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# TURBO

LOWE & BROS. LIBRARY  
100 CHANCE ST.

OCT 2 1986

MCGILL UNIVERSITY



**Annual Report 1984**

## **SHAREHOLDERS' MEETINGS**

The Annual General Meeting and Class Meetings to approve the Plan of Arrangement have been scheduled for Thursday, June 6, 1985 at the Calgary Convention Centre, 823 - 1st Street S.E., Calgary, Alberta, as follows:

	<b>Place</b>	<b>Time</b>
Annual General Meeting	MacLeod Hall, Salon D	9:00 a.m.
Class Meetings*		
Common Shares	MacLeod Hall, Salon C	10:00 a.m.
Special Shares	MacLeod Hall, Salon C	10:30 a.m.
Second Preferred Shares	MacLeod Hall, Salon C	11:00 a.m.
First Preferred Shares	MacLeod Hall, Salon C	11:30 a.m.

\* The class meetings will follow in sequence immediately following the Annual General Meeting and as such the meetings may be postponed until after the times stated above.

## REPORT TO SHAREHOLDERS

We commenced 1984 with several key objectives to be completed by year end. We wanted to continue the improvement in operating results, complete the sale of those assets which did not produce cash flow directly to Turbo or were causing an operating loss, and complete our financial reorganization. We accomplished all of those objectives except completion of the financial reorganization, and now with your support, that task can be finalized.

We made very real progress on the financial reorganization. We have signed a debt restructuring agreement with all of our lending institutions, the Alberta and Federal Governments and our European Debentureholders. The agreement is conditional upon the shareholders of Turbo approving a plan of arrangement which will not only authorize the necessary shares to be issued to the lenders, but will also reorganize the existing share capital of the Company. An information package providing full details is being sent to all shareholders and a summary is also included in note one to the Consolidated Financial Statements in this Annual Report.

During 1984 we succeeded in selling: (i) our interest in Bankeno Mines Limited and therefore our indirect interest in Merland Explorations Limited; (ii) our interest in Challenger International Services Ltd. and through that transaction our indirect interest in Queenston Gold Mines Limited; and (iii) our gasoline marketing assets located in Ontario. Bankeno, Merland, Challenger and Queenston were not in a position to provide cash flow to Turbo and we had consistently lost money in gasoline marketing in Ontario because of the volatility of that market.

The sale of our interest in Bankeno to North Canadian Oils Limited in September not only reduced our secured loans with Canadian

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*“We made very real progress on the financial reorganization.”*

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Imperial Bank of Commerce by \$125 million, but also resolved the very difficult Merland minority issue. The resolution of this issue was a vital step in reaching agreement with our lenders because they were not prepared to proceed without that problem being solved.

In December, a complex series of transactions relating to Challenger were completed which resulted in Turbo no longer being a shareholder and lender of Challenger and the Royal Bank no longer being a lender to Turbo. Our debt to the Royal Bank of approximately \$51 million was eliminated, and through the payment of cash and the transfer of certain non-drilling assets to CIBC, our secured debt to CIBC was reduced by \$14.5 million. In addition, the shares of Turbo Explorations Inc. were transferred from Challenger to Turbo. Turbo Explorations Inc. holds a small interest in oil and gas properties in Oklahoma, Texas and West Virginia. It is our intention to sell these assets and reduce our secured debt to CIBC accordingly.

Although Challenger provided substantial cash flow up to and including 1981, it suffered significant losses from 1982 onwards because of a decline in drilling activity. For Challenger to survive it required the injection of new funds and obviously Turbo



was not in a position to assist. In these circumstances the reorganization of Challenger and the disposition of our interest was the best alternative for Turbo and Challenger as well as its lenders.

The sale of our gasoline marketing assets in Ontario for \$7 million effective December 1st not only eliminated a continuing operating loss, but through agreement with our lenders these proceeds can be used to develop new marketing outlets in Western Canada rather than to repay debt. A development program is currently underway, concentrating primarily on outlets within the economic trading orbit of the refinery. The elimination of the loss in Ontario, and the development of new outlets in the Western Canadian market, should have a positive impact on future operating results.

Although a substantial amount of management and other employee time was utilized during 1984 in the sale of assets and the financial reorganization, a concerted effort was also made to improve operating results. I am pleased to be able to report that considerable success was achieved. In reviewing the results it is important to keep in mind that Bankeno and Challenger are now accounted for on an equity basis and Turbo's share of their incomes and losses are shown separately as discontinued operations in the Consolidated Financial Statements. For ease of comparison 1982 and 1983 have been reclassified on the same basis. Therefore, when we talk about operating results from continuing operations, we are referring only to the refining and marketing of petroleum products.

Revenues for 1984 were \$589 million, an increase of \$85 million over the previous year. This improvement in revenues was due to an increase in retail, wholesale, and export sales, combined with a modest improvement in selling prices.

Operating income before depreciation and interest expense was \$22 million, compared to \$4

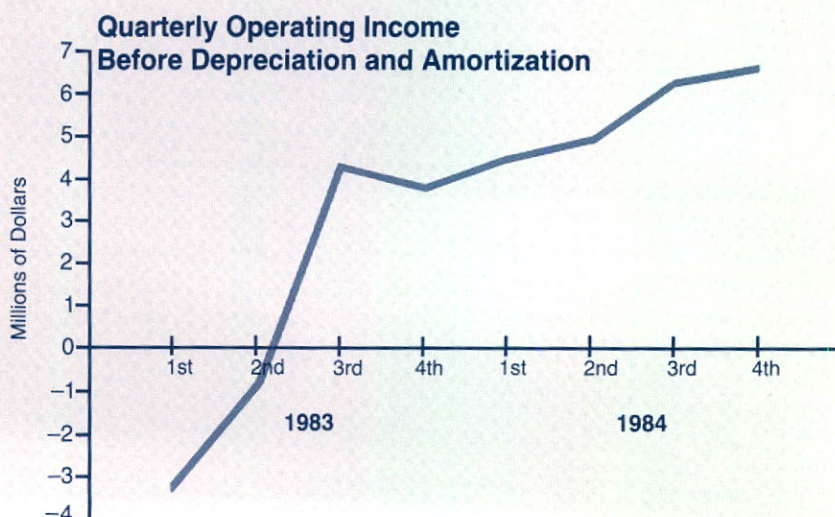
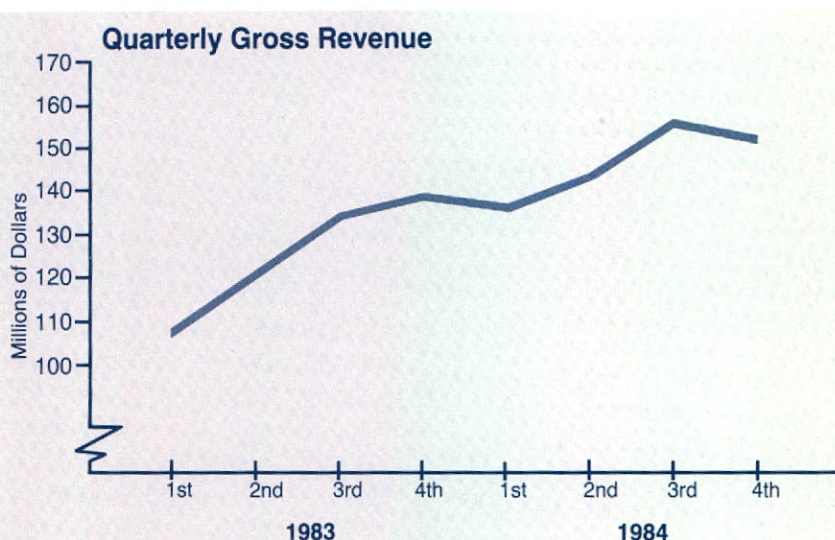
million in 1983. Operating income after depreciation was \$6 million, compared to a loss of \$13 million after depreciation in the previous year. Operating income was enhanced through better margins and maintaining a tight control on indirect costs which remained at the same level as 1983.

