development costs are being amortized over ten years.

To assist in the economic operation of certain petroleum properties a subsidiary company is participating in the sale of various non-producing working interest in the properties. The costs related to the sale of the working interests have been deferred.

8. INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES

During the year the company's majority interest in the subsidiary companies has been charged with $74,721 (1972 — $193,600) which represents the excess of the losses applicable to the minority interest in the subsidiaries over the minority interest in the capital stock and contributed surplus of the subsidiaries.

9. INCOME TAXES

Not recognized in the accounts is the income tax effect of the following:

(a) the excess of the undepreciated capital cost of production equipment over the net value reflected in the financial statements. The excess, amounts to approximatly $802,000 (1972 — $795,000)

(b) exploration and development costs which total $950,000 (1972 — $940,000) and are deductible in determining taxable income

(c) losses carry-forward which losses amount to $303,583 and are deductible in determining taxable income as follows:

Year of Loss	Amount of Loss	Available To
1969	$ 43,681	1974
1970	83,500	1975
1971	90,288	1976
1972	66,335	1977
1973	19,779	1978
	$303,583	

(d) losses carry-forward of Permeator Corporation which losses amount to approximately $1,800,000 and are deductible in determining taxable income until 1976.

10. OTHER STATUTORY INFORMATION

During 1973 the aggregate direct remuneration of directors and officers was $77,325 ($126,133 in 1972).

11. RECLASSIFICATION OF COMPARATIVE FIGURES

The 1972 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1973.

12. SUBSEQUENT EVENT

On February 12, 1974 stock options were approved for issue to directors and officers of the companies to purchase 250,000 shares of National Petroleum Corporation Limited and 60,000 shares of Permeator Corporation, all exercisable at 60¢ per share.

Thorne
Gunn
& Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of

National Petroleum Corporation Limited

We have examined the consolidated balance sheet of National Petroleum Corporation Limited and subsidiary companies as at November 30, 1973 and the consolidated statements of income, deficit and changes in financial position for the year then ended. 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, and we have received all of the information and explanations we have required, except as follows:

(a) Under the full cost method of accounting (see note 6), the total of the net book value of petroleum property and development costs amounting to $1,022,502 and royalties amounting to $39,731 should not exceed the value of the companies' proven petroleum reserves. We have been unable to determine that the value of the proven petroleum reserves exceeds the total of the two amounts.

(b) Permeator Corporation has acted as an intermediary between various drilling funds and drilling contractors whereby it contracted to provide drilling services to the drilling funds for amounts substantially in excess of the amounts it paid to the drilling contractors. The difference was loaned to the drilling funds in exchange for non-recourse notes receivable secured by specified interests in petroleum properties. Contingent liabilities, if any, arising from these transactions are not presently determinable.

In our opinion, except for the effect of any adjustments which might have been required had we been able to determine the value of proven petroleum reserves as outlined in paragraph (a) above and subject to the determination of liabilities, if any, which may arise from the transactions described in paragraph (b) above, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 31, 1974

Thorne Gunn & Co.

(February 12, 1974 as to note 12)

Chartered Accountants