

**TURBO RESOURCES LIMITED**  
Annual Report 1983



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
OCT 2 1986  
MCGILL UNIVERSITY



# Financial Highlights

In 1983 Turbo began to account for Bankeno on the equity basis rather than consolidating because of the formal plan to dispose of that subsidiary. In order to provide a more relevant comparison, the 1982 results have been provided on a

pro-forma basis to reflect what they would have been had Bankeno been accounted for on the equity basis from January 1, 1982. This information has been provided in detail in Note 6 to the consolidated financial statements.

The 1983 financial results are summarized in the following table with 1982 actual and 1982 pro-forma figures for comparison:

	(\$000's except for per share data)		
	1983	1982 Pro-forma	1982
Revenue	<b>\$588,798</b>	\$536,076	\$599,184
Operating Income (Loss) Before Depreciation	<b>6,303</b>	(7,305)	38,233
Operating Loss	<b>20,761</b>	28,133	12,138
Interest Expense	<b>94,909</b>	80,377	99,090
Loss Before Unusual and Extraordinary Items, Taxes and Minority Interest	<b>123,994</b>	119,169	115,342
Loss for the Year	<b>277,807</b>	133,974	128,308
Loss Per Share			
Before Extraordinary Items			
Common	<b>10.87</b>	4.85	4.64
Special	<b>9.09</b>	4.03	3.86
For the year			
Common	<b>10.87</b>	5.32	5.10
Special	<b>9.09</b>	4.42	4.24
Working Capital Deficiency	<b>585,162</b>	395,637	419,552



# Report to Shareholders

We made steady progress during 1983 towards our restructuring plan and the restoration of the Company's financial health. The task is not an easy one and it has taken much longer than expected. Your patience and understanding is very much appreciated.

We have reached agreement on the principles of our restructuring plan with our lenders and the Alberta and Federal governments. We have not been able to take the plan to our shareholders and debentureholders for their approval because final approval by the lenders is based on solving the Merland minority situation. The offer to the Merland minority is coupled with the sale of Turbo's interest in Bankeno Mines Limited and we have not been successful to date in selling that interest.

The restructuring of Turbo's debt can no longer await the sale of Bankeno and the eventual satisfaction of any outstanding obligation to the Merland minority. Therefore a new approach will have to be taken and we are currently working on a plan which would allow our restructuring to take effect prior to the sale of our interest in Bankeno and a resolution of any obligation we may have to the Merland minority.

Because of our announced intention to sell our interest in Bankeno we have accounted for Bankeno on an equity basis in 1983 rather than on a consolidation basis as we did in 1982. This means that instead of assets, liabilities, revenues and expenses of Bankeno being consolidated with those of Turbo on an item by item basis, we show the investment in Bankeno as a one line entry under "Investments" on the balance sheet and we include Turbo's share of the income or loss of Bankeno under "Share of income or loss of affiliated companies" on the statement of loss. When Bankeno has an unusual or extraordinary item, as is the case this year, Turbo's share of that item is also shown separately on that statement. For ease of comparison in the text of this report the references to 1982 will be as though we accounted for Bankeno on an equity basis also in 1982.

We succeeded in a number of other important areas during 1983. For example, we completed the sale of our packaging plants in Edmonton and Winnipeg and the sale of all of the real estate development projects in the United States and most of those in Canada. The proceeds were used to pay down long-term debt. Further steps were taken to streamline the Company's operations and to reduce indirect costs including general and administrative expenses. We succeeded in reducing such expenses from \$69 million in 1982 to \$52 million in 1983, a

reduction of 25%. Our operating results have improved and, since February 1983, we have generated enough cash flow to meet all current operating requirements other than interest payments.

Against that background of accomplishment unfortunately we still have to report a substantial consolidated loss for 1983 of \$278 million. Most of the loss, however, is a result of unusual items, interest expense and depreciation. The Company recorded operating income before these deductions of \$6 million in 1983 compared to an operating loss of \$7 million, in 1982.