Interest expense of \$87 million in 1984 resulted in a loss from continuing operations of \$85 million, compared to a loss of \$103 million in 1983 after interest expense in that year of \$85 million. This loss was further increased in 1984 by a \$20 million loss from discontinued operations. However, an extraordinary gain of \$39 million on the sale of Bankeno (the carrying value of which had been reduced by \$108 million in 1983 as

a result of an unusual impairment provision recorded by Bankeno) resulted in a loss for the year of \$71 million compared to a loss in 1983 of \$272 million.

The loss per common share before extraordinary items was \$4.17 (1983 — \$10.65) and the loss for the year was \$2.85 (1983 — \$10.65). The loss per special share before extraordinary items was \$3.48 (1983 — \$8.90) and the loss for the year was \$2.37 (1983 — \$8.90).

The working capital deficiency decreased by \$76 million in 1984, to \$515 million compared to an increase of \$144 million in 1983. This is the first reduction in our working capital deficiency in four years.



The majority of the reduction in working capital deficiency arose from proceeds on the sale of Bankeno and Challenger of \$196 million, offset by working capital applied to operations of \$67 million (1983 — \$86 million), and a reclassification of debt from long term to current of \$45 million. Once again, the working capital applied to operations was due to interest expense. Before interest, Turbo generated working capital from operations of \$20 million for the period.

The Company's refinery at Balzac, on the outskirts of Calgary, continued to produce good results. The refinery operated efficiently throughout the year, accomplishing impressively low operating costs per unit of crude processed. The annual average refining throughput increased to 78.6% of nameplate capacity representing an increase of 11.3% over the previous year. We know from test runs that the refinery can operate at high rates on a sustained basis and this will add to our operating results when market conditions improve.

We have considerable flexibility in running the refinery due to our management style which allows for quick operating decisions. We can therefore adjust quickly to changes in the market mix between gasolines and diesel fuels which gives us a competitive advantage in the marketplace.

Other significant events at the refinery were the addition of a second power line to improve the security of our power supply and the commencement of a new contract for natural gas which was entered into directly with a producer, thereby effecting a substantial saving in utility costs.

The operating success at the refinery has been reflected in our safety record. We operated from February 1983 to January 13, 1985 without a lost time accident, which was a total of 611,790 manhours. This record made us

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*“ . . . we were successful again in 1984 in increasing our sales volumes.”*

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number one in our industry grouping in 1984. Safety has been, and remains, a sincere commitment of the Company.

Our Supply and Distribution group has the responsibility for crude oil supply, for product exchanges, and for sale of the refinery output not sold by our own marketing outlets. This is a substantial undertaking and the group was very successful in 1984, increasing its sales volumes in Canada and the United States by 35%. We have been able to develop an important export market in Northern Montana. This has allowed us to maintain refinery output at a higher level than otherwise would be possible thereby adding to refinery efficiency and increasing our overall revenues.

The best return for Turbo will be achieved through the sale of all the refinery output of gasoline and diesel through our own marketing outlets. We can only accomplish that objective by adding new outlets and increasing sales through present facilities. This has not been an easy task the last few years because of limited capital funds and the decline in overall demand for petroleum products. It has meant working even harder at not only maintaining, but improving, our market share.

I am pleased to report that we were successful again in 1984 in increasing our sales volumes. Sales through our retail, cardlock and bulk agency locations increased by 4.6% over 1983. The increase was due to a modest expansion in our retail facilities and increased activity in the commercial and light industrial areas.

Through ingenuity in turn-key arrangements, and the careful expenditure of our limited capital funds, we were able to add 15 new retail outlets and three commercial cardlock facilities to our network in 1984. Turbo now has commercial cardlock facilities operating in Winnipeg, Saskatoon, Regina and Calgary and we expect to add new facilities in Edmonton, Kamloops and Vancouver in 1985. This will give us the necessary coverage to further attract the large trucking firms as customers, and to better serve local needs.

Turbo has been successful in achieving a higher average sales volume per retail outlet than the industry average and further steps were taken in 1984 to update and improve present facilities. Further funds will be spent in this area in 1985. In addition to improving retail outlets, we also upgraded several of our wholesale bulk agency locations serving the commercial, light industrial and agricultural markets.

*“A renewed commitment has been made to guaranteeing full service at self-serve prices . . .”*

After the sale of the Ontario assets, Turbo had 213 marketing outlets at year end. The unprofitable volumes in Ontario will be replaced over the next two years by using the funds from that sale to expand profitable volumes in Western Canada.

Turbo's marketing strategy is to have modest, but clean and attractive, well located retail outlets which provide full service at self-serve prices. Our method of developing sites allows us to open an outlet for about half the cost of the industry average. This gives us more coverage for the total capital dollars spent. Our stations are also operated by dealers who are independent businesspeople and we find this approach creates an entrepreneurial spirit. To maintain standards, we provide the dealers with support services in business management and employee training.

Marketing is the key to Turbo's further success and we are taking steps to ensure excellence in the marketplace. We have made management and organizational changes and we have been successful in recruiting very bright, capable people. A renewed commitment has been made to guaranteeing full service at self-serve prices and new programs of advertising and promotion are being developed.

Integrity in the marketplace is essential and during 1984 we took further steps to ensure product quality. We have a modern refinery with excellent laboratory facilities and a system of constant sampling has been put into effect. We have a good reputation for product quality and intend to maintain it.

Turbo's profitability is closely linked to margins at the pump and we are particularly well poised to take advantage of an increase in demand for diesel fuel. Improvement in economic activity in Western Canada should immediately increase demand and margins for this product.

The Company maintains a small trucking fleet under the name of Freeway Transport Ltd. to move petroleum products to most of our retail, cardlock and bulk agency

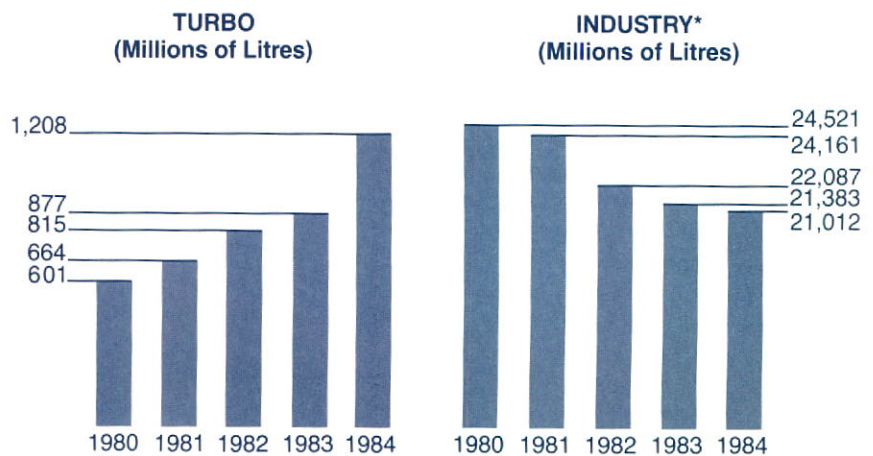
outlets. This provides us with flexibility and security in transporting our products to market. Freeway had another very successful year in 1984, hauling increased volumes with the same fleet. Through the sale of trucking assets in Ontario, a modest upgrading of the fleet will take place in 1985.

*“We have a good reputation for product quality and intend to maintain it.”*

Turbo has gone through a substantial change over the last couple of years which has been painful for all of us. We have cut staff, reduced costs, made organizational changes and, of course, sold assets which did not relate to our core business of refining and marketing petroleum products. That is a business we know well and one which will generate cash flow to service our restructured debt and give us an opportunity to grow in the future.

### Western Canada Sales Volume

(Includes Export Sales from Western Canada)



\* Refinery start-up August, 1982  
\*\* Export sales from April, 1983

\* From NEB report February 10, 1985

The trauma however has produced some good results. We are a lean, efficient organization, and we have, and are continuing to put into place, effective budgeting, financial and management reporting systems. We have kept, and been able to recruit, a group of very bright and capable people who have been challenged by the opportunity to turn Turbo around. We have given our employees responsibility and decision making authority they couldn't get elsewhere, and our confidence in them has paid off. We can now build on that spirit and enthusiasm for the future.

I am also pleased that at our Annual General Meeting we will be proposing some changes to the Board of Directors. During the difficult times senior management was also asked to sit as directors because, quite frankly, it was impossible to attract outside directors who would take the risk. Now that a financial reorganization can clearly be accomplished we can build a more traditional Board of essentially outside directors.

