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Oil Promotion and Public Participation

Short Average Life of a Well Requires a Large Installment of Principal Each Year Which, with Overloaded Capitalization, Does Not Always Spell Success, Though Oil Be Struck in Paying Quantities.

A prominent citizen of Vancouver recently stated, through the press, that the Vancouver public had to date purchased shares in Calgary oil companies representing a cash outlay of $250,000. It is exceedingly pertinent to inquire just what they have bought, what are their chances of getting their money back, and what are the chances of making a profit from the purchase.

An oil promotion, to which the public are invited to subscribe, starts with an oil lease. Instances have been heard of where only an option to purchase an oil lease was the basis of value upon which shares were issued.

These oil leases are obtained from the provincial governments for comparatively small sums, but where they have been secured in more or less proven fields they may possess considerable inherent value.

Starting with a lease, or several leases, extending from sub-leases of twenty acres to a lease of 640 acres, and perhaps containing many such leases embraced in many square miles, a syndicate, or an individual, or individuals, form a company incorporated under provincial charter. The owner or owners of the lease or leases make an assignment to the company thus formed for a consideration of so many shares in the company, always insisting in a majority interest in the company; or they may enter into a contract with the company for the sale of lease for so much cash and shares if when and as the company obtains the funds. The purpose of the company is to hold the lease, to exploit the property, drill boreholes, and operate the lease if oil is produced.

The holders of the lease may, in taking shares in a company, pool their shares until oil is produced in paying quantities. This prevents from coming on the market so-called promotion stock, which interferes with the market created by the public for stock to which they have subscribed.

A certain amount of the share capital is kept in the treasury of the company for contingencies and accidents, and the balance is offered to the public for subscription. A company, to be reasonably assured of seeing it through the expenses of exploitation, drilling a borehole, accidents, delays, etc., should have in its treasury $100,000 in cash. A company with this amount of cash can be seen through a series of misfortunes which frequently attend drilling for oil. Right here is where so many oil promotions fail. Some companies, possessing the best leases in an oil district, have been wrecked beyond repair because of inadequate exploration funds.

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A typical oil company would possess some of the following characteristics:

Share Capital	$1,000,000
Appraised value of lease	501,000
	$ 499,000

This is the lowest ratio at which a lease is usually turned into a company.

Held in Treasury for contingencies		200,000
Offering to public	$ 299,000	
Say at 50c per share	149,500	
Commissions to brokers (low average 20%	59,800	
Net to company from proceeds of sale	$ 89,700	
Less incorporation and organization expenses	5,000	
Total to company for drilling and operating expenses	$ 84,700	

In summing up of $299,000 par value of shares sold, the public pay $149,500 in cash, of which $84,700 reaches the company's treasury, and for which the public receive a 30% interest in the company, or a 37½% interest on outstanding share capital.

If in good luck, on completion of the sale of shares, from three months to six months will have elapsed before the company strikes oil. It has been asserted the Dingman well has been drilling for eighteen months and has not yet struck oil. This, we understand, was the first attempt made in drilling in the Calgary fields.

A recent statement has asserted that oil is worth at Calgary $9 per barrel. This is perhaps true, but if the Calgary oil fields strike oil in any paying quantity the price will not hold for a moment. If oil is struck in one per cent. of the quantity the oil brokers would have us believe, the price would quickly drop to one dollar per barrel. This was the standard price of oil in the Bakersfield and Mari-