We also experienced a further deterioration in our working capital during the year of \$166 million bringing our working capital deficiency at year end to \$585 million. Of this deficiency \$270 million is directly attributable to debt which has been reclassified from long-term to current over the past three years. The consolidated long-term debt and bank indebtedness of Turbo at the end of 1983 amounted to \$858 million, of which \$96 million resulted from consolidations of the debt of subsidiaries, excluding Bankeno.

Revenues for 1983 were \$589 million compared to \$536 million in 1982, an increase of \$53 million. Revenues from the resource services sector (Challenger International Services Ltd.) dropped from \$141 million in 1982 to \$83 million in 1983 further evidencing the depressed state of the drilling industry in North America.



Fortunately, oil products sales increased from \$385 million to \$499 million. A large portion of this increase resulted from sales to outside purchasers from our refinery at Balzac which operated for the whole year in 1983 after commencing commercial production on October 1, 1982.

The loss of \$278 million or \$10.87 per common share after unusual items of \$148 million compares to a loss for 1982 of \$128 million or \$5.10 per common share after an extraordinary item in that year of \$12 million. In 1983 depreciation amounted to \$27 million; our share of the loss of affiliated companies, \$5 million; interest expense, \$95 million; the equity share of the unusual impairment in Bankeno's carrying value of its natural resource properties, \$108 million; contract settlements and the write-down of certain assets in Challenger, \$33 million; and the write-down of real estate assets in Turbo, \$5 million.

It is clear from the severe losses of the last two years, which have resulted in a substantial net capital deficiency, that a reorganization of the capital of the Company will have to be undertaken. It is proposed that this be done at a special meeting of shareholders to be called later this year in conjunction with a meeting to approve the overall restructuring plan.

You will be aware from the Information Circular that a number of additional persons have been added to the slate of directors to be elected at the annual general and special meeting.

Under the provisions of the two preferred share issues, each class of preferred shareholders has the right to nominate two directors to the Board should the Company miss eight consecutive preferred share dividends. The Company has missed such payments and the preferred shareholders now have the right to elect these directors to the Board.

To make it possible for such nominees to stand for election, to assist the Company in attracting other strong outside directors and to retain present key officers and directors on the Board, it has been necessary to create a trust to protect directors from statutory liabilities imposed by governments on directors for payment of various taxes and wages. In Turbo's case, these liabilities can run as high as \$9 million at certain times of the month because of the taxes imposed on the sale of petroleum products. The Articles of Association of the Company provide for such indemnification of directors and the trust ensures there is security for that indemnification. Real estate with a carrying value of \$7 million has been transferred to that trust.

We at Turbo are optimistic about our future despite the obstacles and difficulties that lie ahead. Our first priority is to get our restructuring plan in place and we hope to have that accomplished by year-end.

Again our appreciation to all our employees who are working hard to turn the Company around, to our lenders, debentureholders and shareholders for their patience while we go through the slow, torturous restructuring process and to the Alberta and Federal governments, who continue to give their positive support.

On behalf of the Board



Norman R. Gish  
Chairman, President and  
Chief Executive Officer

May 8, 1984  
Calgary, Alberta



# Operations Review

## OIL PRODUCTS

The Oil Products group within Turbo is made up of refining, supply and distribution and marketing. Because the cash flow generated in Challenger International Services Ltd., Bankeno Mines Limited and Merland Explorations Limited is dedicated to servicing the debt and the operational needs of those respective subsidiary companies, all Turbo's cash flow comes from the Oil Products group. It is for this reason that the results of this group are so important to Turbo's recovery.

Revenue of this group increased from \$385 million in 1982 to \$499 million in 1983 on assets of \$365 million (\$359 million in 1982).

Operating income before depreciation rose to \$10 million in 1983 from \$3 million in the previous year. A full year's operation of the refinery versus only three months in 1982 accounts for part of the increase, with the remainder due to extensive cost cutting measures. The Oil Products group is expected to show more positive results in future years as the economy improves. Income from the Oil Products group is very sensitive to volumes and margins at the service station pump and increased economic activity should improve both of these factors.