I am pleased that Mr. Robert Brodie of Vancouver and Mr. Garth Kennedy of Regina have agreed to stand for election. Both gentlemen are proven businessmen and their participation will also give us better geographical representation from our market area. I want to thank Bruce Millar, our Vice President of Marketing and Gerry Sioui, our Vice President of Supply & Distribution, who are stepping down, for their very substantial contribution to the Board over the last three years.

Those of you who were shareholders prior to our last Annual General Meeting know that four new directors joined the Board at that time, elected by the Preferred Shareholders. These individuals have agreed to stand for re-election and I can assure you they have made an important contribution to the Board on behalf of all shareholders.

The proposed financial reorganization was negotiated with the interests of all the shareholders very much in mind. The conversion ratio of debt to equity ensures that after the reorganization the non-institutional shareholders will hold almost one-third of the issued shares of the Company. This means present shareholders retain a significant ownership in the Company and that an adequate public float is available for trading. The remaining shares held by the lenders will be subject to regulatory restrictions on trading for a twelve month period and this will help prevent a flood of shares on the market.

In several other financial reorganizations, shares have been issued for interest on a continuing basis until such time as interest could be paid in cash. To avoid such dilution in Turbo's case we negotiated a waiver of interest on all debt until January 1, 1988, or earlier, if Turbo meets certain interest coverage tests. This is of major benefit to shareholders.

To provide the opportunity for future growth in share value, a set repayment schedule at a fixed rate of 12% was negotiated with the lenders. The remaining debt after December 31, 1987 will be spread equally over a period of seven years and any excess cash flow after these payments can be utilized for general purposes of the Company.

In a financial reorganization such as that faced by Turbo, everyone has to make concessions. What is important is that such a reorganization be fair to all parties. I believe we have achieved that objective. We, in management and the Board don't pretend it is going to be easy after the reorganization, but we believe we have the base to rebuild and are dedicated to making it work.

On behalf of the Board



Norman R. Gish  
Chairman, President and  
Chief Executive Officer

May 6, 1985  
Calgary, Alberta

**FINANCIAL HIGHLIGHTS**

	<u>1984</u>	<u>1983</u>	<u>% Change</u>
Revenue	\$588,624	\$503,865	16.8
Operating Income Before Depreciation and Amortization	22,387	4,445	403.6
Operating Income (Loss)	6,122	(13,187)	146.4
Loss from Continuing Operations	85,007	103,369	(17.8)
Net Loss	70,640	272,141	(74.0)
Total Assets	400,679	573,643	(30.2)
Net capital deficiency	362,344	291,717	24.2
Cash flow from Operations (Before Interest)	19,992	(1,108)	1,904.3
Loss per Share			
Loss before extraordinary items			
Common	\$ 4.17	\$ 10.65	
Special	\$ 3.48	\$ 8.90	
Loss for the year			
Common	\$ 2.85	\$ 10.65	
Special	\$ 2.37	\$ 8.90	



## OPINION OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Shareholders of Turbo Resources Limited

We have examined the consolidated balance sheets of Turbo Resources Limited as at December 31, 1984 and 1983 and the related consolidated statements of loss, changes in financial position, changes in share capital and changes in other shareholders' equity (deficiency) for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as described in the following paragraph.

As part of our examination of long-term debt, we requested confirmation directly from the lenders as to the existence and terms of obligations outstanding as at December 31, 1984 and December 31, 1983. With respect to \$138,000,000 of such debt at December 31, 1984 and \$178,527,000 of such debt at December 31, 1983 more specifically described in Note 8(b) to the consolidated financial statements, the lenders have not provided us with confirmation of repayment terms. Accordingly, we are unable to determine the portion of such debt, if any, that should be included in current liabilities in the consolidated balance sheets.

In our opinion, except for the effect of adjustments on the 1984 and 1983 financial statements, if any, which we might have determined to be necessary had we been able to obtain confirmation of the repayment terms of the debt described in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1984, in accordance with accounting principles generally accepted in Canada (see Notes 2 and 17) applied on a consistent basis.

*Deloitte Haskins + Sells*

Auditors  
Calgary, Alberta, Canada  
May 3, 1985

### COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING CONFLICT

The above opinions are expressed in accordance with standards of reporting generally accepted in Canada. Had the report been prepared in accordance with United States reporting standards, our opinion on the 1984, 1983 and 1982 financial statements would have required a qualification with respect to the outcome of the uncertainties as described in Note 1 to the consolidated financial statements, relating to the company's ability to continue as a going concern.

*Deloitte Haskins + Sells*

Auditors  
Calgary, Alberta, Canada  
May 3, 1985

# CONSOLIDATED BALANCE SHEETS

At December 31

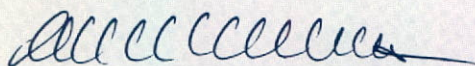
(in thousands of Canadian dollars)

	<u>Note</u>	<u>1984</u>	<u>1983</u>
			Reclassified (Note 3)
<b>Assets</b>			
<b>Current Assets</b>			
Cash and short-term deposits		\$ 1,232	\$ 409
Accounts receivable		32,612	29,736
Inventories	4	68,485	56,223
Other		<u>5,062</u>	<u>4,393</u>
		<u>107,391</u>	<u>90,761</u>
Investments and Advances to Subsidiaries	3	—	175,722
Property, Plant and Equipment	5	271,693	285,305
Other Assets	6	<u>21,595</u>	<u>21,855</u>
		<u>\$400,679</u>	<u>\$573,643</u>

Approved by the Board



Norman R. Gish  
Director



Robert McClinton  
Director

The accompanying notes are an integral part of the consolidated financial statements.

	<u>Note</u>	<u>1984</u>	<u>1983</u>
			Reclassified (Note 3)
<b>Liabilities</b>			
Current Liabilities			
Bank indebtedness	7	<b>\$395,053</b>	\$335,951
Accounts payable		<b>5,742</b>	9,179
Accrued liabilities		<b>16,687</b>	15,875
Amounts due to Governments	1	<b>83,303</b>	77,641
Current portion of long-term debt	8	<b>121,727</b>	243,322
		<b>622,512</b>	681,968
Long-Term Debt	8	<b>140,511</b>	182,939
Deferred Revenue		—	333
Deferred Income Taxes		—	120
		<b>763,023</b>	865,360
Commitments and Contingencies	1&14		
<b>Capital Deficiency</b>			
Share Capital			
Issued and fully paid	9		
First preferred shares, series A		<b>4,258</b>	4,258
Second preferred shares, 1980 retractable series		<b>24,360</b>	24,360
Common shares		<b>82,685</b>	82,647
Special shares		<b>1,404</b>	1,411
Contributed surplus		<b>983</b>	1,001
Deficit		<b>(476,034)</b>	(405,394)
Net capital deficiency		<b>(362,344)</b>	(291,717)
		<b>\$400,679</b>	\$573,643

# CONSOLIDATED STATEMENTS OF LOSS

For the Years Ended December 31

(in thousands of Canadian dollars except per share data)

	Note	1984	1983 Reclassified (Note 3)	1982 Reclassified (Note 3)
<b>Revenue</b>		<b>\$588,624</b>	\$503,865	\$391,777
Costs and Expenses				
Direct costs		537,533	471,086	361,255
Indirect costs including general & administrative		28,704	28,334	36,375
<b>Operating Income (Loss) Before Depreciation and Amortization</b>		<b>22,387</b>	4,445	(5,853)
Depreciation and amortization		16,265	17,632	9,644
<b>Operating Income (Loss)</b>		<b>6,122</b>	(13,187)	(15,497)
Other Loss (Income)				
(Gain) on sale of property, plant & equipment		(1,779)	(3,327)	(4,163)
Loss on sale of investments		—	253	1,743
Share of (income) of affiliated companies		—	(304)	(1,046)
Loss on foreign exchange		6,324	2,265	1,293
		4,545	(1,113)	(2,173)
Interest Expense				
Short-term		30,529	27,307	25,107
Long-term		56,175	57,653	43,615
		86,704	84,960	68,722
Writedown of Real Estate and Other Assets		—	6,344	—
Net (Recovery of) Taxes	10	(120)	(9)	(2,302)
<b>Loss From Continuing Operations</b>		<b>85,007</b>	103,369	79,744
(Income) Loss From Discontinued Operations	3			
Bankeno		(1,888)	113,047	7,225
Challenger		21,750	55,725	36,019
<b>Loss Before Extraordinary Items</b>		<b>104,869</b>	272,141	122,988
Extraordinary Items	11	(34,229)	—	10,986
<b>Loss for the Year</b>		<b>\$ 70,640</b>	\$272,141	\$133,974
<b>Loss per Share</b>	12			
Loss before extraordinary items				
Common		\$ 4.17	\$ 10.65	\$ 4.89
Special		\$ 3.48	\$ 8.90	\$ 4.07
Loss for the year				
Common		\$ 2.85	\$ 10.65	\$ 5.32
Special		\$ 2.37	\$ 8.90	\$ 4.42

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31  
(in thousands of Canadian dollars)

	<u>Note</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
			Reclassified (Note 3)	Reclassified (Note 3)
<b>Working Capital Provided</b>				
Proceeds from sale of assets				
Bankeno		\$125,000	\$ —	\$ —
Challenger		70,790	—	—
Ontario Marketing		7,000	—	—
Other		781	12,902	4,333
Proceeds from long-term debt		97	1,670	7,530
Reclassification of assets		220	386	31,890
Other		513	3,675	2,653
		<u>204,401</u>	<u>18,633</u>	<u>46,406</u>
<b>Working Capital Applied</b>				
Operations				
Loss before extraordinary items		104,869	272,141	122,988
Items not affecting working capital				
Depreciation, depletion and amortization		(16,265)	(17,632)	(9,644)
Gain on sale of assets		1,779	3,074	2,420
Loss from discontinued operations		(19,862)	(168,772)	(43,244)
Other		(3,809)	(2,743)	(1,742)
Total working capital applied to continuing operations		66,712	86,068	70,778
Reclassification and repayment of long-term debt		44,533	60,999	181,722
Additions to property, plant and equipment		3,729	3,944	86,918
Additions to and reclassification of other assets		8,175	10,905	8,393
Extraordinary items	11	5,142	—	10,986
Other		24	407	1,229
Additions to petroleum and natural gas properties		—	40	2,547
Additions to investments and advances		—	—	68,191
Dividends paid		—	—	641
		<u>128,315</u>	<u>162,363</u>	<u>431,405</u>
<b>(Decrease) Increase in Working Capital Deficiency for the Year</b>		<b>(76,086)</b>	<b>143,730</b>	<b>384,999</b>
<b>Working Capital Deficiency at the Beginning of the Year</b>		<b>591,207</b>	<b>447,477</b>	<b>62,478</b>
<b>Working Capital Deficiency at the End of the Year</b>		<b><u>\$515,121</u></b>	<b><u>\$591,207</u></b>	<b><u>\$447,477</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31  
(in thousands of Canadian dollars)

	1984	1983	1982
		Reclassified (Note 3)	Reclassified (Note 3)
<b>Changes in Components of Working Capital</b>			
<b>Increase (Decrease) in Current Assets</b>			
Cash and short-term deposits	\$ 823	\$ (759)	\$ 1,128
Accounts receivable	2,876	(430)	(60,797)
Inventories	12,262	(13,795)	29,757
Other	669	(2,393)	3,023
	<u>16,630</u>	<u>(17,377)</u>	<u>(26,889)</u>
<b>Decrease (Increase) in Current Liabilities</b>			
Bank indebtedness	(59,102)	(59,650)	(188,951)
Accounts payable	3,437	6,921	44,324
Accrued liabilities	(812)	(7,909)	8,919
Amounts due to Governments	(5,662)	(29,255)	(48,386)
Current portion of long-term debt	121,595	(36,460)	(174,016)
	<u>59,456</u>	<u>(126,353)</u>	<u>(358,110)</u>
<b>Decrease (Increase) in Working Capital</b>			
<b>Deficiency for the Year</b>	<u>\$ 76,086</u>	<u>\$(143,730)</u>	<u>\$(384,999)</u>

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHARE CAPITAL

For the years ended December 31  
(in thousands of Canadian dollars)

	Note	1984		1983		1982	
		Shares	Amount	Shares	Amount	Shares	Amount
<b>First Preferred Shares Series A</b>							
	10						
Balance January 1		212,900	\$ 4,258	212,900	\$ 4,258	213,900	\$ 4,278
Redeemed and cancelled		—	—	—	—	(1,000)	(20)
Balance December 31		<u>212,900</u>	<u>\$ 4,258</u>	<u>212,900</u>	<u>\$ 4,258</u>	<u>212,900</u>	<u>\$ 4,258</u>
<b>Second Preferred Shares 1980 Retractable Series</b>							
	10						
Balance January 1		1,218,000	\$24,360	1,218,000	\$24,360	1,220,800	\$24,416
Redeemed and cancelled		—	—	—	—	(2,800)	(56)
Balance December 31		<u>1,218,000</u>	<u>\$24,360</u>	<u>1,218,000</u>	<u>\$24,360</u>	<u>1,218,000</u>	<u>\$24,360</u>
<b>Common Shares</b>							
	10						
Balance January 1		21,617,773	\$82,647	21,264,245	\$82,449	20,925,381	\$81,706
Issued		—	—	—	—	59,020	64
Exercise of Warrants		—	—	—	—	300	1
Conversions of special shares		24,127	7	219,352	59	390,689	105
Held by subsidiaries							
January 1		25,581	31	159,757	170	48,612	743
December 31		—	—	(25,581)	(31)	(159,757)	(170)
Balance December 31		<u>21,667,481</u>	<u>\$82,685</u>	<u>21,617,773</u>	<u>\$82,647</u>	<u>21,264,245</u>	<u>\$82,449</u>
<b>Special shares</b>							
	10						
Balance January 1		5,161,849	\$ 1,411	5,381,201	\$ 1,470	5,771,890	\$ 1,575
Conversion into common shares		(24,127)	(7)	(219,352)	(59)	(390,689)	(105)
Balance December 31		<u>5,137,722</u>	<u>\$ 1,404</u>	<u>5,161,849</u>	<u>\$ 1,411</u>	<u>5,381,201</u>	<u>\$ 1,470</u>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN OTHER SHAREHOLDERS' EQUITY (DEFICIENCY)

**For the Years Ended December 31**

(in thousands of Canadian Dollars)

	<b>1984</b>	<b>1983</b>	<b>1982</b>
		Reclassified (Note 3)	Reclassified (Note 3)
<b>(Deficit) Retained Earnings</b>			
Balance January 1	<b>\$(405,394)</b>	\$(133,253)	\$ 1,362
Net loss for the year	<b>(70,640)</b>	(272,141)	(133,974)
Deduct dividends paid			
Second preferred shares, 1980 retractable series	—	—	641
Balance December 31	<b><u>\$(476,034)</u></b>	<b><u>\$(405,394)</u></b>	<b><u>\$(133,253)</u></b>
<b>Contributed Surplus</b>			
Balance January 1	<b>\$ 1,001</b>	\$ 1,053	\$ 1,811
Loss on common shares and warrants acquired by subsidiaries and subsequently sold	<b>(18)</b>	(52)	(779)
Discount on redemption of preferred shares	—	—	21
Balance December 31	<b><u>\$ 983</u></b>	<b><u>\$ 1,001</u></b>	<b><u>\$ 1,053</u></b>

The accompanying notes are an integral part of the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1984 and 1983 and for the three years ended

December 31, 1984

(all tabular amounts in thousands of Canadian dollars)

## 1. FINANCIAL POSITION OF THE COMPANY

An assumption underlying the preparation of financial statements in accordance with generally accepted accounting principles is that the enterprise will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. This is commonly referred to as the "going concern" assumption. The significant accounting policies in Note 2 are based on this assumption.