## Refinery

Turbo's 30,000 barrel per day refinery at Balzac, on the outskirts of Calgary, was deemed to be in full commercial production October 1, 1982. The refinery has "state of the art" technology and produces gasoline, diesel fuel, heavy fuel oil, propane and butane. In 1983, annual average refinery throughput was 70.6% of nameplate capacity increasing in the last half of 1983 to an average 82.3% of capacity. Sustained maximum throughput in August and September, 1983 was as high as 91.3%.

The employees at the refinery have demonstrated an ability to operate the process units on a very flexible basis which is a necessity in today's environment as the ever-changing demands of the marketplace can require a change from maximizing the production of diesel to maximizing the production of gasoline and vice versa in a short time-frame. This flexibility at the refinery has given the Company a competitive edge in the market.

Turbo is also pleased to report that at December 31, 1983 over 277,000 man hours had been accumulated by refinery employees without a lost time accident. This is an excellent safety record, well above industry standards.

In 1984, the refinery will continue to optimize processing unit performance and to keep costs to a minimum. The commissioning of a complex linear computer program, to model the plant production, will enhance the strategic planning necessary to maximize plant profitability.

## Supply and Distribution

The supply and distribution division is responsible for arranging the supply of feedstocks (principally crude oil) for the refinery and selling the products produced. Sales and trades are made with a wide variety of third parties in addition to sales through Turbo's own marketing outlets.

An important market for Turbo in 1983 was the United States which accounted for 930,000 barrels of gasoline and diesel totalling \$36.5 million. The principal market was Northern Montana which is within the economic orbit of the refinery. In February 1984, Turbo was granted an export license for the remainder of the year to export up to a total of 6,000 barrels per day of gasoline and diesel to the United States.

## Marketing

Turbo's marketing division increased sales volumes by approximately five per cent over 1982 in spite of the soft demand for petroleum products arising out of the economic recession and the impact of fuel efficient vehicles. Product surpluses, price wars and Turbo's financial circumstances, which made it difficult to develop new service station sites, all added to the challenge of maintaining and increasing market share.

Sales volumes over the years have steadily increased except for 1982. Volumes in that year dropped by 4% compared to the decline in volumes of the industry generally of 10%. In 1983, Turbo not only regained its 1981 position, but exceeded it.



The following tables show Gasoline and Fuel Sales for the years 1976 to 1983 and by province for 1983.

#### Fuel Sales 1976 to 1983

Year	Gasoline & Fuel Sales (Millions of Litres)	% Increase (Decrease) From Previous Year
1976..	380	
1977..	425	11.9
1978..	476	12.1
1979..	574	20.6
1980..	689	20.0
1981..	843	22.4
1982..	810	(4.0)
1983..	855	5.5

#### Sales by Province for 1983

Province	Gasoline & Fuel Sales (Millions of Litres)	%
B.C. ....	91	10.6
Sask. ....	130	15.2
Alberta. ....	444	51.9
Manitoba ...	39	4.6
Ontario ....	147	17.2
N.W.T. ....	4	.5
Total ....	855	100

Turbo sells its products from retail and wholesale marketing outlets located from Vancouver, British Columbia to Kingston, Ontario. Of the 259 outlets at December 31 1983, 81 were owned, 125 were leased and 53 were independent. An important link between Turbo and its customers are our dealers and agents, who have shown continued dedication and enthusiasm.

#### Transportation

Freeway Transport Limited and its subsidiaries achieved outstanding success during 1983 in terms of equipment

utilization and reliability, in the face of very difficult circumstances. While our fleet did not expand in size, we were able to effect a modest upgrading of the fleet in total, by trading a few units for new ones and by carrying out planned maintenance of a major nature on others. The net effect is that the fleet was able to carry considerably more fuel, without expanding the number of units. This constitutes fine performance on the part of the management and drivers of this group.

#### Lubricants Manufacturing and Marketing

Turbo's Lubricants Manufacturing and Marketing Division completed a substantial reorganization and rationalization process during 1983. This included the sale of our bottle blowing and packaging facility in Edmonton early in the year, and the subsequent sale of our Winnipeg packaging and warehousing facility at mid-year. In both situations, virtually all of the employees found employment with the new owners.