The following factors affect this going concern assumption:

- a) As shown in the 1984 consolidated financial statements, the Company has incurred a net loss of \$70,640,000, current liabilities exceed current assets by \$515,121,000 and total liabilities exceed total assets by \$362,344,000.
- b) As described in Notes 7 and 8, the Company has not generated sufficient funds from operations to pay the principal and interest payments owing on a substantial portion of its long-term debt nor to satisfy judgments registered by certain creditors amounting to \$214,736,000 at December 31, 1984. In addition, the Company has not maintained certain financial covenants of its loan agreements.
- c) The Company owes \$83 million (including accrued interest) to Alberta and Federal Government departments which it is currently unable to pay. Of this amount, \$57 million (including accrued interest), the amount payable to the Alberta Government, is secured by a \$20 million mortgage on certain real estate assets. The principal portion of the \$83 million relates to crude oil purchases and levies thereon prior to February 28, 1983. Subsequent to that date, the Company has met all its commitments in this regard.
- d) As described in Note 14, there are commitments and contingencies, the outcome of which may have an adverse effect on the financial position of the Company.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In the last quarter of 1984 the Company entered into an Agreement in Principle with its lenders to restructure Turbo's debt. Formal documentation implementing the debt restructuring was executed by the nine financial institutions, the governments of Alberta and Canada and the trustee for the 12½% Partially Convertible Debentures (Eurodebentures) on May 2, 1985.

The debt restructuring is conditional upon the Plan of Arrangement to be voted upon by Turbo's shareholders at special meetings to be held on June 6, 1985, being implemented before July 31, 1985. The debt restructuring and the Plan of Arrangement together constitute the Financial Reorganization of Turbo.

The key elements of the Financial Reorganization are as follows:

- (i) 75% of the principal of unsecured debt will be satisfied by the issuance of common shares or non-voting shares on the basis of one common share for every \$2.00 of debt and 25% will be further evidenced by the issuance of new debentures on a dollar for dollar basis. The new debentures being issued to the Eurodebentureholders will be convertible at the option of the holder at the equivalent of Canadian \$1.50 per common share until January 1, 1995.
- (ii) \$50 million of secured debt will be satisfied by the issuance of senior convertible cumulative preferred shares, redeemable only at the Company's option, carrying a dividend rate of 8% per annum commencing on January 1, 1988, or earlier if Turbo meets certain interest coverage tests and convertible into common shares at \$1.50 per common share until January 1, 1995. In addition, approximately \$6 million of secured debt will be satisfied by the issuance of common shares or non-voting shares.
- (iii) The remainder of secured debt will be further evidenced by the issuance of new debentures.

- (iv) All accrued interest to December 31, 1984 in respect of both secured and unsecured debt will be first capitalized and then the principal representing the accrued interest to June 30, 1983 will be satisfied by the issuance of 45 million common shares or non-voting shares and the principal representing the accrued interest thereafter will be forgiven. Interest thereon from January 1, 1985 to the date of completion of the Financial Reorganization will be forgiven.
- (v) Debt owing to the Federal Government will be converted into a non-interest bearing note. Secured debt owing to the Alberta Government will be converted into a non-interest bearing secured note and the unsecured debt will be converted into common shares and new debentures in the same proportions as (i) above.
- (vi) The First Preferred, Second Preferred and Special shares will be converted into 1.7, 8.5, and 6.2 million common shares respectively.
- (vii) No interest will accrue on new debentures until the earlier of January 1, 1988, or January 1 of the first fiscal year for which Turbo meets certain interest coverage tests, except for interest on the new debentures issued to the Eurodebentureholders which will accrue interest at 8% per annum from January 1, 1985.
- (viii) Turbo's cash flow from operations (after capital expenditures as agreed to annually by Turbo and Canadian Imperial Bank of Commerce (CIBC), payments to the two governments, interest on new debentures issued to the Eurodebentureholders, interest, if any, on other new debentures, and dividends, if any, on Senior Preferred Shares) will be applied to reduction of debt represented by new debentures until January 1, 1988, at which time the balance remaining will be repayable in 28 blended quarterly installments with interest at 12% per annum commencing April 30, 1988. The principal on the new debentures issued to the Eurodebentureholders, however, will be payable in full at maturity on January 1, 1995.

### Pro-Forma Information

The following information compares certain balance sheet captions presented for 1984 with those that would have resulted had the Financial Reorganization been effective December 31, 1984 and no lenders elected to take non-voting shares in lieu of common shares. Although the Bankeno warrant holders are not a party to the Financial Reorganization, it is intended that an offer will be made to them which contemplates the issuance of 25% in new debentures and 75% in common shares based on a face value of \$3.50 per warrant (Note 14). The pro-forma information assumes that 1,469,250 warrants are tendered and converted in this manner at December 31, 1984.

	<b>1984 As Presented</b>	<b>1984 Pro-forma</b>
Current assets	<b>\$ 107,391</b>	\$ 107,391
Current liabilities	<b>(622,512)</b>	(35,514)
Working capital (deficiency)	<b>(515,121)</b>	71,877
Non-current assets	<b>293,288</b>	293,288
Long-term debt	<b>(140,511)</b>	(301,652)
	<b><u>\$(362,344)</u></b>	<u>\$63,513</u>
Net shareholders' equity (Net capital deficiency)		
First preferred shares, series A	<b>\$ 4,258</b>	\$ —
Second preferred shares, 1980 retractable series	<b>24,360</b>	—
Senior preferred shares	<b>—</b>	50,000
Common shares	<b>82,685</b>	358,872
Special shares	<b>1,404</b>	—
Contributed surplus	<b>983</b>	130,675
Deficit	<b>(476,034)</b>	(476,034)
	<b><u>\$(362,344)</u></b>	<u>\$ 63,513</u>

The Company's continuation as a going concern is dependent upon the Plan of Arrangement becoming effective. The Company believes that the Financial Reorganization is fair to all parties and that it will result in an improved capital structure and the opportunity for Turbo to grow in the future.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **General**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Information with respect to differences between generally accepted accounting principles in Canada and the United States, as required by the United States Securities and Exchange Commission (S.E.C.), is provided in Note 17.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Turbo Resources Limited and all its wholly-owned subsidiaries except for Turbo Explorations, Inc. (TEI) which the Company intends to sell (Note 3).

Turbo's former subsidiaries, Bankeno and Challenger International Services Ltd. (Challenger), were previously consolidated. These investments have been accounted for in the consolidated financial statements on the equity basis and the Company's share of their net income or loss has been reported as discontinued operations because they were sold in 1984. The results for 1983 and 1982 have been reclassified on the same basis for comparative purposes.

### **Inventories**

Raw materials and consumable supplies are stated at the lower of cost and replacement cost. All other inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average cost basis or on the first in, first out basis.

### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost and depreciation is provided on both the straight-line and diminishing balance bases at rates disclosed in Note 5.

Interest charges attributable to capital projects are capitalized during the period of development.

Real estate properties held for resale are included in inventory. Properties used in Company operations are included in property, plant and equipment.

### **Leased Equipment**

Leases which transfer substantially all of the benefits and risks of ownership of the leased assets are treated as purchases. All other leases are accounted for as operating leases.

### **Foreign Currency Translation**

Transactions and balances denominated in foreign currencies are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and average rates for the year for revenues and expenses, except depreciation and depletion which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in the consolidated statement of loss. This policy constitutes a change from the policy used in prior years, applied prospectively. The change in policy has had no significant effect on the determination of loss for the year.

### 3. DISPOSITION AND ACQUISITION OF SUBSIDIARIES

Effective September 28, 1984, the shares and warrants of Bankeno owned by Turbo, Challenger and certain of their wholly-owned subsidiaries were sold for \$125 million, which proceeds were applied to reduce Turbo's secured debt owing to Canadian Imperial Bank of Commerce (CIBC). Turbo recorded a gain on sale of \$39,371,000 (Note 11). The sale was made in accordance with the provisions of Turbo's settlement offer to the minority shareholders of Merland Explorations Limited (Merland) dated September 14, 1983. As a result, Turbo has complied with all outstanding regulatory and judicial orders and any obligations thereunder which Turbo may have had to the minority shareholders of Merland have been discharged.

As a result of a plan of arrangement, which was approved by the shareholders of Challenger on December 10, 1984, Turbo ceased to be a shareholder of Challenger on December 14, 1984. The plan of arrangement resulted in Turbo receiving approximately \$500,000 for its shares, which amount was applied by Turbo to reduce its secured debt to CIBC.