This division now operates our lubricants re-refinery and blending facility in Edmonton, and markets the end products to a wide variety of customers across most of Canada. It is still the Company's strategy to move out of the lubricants manufacturing business and when Turbo's restructuring is in place and the writs of execution lifted, Turbo plans to proceed with the sale of these facilities.

#### RESOURCE SERVICES

The Resource Services Group is centred in Challenger International Services Ltd. Its activities include oil and gas well drilling and servicing, mineral, construction and waterwell drilling, oilfield supply, and the sales and rental of heavy construction equipment. It operates in overseas markets such as Africa, Asia and South America in addition to Canada and the United States.

Resource Services activity continued at depressed levels during 1983. Revenue decreased from \$141 million in 1982 to \$83 million in 1983, a decline of 41%. A reduction in general and administrative expenses and a decrease in depreciation assisted in keeping the loss before interest and unusual items to \$9 million compared to \$11 million in 1982.

In the drilling industry, there is low demand and a large oversupply of drilling equipment remaining from the boom years of 1978 to 1981. This has led to intense bidding practices as competition for contracts remains stiff. Activity in oilwell drilling is gradually improving in North America, but the cost of rig start-ups is high and contract prices are still marginal.

Activities in Challenger's Well Servicing Division in the United States levelled off in 1983 and in Canada, although activity dropped, Challenger maintained its fair share of the market.



Mineral exploration drilling in the U.S. steadily increased in 1983 and shows signs of further growth in 1984. However, in Canada a significant decline occurred and opportunities were both scarce and lacking in profitability.

The group's overseas subsidiary manages its operations from Athens, Greece, and is successfully continuing oil and gas well drilling, well servicing, management, labour and training services in Libya, Egypt and Pakistan. Challenger has been operating in Libya since 1977, and in Egypt and Pakistan since 1982. In these areas, it has on contract 3 drilling rigs, 8 workover rigs and 1 waterwell rig as well as management, labour and training contracts for drilling and service rigs sponsored through an assistance program of the Canadian Government. Challenger is giving top priority to drilling, servicing and related opportunities throughout Europe, Africa, the Middle East, the Far East and the Asian sub-continent with a view towards expansion in these markets in 1984.

## **BANKENO MINES LIMITED**

Bankeno increased revenues 22% to \$83 million in 1983. This was primarily as a result of including Merland, 54% owned by Bankeno, for all of 1983 compared to 9½ months for 1982. Merland contributed \$73 million in gross revenue versus \$60 million for 1982 while Bankeno Resources revenue increased to \$10 million in 1983 from \$8 million in 1982. Improved oil production combined with reduced interest expense and a profit in Merland of \$5 million allowed Bankeno to reduce a 1982 loss before unusual items of \$9 million to \$7 million in 1983.

The necessity for a write-down of oil and gas assets to comply with generally accepted accounting principles resulted in a net loss of \$162 million but this write-down should improve the future profitability of Bankeno. As a result of the evaluation of Bankeno's oil and gas assets at December 31, 1983 by independent engineering consultants, its accumulated carrying cost of petroleum and natural gas properties was found to be in excess of the value of its underlying reserves. The decline in reserve value from 1982 is a result of the unfavourable impact on cash flow of depressed natural gas and oil prices, reduced natural gas demand and the decline in production profiles of certain U.S. reservoirs.

The write-down was \$155 million with \$97 million attributable to Canadian properties and \$57.9 million to the United States properties. Turbo was carrying these properties at a lower value than Bankeno and therefore its equity share of the write-down is only \$108 million. It should be noted that the impairment provision was determined based on oil and gas assets only and did not include the estimated value of Bankeno's investment in Panarctic Oils Ltd. or the Polaris Mine. Based on an independent engineering evaluation, the royalty interest in the Polaris Mine was valued in March, 1984 at \$28 to \$43 million while its carrying value in Bankeno is \$8 million.