In addition, as a result of agreements among Turbo, Challenger, the Royal Bank of Canada (Royal) and CIBC which closed on December 20, 1984, certain non-drilling assets of Challenger were transferred to Turbo and CIBC for a \$12 million reduction in the inter-company debt which Challenger owed Turbo. The balance of the inter-company debt of approximately \$231 million was assigned to the Royal for a cash payment of approximately \$7 million, which was applied as a reduction of secured loans owed by Turbo to CIBC, and the cancellation of Turbo's indebtedness of approximately \$51 million to the Royal. The non-drilling assets consisted of all the shares of TEI, which were purchased and immediately pledged by Turbo to CIBC, and shares and a debenture representing a 50% interest in Queenston Gold Mines Limited and certain United States real estate notes, which were assigned to CIBC in consideration for a reduction of approximately \$7 million in the secured loans owed by Turbo to CIBC.

As it is the Company's intention to sell TEI, the investment in TEI has been accounted for on the equity basis and its net realizable value included in other assets.

Bankeno and Challenger previously represented two of the major business segments of Turbo. Consequently, the Company's share of their operating results has been reported as discontinued operations and prior years' figures reclassified accordingly to present the results of the Company's continuing operations. Further, no gain or loss on the sale of Challenger has been recognized as the investment and advances to Challenger had previously been written down to net realizable value.

### 4. INVENTORIES

	<u>1984</u>	<u>1983</u>
<b>For Resale</b>		
Land and property	\$ 4,444	\$ 7,363
Raw materials	12,716	11,959
Finished petroleum products	47,941	34,067
	<u>65,101</u>	<u>53,389</u>
<b>Consumable Supplies</b>		
Refinery	3,323	2,735
Other	61	99
	<u>3,384</u>	<u>2,834</u>
	<u>\$68,485</u>	<u>\$56,223</u>

## 5. PROPERTY, PLANT AND EQUIPMENT

	1984	1983	Depreciation Rates
Refinery	\$266,409	\$266,348	5%
Marketing and transportation equipment	13,472	15,031	3 - 30%
Buildings and leasehold improvements	12,685	13,212	2½ - 20%
Land	7,481	10,168	—
Computer equipment	7,086	7,583	18 - 30%
Other equipment	5,108	3,710	10 - 20%
	<u>312,241</u>	<u>316,052</u>	
Less accumulated depreciation	<u>(40,548)</u>	<u>(30,747)</u>	
Net property, plant and equipment	<u>\$271,693</u>	<u>\$285,305</u>	

No interest was capitalized on assets in the development stage in 1984 or 1983. (In 1982, \$29,864,000 of total interest costs of \$98,586,000 were capitalized).

## 6. OTHER ASSETS

	1984	1983
Land and buildings	\$ 11,628	\$ 7,863
Investment in and advances to TEI	3,000	—
Deposits	2,063	5,499
Notes receivable		
TBR Gas & Oil Production Fund	751	857
Other	317	1,097
Licenses	1,341	1,434
Agreements for sale	1,180	1,226
Loans to directors, officers and employees	319	339
Other	996	1,099
Capitalized refinery pre-production costs	—	1,255
Goodwill, less amortization	—	1,186
	<u>\$ 21,595</u>	<u>\$ 21,855</u>

Land and buildings with a carrying value of \$7.9 million have been placed in a trust fund to secure the indemnity provided in the Company's articles of association for liabilities of the Company, such as sales and excise taxes, imposed by statute on the directors and officers in the event that the liabilities are not satisfied by the Company.

## 7. BANK INDEBTEDNESS

Included in bank indebtedness is an amount of \$264,683,000 (including \$155,880,000 of accrued and unpaid interest) owing to the Company's principal lender which is secured by a general assignment of accounts receivable of Turbo and by a \$17 million floating charge debenture on all the assets of Turbo (excluding subsidiaries). In addition, \$90,000,000 of the above amount is secured by an assignment of inventories of Turbo (excluding subsidiaries) and \$109,130,000 (including \$60,178,000 of accrued and unpaid interest) is secured by \$50 million first and \$15 million second supplementary debentures containing first fixed and floating charges on refinery assets.

## 8. LONG-TERM DEBT

	<u>1984</u>	<u>1983</u>
(a) Long-term debt consists of		
Bank loans		
Refinery loan, (including U.S. \$10 million) bearing interest at rates varying from bank prime (11.25% at December 31, 1984) plus $\frac{5}{8}\%$ to LIBOR plus 1%, principal and interest secured by a \$150 million debenture providing first fixed and floating charges on refinery assets	<b>\$150,000</b>	\$150,000
Acquisition loan, bearing interest at bank prime plus $\frac{3}{8}\%$	<b>7,856</b>	82,000
Replacement loan, bearing interest at bank prime plus $\frac{3}{8}\%$	—	50,856
U.S. \$37.1 million (1983 — U.S. \$67.5 million) bearing interest at rates of 11.75%, 11.875% and LIBOR plus $\frac{3}{4}\%$ , of which U.S. \$7.1 million, principal and interest, is secured by fixed charges on certain real estate with a carrying value of \$1.5 million	<b>49,048</b>	80,594
Floating rate notes, unsecured and bearing interest at bank prime rate less $\frac{3}{8}\%$	<b>25,000</b>	25,000
U.S. \$21 million (1983 — U.S. \$25 million), 12 $\frac{1}{2}\%$ partially convertible debentures, unsecured	<b>25,885</b>	31,110
Other	<b>4,449</b>	6,701
Total long-term debt	<b>262,238</b>	426,261
Less — amounts in arrears	<b>74,137</b>	235,032
— amounts due in one year	<b>47,590</b>	8,290
Net long-term debt	<b><u>\$140,511</u></b>	<b><u>\$182,939</u></b>

Principal repayments are due as follows

1985 (including amounts in arrears)	\$121,727
1986	\$ 12,780
1987	\$ 12,548
1988	\$ 15,229
1989	\$ 15,277
Thereafter	\$ 84,677

\$167,253,000 of loans with the Company's principal lender are also secured by the assignment of accounts receivable and the \$17 million floating charge debenture referred to in Note 7. As a result of this security and that described in Notes 1(c), 7 and 8 (a), virtually all of the assets of Turbo are pledged.

- (b) As a result of the Company's current financial position, certain financial covenants, including interest coverage, net worth, and working capital ratios have not been maintained, and the Company has not been able to generate sufficient cash flow from operations to meet most of the interest and principal payments due on its debt obligations. By virtue of the cross-default provisions of certain debt instruments, the principal amounts of such debt may be declared due and payable.

If the Plan of Arrangement doesn't become effective, as described in Note 1, and repayment of the applicable debt is demanded, the consolidated financial statements for 1984 would be affected by the reclassification of this debt to reflect the current nature of the obligations as follows:

	<u>Before Reclassification</u>	<u>Increase (Decrease)</u>	<u>After Reclassification</u>
Current liabilities	\$622,512	\$138,000	\$760,512
Long term debt	140,511	(138,000)	2,511
Working capital deficiency	515,121	138,000	653,121

- (c) In March, 1984, the Company made application to be discharged from further proceedings in a lawsuit commenced in July, 1982 by the Canada Trustco Mortgage Company and Guaranty Trust Company of Canada (Trust Companies) against the Company and CIBC and which application was dismissed. The Company appealed the dismissal. Subsequently, the parties consented to a Discontinuance of Action being filed. As a result it was not necessary for the Company to continue its appeal since the Discontinuance of Action between the Trust Companies and CIBC resolved the outstanding action between the Trust Companies and the Company in relation to the claim to security from the Company arising from the allegations of the breach of the negative pledge covenant contained in the Note Purchase Agreement dated March, 1981. Accordingly, there remains outstanding with respect to this action the summary judgments granted in favour of the Trust Companies in October, 1983 in the amount of \$35,799,000 (including interest).
- (d) Concurrent with the award of summary judgments to the Trust Companies, in its efforts to keep all default creditors on an equal basis, the Company consented to judgments to unsecured creditors which, including accrued interest, amounted to \$146,118,000 at December 31, 1984, \$120,233,000 of which is included in Bank Indebtedness. These creditors subsequently filed writs of execution pursuant to these judgments. In addition, in 1984 Turbo consented to a judgment to the Alberta Government in amount of \$32,819,000.