## **Merland Explorations Limited**

The lower levels of economic activity in North America combined with the short term over-supply of natural gas in the United States had a dramatic effect on the marketability of Canadian natural gas. Purchasers of natural gas in North America modified their contractual commitments to producers as a result of the lack of demand. Merland's major gas purchaser, Trans Canada Pipelines, took only an average of 47% of their contractual commitment during 1983.

On the positive side, recent changes in Saskatchewan's energy policy significantly



improve the economic viability for Merland to develop its extensive oil and gas holdings. These are situated in the Southwest portion of that province where Merland has commenced the development of sizeable gas reserves. In addition, the oil development project in the Dodsland area has proven to be successful with continued development expected for 1984.

Due to the constraints outlined, Merland's natural gas production declined to  $709 \times 10^6 \text{m}^3$  in 1983 from  $762 \times 10^6 \text{m}^3$  in 1982. Increased oil production volumes helped offset the reduction of revenue from natural gas sales. Total crude oil production during the year was  $38 \times 10^3 \text{m}^3$  as compared to  $25 \times 10^3 \text{m}^3$  in 1982.

Proven and probable reserves, determined by independent evaluators at year end, were increased during the year to  $13,452 \times 10^6 \text{m}^3$  for natural gas representing a 20-year supply at current production levels. Crude oil and natural gas liquid reserves were  $377 \times 10^3 \text{m}^3$  for a 43% increase over 1982 representing a 10-year supply at current production levels.

In 1983 Merland participated in the drilling of 159 wells resulting in 91 gas wells, 39 oil wells and 29 dry and abandoned wells for a success ratio of 82%.

After thorough review, it was decided to discontinue the United States operations of Merland. This was accomplished by selling all producing properties and substantially all non-producing properties in the United States and in turn acquiring Canadian properties from the same purchaser which were compatible with present operations. The benefit from this transaction and the suspension of United States operations should reflect favourably on future results of Merland.

Merland believes the demand for natural gas in North America will once again gradually return to the more historical patterns of the late 70's. It is positioning itself over the next two to three years to maximize such opportunities and to continue to be a significant natural gas producer in Western Canada. To compliment this strategy, they are expanding exploration programs for crude oil in the Western Sedimentary Basin.

### **Other Oil and Gas Properties**

The other oil and gas properties of Bankeno are operated through its subsidiaries, Bankeno Resources Ltd. and Leaside Resources, Inc.

Bankeno Resources holds Canadian oil and gas properties, mainly in Western Canada. During 1983, Bankeno participated in 24 wells which resulted in 2 gas wells, 18 oil wells and 4 wells which were dry and abandoned. In addition, the company farmed out 7 wells resulting in 3 gas, 2 oil and 2 dry and abandoned wells. During the year, gas production increased by 42% from 1982 levels to  $32.8 \times 10^6 \text{m}^3$  of natural gas. Similarly oil production increased by 50% to  $21.1 \times 10^3 \text{m}^3$  of crude oil.

The increase in the Company's oil production was due to increased production levels from several existing fields, as well as new production from the Sylvan Lake area.

Leaside's assets are principally undeveloped acreage in the mid-western United States. During late 1982 a program was initiated to evaluate Leaside's existing land inventory. This time consuming process has now been completed with all lands listed on a priority basis which will be used in selecting those lands to be retained and those to be sold. Through this process, yearly land rentals will be reduced.



### **Panarctic Oils Ltd.**

Bankeno has a 1.45% interest in Panarctic Oils Ltd., Canada's most active explorer in the Canadian Arctic Islands. Panarctic is a private company with the majority of shares owned or controlled by the Government of Canada. Incorporated 16 years ago to explore the Canadian Arctic, Panarctic has drilled in excess of 170 wells and expended \$400 million.

The investment in Panarctic will not provide a return to the shareholders for several more years. However, there are steps being taken now for a plan which could result in significant production revenues through the sale of discovered oil on Cameron Island. First production could be as early as September 1985.

### **Polaris Mine**

Bankeno holds a 25% royalty interest in the Polaris Mine which is owned and operated by Cominco. Located on Little Cornwallis Island in the Canadian Arctic, Polaris is one of the richest zinc and lead mines in the world and holds the undisputed distinction of being the most northerly.