Included in the unsecured creditors who obtained writs of execution were the 12½% partially convertible debentureholders. In June, 1983, the Trustee for the debentures had published a notice of default declaring all the principal and interest to be immediately due and payable. The debentureholders had six weeks after the publication to exercise their conversion privileges. None were exercised in that time period and accordingly there is no longer a conversion privilege attached to these debentures.

In November, 1983, the Company signed a consent judgment to CIBC for \$525,370,000. This amount has since been reduced to \$471,587,000 including accrued interest. Of this amount, \$264,683,000 is included in Bank Indebtedness. The Company agreed not to contest the bank's right to appoint a receiver over the Company's assets, if deemed necessary by the bank. To date, the bank has not registered its consent judgment nor acted under its right to appoint a receiver.

Under the terms of the debt restructuring, no Party will take any further proceedings or steps as Plaintiff in respect of any existing action against Turbo or any of its affiliates or in respect of or in relation to the assets of Turbo or any of its affiliates, until the earlier of July 31, 1985 or such other date as is mutually agreed or the failure of Turbo shareholders to approve the Plan of Arrangement. Further, the Parties have agreed that during the above period, no new claims, actions or proceedings will be initiated by any of them against Turbo or any of its affiliates. If the Plan of Arrangement is approved, all judgments will be satisfied by the issue of shares and debentures in accordance with the debt restructuring.

- (e) In October, 1983, a statement of claim was served by several of the Company's unsecured lenders which claims that certain security granted to the Company's principal lender in 1982 was granted as a fraudulent preference. The Company filed a statement of defence denying that a fraudulent preference was created when the security was granted. All parties consented to the action being dismissed without costs in late 1984.

## 9. SHARE CAPITAL

### Authorized

At December 31, 1984 and 1983, the authorized share capital was

15,000,000 special shares without nominal or par value, convertible share for share into common shares.

150,000,000 common shares without nominal or par value, carrying a per share dividend 1.2 times greater than that paid on special shares.

1,000,000 first preferred shares, issuable in series with a par value of \$20 each.

10,000,000 second preferred shares, issuable in series with a par value of \$20 each.

25,000,000 junior preferred shares with a par value of \$20 each.

The common shares are entitled to one vote per share. The special shares are entitled to votes equal to three times the number determined by dividing the total of all shares represented and voted at a meeting of shareholders by the total of all special shares represented and voted at such a meeting. In the event of wind-up, special shares and common shares have equal distribution rights.

### Redeemable Preferred Shares

#### *First preferred shares, series A*

In 1977, the Company issued 250,000 8¾% cumulative redeemable first preferred shares, series A, due 1987, with a par value of \$20 each. The Company has the right to redeem all or any part of these first preferred shares after October 1, 1982 at \$21.25 reducing to \$20.00 by 1987. The total amount of dividends in arrears at December 31, 1984 was \$1,118,000.

As the Company has been unable to pay a total of twelve quarterly dividends on the first preferred shares, the holders of the first preferred shares are entitled (i) to notice of and to attend all meetings of the shareholders of the Company; (ii) to one vote thereat in respect of each first preferred share held; and (iii) voting separately and exclusively as a class, to elect two directors of the Company.

#### *Second preferred shares, 1980 retractable series*

On August 26, 1980, the Company issued 1,250,000 10½% cumulative redeemable retractable second preferred shares, 1980 series. Subject to legal restrictions, a shareholder may require the Company to purchase all or any of these shares on October 1, 1985 and October 1, 1990 at \$20 per share, plus any accrued and unpaid dividends. These shares are redeemable by the Company any time after October 1, 1985 at \$20.80 per share reducing by \$0.16 per annum to \$20 per share in 1990, plus any accrued and unpaid dividends. The total amount of dividends in arrears at December 31, 1984 was \$7,673,000.

As the Company has been unable to pay a total of twelve quarterly dividends on the second preferred shares, the holders of the second preferred shares are entitled (i) to notice of and to attend all meetings of the shareholders of the Company; (ii) to one vote in respect of each second preferred share held, but restricted as to election of directors only; and (iii) voting separately as a class, to elect one member of the board of directors if the board then consists of eight or fewer directors or two members of the board if the board then consists of more than eight directors.



## Stock Options

In 1981 the shareholders approved the Employee Incentive Stock Option Plan (1981) for officers and employees of the Company, replacing the previous plan. Unexpired options granted prior to 1981 under the old plan continued in effect. During 1983 and 1984, the board of directors did not grant any further stock options. During 1984 all existing stock options were voluntarily cancelled.

	Stock Options	
	Common	Special
Balance, January 1, 1982	431,200	4,500
Expired	(166,500)	(4,500)
Balance, December 31, 1982	264,700	—
Expired	(120,200)	—
Balance, December 31, 1983	144,500	—
Cancelled	(144,500)	—
Balance, December 31, 1984	—	—

## 10. INCOME TAXES

The difference between the Canadian statutory rate and the effective tax rate in the consolidated statements of loss results from the Company not recognizing the potential future benefit of tax loss carry forwards because virtual certainty of utilization does not exist.

As at December 31, 1984 the consolidated group had non-capital losses carried forward of \$240,024,000 and net capital losses carried forward of \$80,922,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire as follows:

1985	\$ 204
1986	24,934
1987	53,315
1990	62,662
1991	98,909
	<u>\$240,024</u>

The net capital losses may be carried forward indefinitely and deducted against taxable capital gains. In addition, the undepreciated capital cost and unclaimed Canadian Exploration and Development Expenditures at December 31, 1984 exceeded net book value by \$48,600,000.

The potential future reduction of income taxes payable which could result from these amounts have not been recognized in these consolidated financial statements. Implementation of the Financial Reorganization (Note 1), which includes capitalization of interest and satisfaction of debt by the issue of shares of the Company, may significantly affect the ability of the Company to utilize either its loss carry forwards or the undepreciated capital cost of its depreciable assets.

## 11. EXTRAORDINARY ITEMS

The extraordinary items in 1984 consist of a provision of \$5,142,000 to reflect the impact of an offer intended to be made to Bankeno warrant holders as described in Note 14 and a gain of \$39,371,000 resulting from the Company's sale of its investment in Bankeno, as described in Note 3. The carrying value of Bankeno had been reduced by \$108 million in 1983 as a result of an unusual impairment provision recorded by Bankeno. During 1982, a decision was made to sell the Company's real estate development assets resulting in these assets being written down to net realizable value as at December 31, 1982.

## 12. LOSS PER SHARE

Loss per share has been calculated using the monthly weighted average number of shares of each class outstanding during the year. The weighted average number of outstanding common shares is increased to reflect their entitlement to dividends 1.2 times that paid, per share, on special shares. Losses have been allocated between the two classes in proportion to the weighted average numbers outstanding.

### Conversion of Special to Common Shares

If all outstanding special shares were converted to common shares, loss per share before extraordinary items would be \$4.04 (1983 — \$10.31; 1982 — \$4.72) and loss per share would be \$2.76 (1983 — \$10.31; 1982 — \$5.13).

## 13. LEASE OBLIGATIONS

The Company has operating lease obligations for marketing outlets, equipment, and office space, expiring from 1985 to 1991. Minimum annual rental payments are:

1985	\$3,649
1986	\$3,076
1987	\$2,106
1988	\$1,344
1989	\$ 868
Thereafter	\$3,407

## 14. COMMITMENTS AND CONTINGENCIES

In the process of acquiring Merland, Bankeno, a former subsidiary company, issued share purchase warrants. These warrants, which expire March 17, 1986, allow the holder to acquire one common share of Bankeno for \$9.00, or required Turbo to purchase the warrants for \$3.50 per warrant during a thirty day period commencing March 17, 1983. In a letter to warrant holders at that time, Turbo indicated that it would not be in a position to meet this cash obligation. The Company intends to make an offer to the holders of Bankeno share purchase warrants following the Financial Reorganization based on a face value of \$3.50 per warrant (Note 1, Pro-Forma Information). This obligation extends to 1,469,250 warrants at December 31, 1984. Accordingly, to reflect the impact of the intended offer, a provision of \$5,142,000 has been recorded as an extraordinary item in 1984 (Note 11).