Good progress was made in 1983, the first full year of operations, with 829 000 tonnes of ore being milled. Nine merchant vessels were loaded with 183 500 tonnes of zinc concentrate and 41 400 tonnes of lead concentrate for shipment to European smelters.

Inventory at year-end consisted of 57 300 tonnes of zinc concentrate and 19 300 tonnes of lead concentrate at the mine. In 1983, production was 217 000 tonnes of zinc concentrate at 60.9% zinc and 51 100 tonnes of lead concentrate at 76.2% lead. Production capabilities from the existing reserves are expected for at least another 25 years.

Bankeno is anticipating strong cash flow through royalties received from operations, commencing as early as 1987. Until that time cash flows are dedicated to paying back the cost incurred by Cominco of developing the facilities and there is no impact on the earnings of Bankeno. Indications are that the production levels for 1984 should be slightly better than those of 1983.

### **QUEENSTON GOLD MINES**

Queenston, owned 50% by Challenger, is a junior gold mining and exploration company whose principal holdings are in the Kirkland Lake area of North-Eastern Ontario and North-Western Quebec. It has two producing interests, being properties held jointly with Lac Minerals Ltd. and produced by Lac's Macassa Mine at the west end of Kirkland Lake, and the Company's interest in the new McBean open pit gold mine and mill joint venture with Inco Limited. Development of the pit was completed in April, 1984, and first gold production commenced in May 1984.

Queenston owns outright or has a substantial interest in several other gold occurrences, a number of which have production possibilities. The most important of these is the wholly-owned Kirkland Lake West property adjoining the Macassa Mine. It also has varying interests in several properties in close proximity to the McBean Mill. In Quebec the Company holds a 100% interest in the Abitibi North Properties 20 miles east of the newly opened Detour Lake Gold Mine and a 60% interest in the Pandora Mine property currently under option to Camflo Mines Limited. With financing and start up of the McBean Mine and Mill now completed, Queenston is in a much stronger position to renew its exploration efforts on these properties.



# 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, 1983 and 1982 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, 1983. 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, 1983 and December 31, 1982. With respect to \$178,527,000 of such debt at December 31, 1983 and \$226,300,000 of such debt at December 31, 1982 more specifically described in Note 11(c) 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 1983 and 1982 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, 1983 and 1982 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, 1983, in accordance with accounting principles generally accepted in Canada (see Notes 2 and 22) applied on a consistent basis, after giving retroactive effect to the change in the method of calculating depletion, with which we concur, as explained in Note 3 to the financial statements.

*Deloitte Haskins & Sells*

Auditors  
Calgary, Alberta, Canada  
April 6, 1984

## 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 1983, 1982 and 1981 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  
April 6, 1984

# Consolidated Balance Sheets

(in thousands of Canadian dollars)  
At December 31

	Note	1983	1982
<b>Assets</b>			
Current Assets			
Cash and short-term deposits		\$ 2,071	\$ 2,317
Accounts receivable		46,552	84,484
Notes receivable		731	3,810
Inventories	5	87,913	116,633
Due from Bankeno Mines Limited		678	—
Other		4,784	7,387
		142,729	214,631
Investments	6	85,399	7,517
Property, Plant and Equipment	7	436,736	557,123
Petroleum and Natural Gas Properties (Under the full cost method of accounting)	8	8,546	363,746
Other Assets	9	17,506	19,224
		\$690,916	\$1,162,241

Approved by the Board



Director



Director

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



	<u>Note</u>	<u>1983</u>	<u>1982</u>
<b>Liabilities</b>			
Current Liabilities			
Bank indebtedness	10	\$354,474	\$ 282,958
Accounts payable		101,819	110,054
Accrued liabilities		18,981	19,440
Current portion of long-term debt	11	<u>252,617</u>	<u>221,731</u>
		<b>727,891</b>	634,183
Long-Term Debt	11	<b>250,880</b>	418,601
Deferred Revenue		<b>354</b>	29,932
Deferred Income Taxes		<b>1,904</b>	20,713
Minority Interest		<b>2,235</b>	73,439
		<u><b>983,264</b></u>	<u>1,176,868</u>
Commitments and Contingencies	1 & 18		
<b>Capital Deficiency</b>			
Share Capital	12		
Issued and fully paid			
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>82,647</b>	82,449
Special shares		<b>1,411</b>	1,470
Contributed surplus		<b>370</b>	423
Deficit		<u><b>(405,394)</b></u>	<u>(127,587)</u>
Net capital deficiency		<u><b>(292,348)</b></u>	<u>(14,627)</u>
		<u><b>\$690,916</b></u>	<u>\$1,162,241</u>



# Consolidated Statements of Loss

For the years ended December 31  
(in thousands of Canadian dollars except per share data)

	<u>Note</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>
Revenue		<b>\$588,798</b>	\$599,184	\$559,798
Costs and Expenses				
Direct costs		<b>530,793</b>	483,578	455,166
Indirect costs including general & administrative		<b>51,702</b>	77,373	67,191
<b>Operating Income Before Depreciation, Depletion and Amortization</b>		<b>6,303</b>	38,233	37,441
Depreciation, depletion and amortization		<b>27,064</b>	50,371	29,400
<b>Operating Loss (Income)</b>		<b>20,761</b>	12,138	(8,041)
Other Loss (Income)				
Loss (gain) on sale of property, plant & equipment		<b>1,254</b>	1,562	(1,728)
Loss (gain) on sale of investments		<b>302</b>	1,980	(1,233)
Share of loss of affiliated companies — Bankeno		<b>4,616</b>	—	—
— other		<b>447</b>	40	576
Loss on foreign exchange		<b>1,705</b>	532	114
		<b>8,324</b>	4,114	(2,271)
Interest Expense				
Short-term		<b>27,972</b>	28,870	13,198
Long-term		<b>66,937</b>	70,220	32,988
		<b>94,909</b>	99,090	46,186
<b>Loss Before the Undernoted</b>		<b>123,994</b>	115,342	35,874
Unusual Items	13	<b>148,261</b>	—	—
Net Provision for (Recovery of) Taxes	14	<b>5,203</b>	(849)	(14,557)
Minority Interest		<b>349</b>	1,725	(772)
<b>Loss Before Extraordinary Item</b>		<b>277,807</b>	116,218	20,545
Extraordinary Item	15	—	12,090	—
<b>Loss for the Year</b>		<b>\$277,807</b>	\$128,308	\$ 20,545
<b>Loss per Share (basic and fully diluted)</b>	16			
Loss before extraordinary item				
Common		<b>\$ 10.87</b>	\$ 4.64	\$ 1.01
Special		<b>\$ 9.09</b>	\$ 3.86	\$ .84
Loss for the year				
Common		<b>\$ 10.87</b>	\$ 5.10	\$ 1.01
Special		<b>\$ 9.09</b>	\$ 4.24	\$ .84

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)

	1983	1982	1981
<b>Working Capital Provided</b>			
Proceeds from long-term debt	\$ 1,808	\$ 42,531	\$452,080
Proceeds from sale of assets	15,506	30,608	13,664
Reclassification of assets	1,133	31,890	—
Working capital increase resulting from recording Bankeno on the equity method	23,915	—	—
Other	1,032	3,604	1,925
Issue of common and special shares, less cost of issue	—	64	50,774
Advances on natural gas sales contracts	—	18,749	3,528
Interest acquired by minority on reorganization	—	16,574	—
	<u>43,394</u>	<u>144,020</u>	<u>521,971</u>
<b>Working Capital Applied</b>			
Operations			
Net loss before extraordinary item	277,807	116,218	20,545
Items not affecting working capital			
Depreciation, depletion and amortization	(27,064)	(50,371)	(29,400)
Deferred income taxes	(1,831)	6,518	15,311
Share of loss of affiliated companies	(5,063)	(40)	(576)
Gains (losses) on sale of assets	(1,556)	(3,542)	2,961
Other	(1,983)	(5,088)	772
Unusual items	(119,358)	—	—
Total working capital applied to operations	120,952	63,695	9,613
Reclassification of long-term debt	54,659	179,567	35,790
Repayment of long-term debt	15,342	7,066	52,718
Additions to property, plant and equipment	9,313	136,320	294,680
Additions to petroleum and natural gas properties	333	58,889	31,519
Additions to investments	630	4,800	14,628
Additions to other assets	3,594	15,422	11,883
Other	4,181	1,223	1,670
Extraordinary item	—	12,090	—
Dividends declared	—	641	3,537
Dividends paid by subsidiaries to minority interests	—	2,874	1,661
Acquisition of subsidiaries	—	—	148,636
	<u>209,004</u>	<u>482,587</u>	<u>606,335</u>
<b>Decrease in Working Capital for the Year</b>	<b>165,610</b>	<b>338,567</b>	<b>84,364</b>
<b>Working Capital Deficiency (Position) at the Beginning of the Year</b>	<b>419,552</b>	<b>80,985</b>	<b>(3,379)</b>
<b>Working Capital Deficiency at the End of the Year</b>	<b><u>\$585,162</u></b>	<b><u>\$419,552</u></b>	<b><u>\$ 80,985</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)