At December 31, 1984 the Company had outstanding letters of credit and guarantees totalling \$5,894,000.

The Company is a defendant, along with several other defendants, in an action by certain of Bankeno's minority shareholders for an order of the court that the transactions, whereby Bankeno acquired shares of Merland held by the Company and other assets of the Company in return for shares and warrants of Bankeno, be set aside, and that the issue of these Bankeno shares and warrants be cancelled. The Company has filed a statement of defence. The outcome of this litigation cannot be predicted at this time.

The same minority shareholders of Bankeno have also brought action against North Canadian Oils Limited, who purchased the Company's Bankeno shares and warrants in 1984. The Company has been informed that it may be joined in this action as defendant and a claim for \$5,000,000 in damages made against it for the alleged conversion of the shares of Bankeno issued to the Company. The outcome of such an action, if the Company is joined as a defendant, is not determinable at this time.

Under purchase/sale agreements with certain suppliers, the Company is committed to purchase 373,000 barrels of product in 1985 at various agreed prices, subject to adjustment for changes in government regulation of crude oil prices and compensation charges.

## 15. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration of directors and officers as defined by the Companies Act, Alberta, was:

	<u>1984</u>	<u>1983</u>
Directors' fees	\$101	\$ 45
Officers	<u>753</u>	<u>1,232</u>
	<u>\$854</u>	<u>\$1,277</u>

At December 31, 1984, the Company had 10 directors and 7 officers, 4 of whom were serving in both capacities. During the year, the Company had 12 directors and 8 officers, 5 of whom served in both capacities. In 1983, the Company had 9 directors and 11 officers, 6 of whom served in both capacities during the year.

The aggregate amount paid to directors and officers during the year by non-consolidated subsidiaries was \$188,000 (1983 — \$316,000).

No officers' bonuses have been accrued for 1984 or 1983.

## 16. RELATED PARTY TRANSACTIONS

Throughout the year, the Company, as general partner of TBR Gas & Oil Production Funds and Programs, participated in certain properties on a joint venture basis with two formerly affiliated companies, Merland and Bankeno. The terms of the joint venture agreements are considered comparable with non-related parties.

## 17. ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

The accounting policies described in Note 2 differ from accounting principles generally accepted in the United States as follows:

Effective for 1983, Financial Accounting Standards Board Statement No. 52 required translation of (i) all accounts at the current exchange rate for all foreign entities when the books of record are maintained in its functional currency and (ii) all assets and liabilities at the year-end exchange rate and depreciation, depletion and amortization at the weighted average exchange rate for the year. Translation adjustments resulting from the process of translating an entity's financial statements from its functional currency into the reporting currency shall not be included in determining net income but shall be accumulated in a separate component of equity. Had long-term debt been translated at current rates for the year ended December 31, 1983, long-term debt would have increased by \$3,409,000.

Financial Accounting Standards Board Statement No.8 required translation of long-term monetary assets and liabilities at year-end exchange rates. Had long-term debt been translated at current rates for the year ended December 31, 1982, long-term debt would have increased by \$6,650,000.

The S.E.C. has required oil and gas producing companies to use standard forms of full cost or successful efforts accounting. Differences from the Company's full cost accounting policies are:

Amortization of oil and gas property costs including production equipment, is to be provided on the unit-of-production method on a country-by-country cost centre basis rather than on a North American cost centre basis.

Workover costs are to be expensed as incurred rather than capitalized and amortized on a unit-of-production basis.

The S.E.C. requires that idle drilling rigs be depreciated. The Company policy was to depreciate rigs at a standard operating rate per day. Had the idle drilling rigs been depreciated at 4%, loss from discontinued operations would have increased by \$2,125,000 in 1984 (\$2,500,000 in 1983). These rigs were owned by subsidiaries which were reported on a discontinued operations basis.

If the consolidated financial statements had been presented under United States generally accepted accounting principles, the net loss would be:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
		Reclassified (Note 3)	Reclassified (Note 3)
Loss from continuing operations (as reported)	<b>\$ 85,007</b>	\$103,369	\$ 79,744
Adjustments, net of applicable income taxes for long-term debt translation	<u>—</u>	877	4,171
Loss from continuing operations (as adjusted)	<u><b>85,007</b></u>	<u>104,246</u>	<u>83,915</u>
Loss from discontinued operations (as reported)	<b>19,862</b>	168,772	43,244
Adjustments, net of applicable income taxes for			
Full cost accounting	—	(22,865)	22,319
Depreciation of idle drilling rigs	<b>2,125</b>	2,500	—
Write-down of assets of Real Estate Division (Note 11)	—	—	10,986
Extraordinary items (Note 11)	<u><b>(34,229)</b></u>	<u>—</u>	<u>—</u>
(Income) Loss from Discontinued operations (as adjusted)	<u><b>(12,242)</b></u>	<u>148,407</u>	<u>76,549</u>
Loss as adjusted	<u><b>\$ 72,765</b></u>	<u>\$252,653</u>	<u>\$160,464</u>

Under United States accounting practice, and after giving effect to these differences, loss per share would be:

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Loss per share from continuing operations			
Common	<b>\$3.41</b>	\$4.15	\$3.35
Special	<b>\$2.84</b>	\$3.47	\$2.79
Loss per share for the year			
Common	<b>\$2.93</b>	\$9.90	\$6.35
Special	<b>\$2.44</b>	\$8.27	\$5.28

Under the accounting rules of the S.E.C., the Company's second preferred shares, 1980 retractable series would be classified outside of shareholders' equity on the consolidated balance sheet as redeemable preferred shares with mandatory redemption provisions. As at December 31, 1984 and 1983, net capital deficiency as shown on the consolidated balance sheets would have amounted to \$391,160,000 and \$318,426,000 respectively, had the preferred shares been shown separately and consolidated deficit adjusted for the effect of these differences.

## 18. SEGMENT INFORMATION

The Company's only significant business segment is the refining and marketing of petroleum products. Export sales of petroleum products to the United States amounted to \$72,393,000 (1983 — \$47,311,000). In 1982, the Company had export sales of \$15,400,844, primarily to customers in Korea.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Hugh W. Bevan Brooks, Alberta	Senior Partner, Bevan, Hagen, Halbert & Ginet (Chartered Accountants)
Yvonne T. Brunet Red Deer, Alberta	President & General Manager, Vonco Oilfield Supply Ltd., (Oilfield Supply Company)
Norman R. Gish Calgary, Alberta	Chairman of the Board, President and Chief Executive Officer, Turbo Resources Limited
J. Frank Johansen Lethbridge, Alberta	President, Sturdie Oils Limited (Resource Company)
Robert McClinton Calgary, Alberta	Vice-President, Finance and Administration, Turbo Resources Limited
Bruce P. R. Millar Calgary, Alberta	Vice-President, Marketing, Turbo Resources Limited
Ian R. Mills Toronto, Ontario	Vice-President of Finance, Campbell Resources Inc.
Valerie A. A. Nielson Calgary, Alberta	Professional Geophysicist
J. Gerald Sioui Calgary, Alberta	Vice-President, Supply and Distribution, Turbo Resources Limited
Vance Kenneth Travis Calgary, Alberta	President and Chief Executive Officer, Liberty Holdings and Industries Ltd.

### CORPORATE OFFICERS

Paul A. Core	Vice-President, Refining
Norman R. Gish	President and Chief Executive Officer
Daniel H. Herron	Treasurer
David L. James	Secretary
Robert McClinton	Vice-President, Finance and Administration
Bruce P. R. Millar	Vice-President, Marketing
J. Gerald Sioui	Vice-President, Supply and Distribution

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## **REGISTRAR AND TRANSFER AGENTS**

### **Montreal Trust Company of Canada**

Calgary, Alberta  
Winnipeg, Manitoba  
Toronto, Ontario  
Montreal, Quebec  
Vancouver, British Columbia

### **Harris Trust Company of New York**

New York, N.Y.

### **Orion Royal Bank Limited**

London, England

## **STOCK EXCHANGE LISTINGS**

The Alberta Stock Exchange  
The Toronto Stock Exchange  
The Montreal Exchange