	<u>1983</u>	<u>1982</u>	<u>1981</u>
<b>Changes in Components of Working Capital</b>			
<b>Decrease (Increase) in Current Assets</b>			
Cash and short-term deposits	\$ 246	\$ 7,587	\$ (7,531)
Accounts receivable	37,932	15,741	(35,193)
Notes receivable	3,079	989	(4,599)
Inventories	28,720	(22,193)	(61,831)
Due from Bankeno Mines Limited	(678)	—	—
Other	2,603	(4,250)	(1,337)
	<u>71,902</u>	<u>(2,126)</u>	<u>(110,491)</u>
<b>Increase (Decrease) in Current Liabilities</b>			
Bank indebtedness	71,516	161,156	92,018
Accounts payable and accrued liabilities	(8,694)	(1,260)	66,047
Current portion of long-term debt	30,886	180,797	36,790
	<u>93,708</u>	<u>340,693</u>	<u>194,855</u>
<b>Decrease in Working Capital for the Year</b>	<u>\$165,610</u>	<u>\$338,567</u>	<u>\$ 84,364</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	1983		1982		1981	
		Shares	Amount	Shares	Amount	Shares	Amount
<b>First Preferred Shares Series A</b>							
Balance January 1		212,900	\$ 4,258	213,900	\$ 4,278	224,400	\$ 4,488
Redeemed and cancelled		—	—	(1,000)	(20)	(10,500)	(210)
Balance December 31		<u>212,900</u>	<u>\$ 4,258</u>	<u>212,900</u>	<u>\$ 4,258</u>	<u>213,900</u>	<u>\$ 4,278</u>
<b>Second Preferred Shares 1980 Retractable Series</b>							
Balance January 1		1,218,000	\$24,360	1,220,800	\$24,416	1,245,100	\$24,902
Redeemed and cancelled		—	—	(2,800)	(56)	(24,300)	(486)
Balance December 31		<u>1,218,000</u>	<u>\$24,360</u>	<u>1,218,000</u>	<u>\$24,360</u>	<u>1,220,800</u>	<u>\$24,416</u>
<b>Common Shares</b>							
Balance January 1		21,264,245	\$82,449	20,925,381	\$81,706	15,764,121	\$28,046
Issued		—	—	59,020	64	4,300,000	50,525
Exercise of Stock options		—	—	—	—	351,855	2,702
Warrants		—	—	300	1	196,575	491
Conversions of special shares		219,352	59	390,689	105	278,975	73
Held by subsidiaries		—	—	—	—	—	—
January 1		159,757	170	48,612	743	82,467	612
December 31		(25,581)	(31)	(159,757)	(170)	(48,612)	(743)
Balance December 31		<u>21,617,773</u>	<u>\$82,647</u>	<u>21,264,245</u>	<u>\$82,449</u>	<u>20,925,381</u>	<u>\$81,706</u>
<b>Special Shares</b>							
Balance January 1		5,381,201	\$ 1,470	5,771,890	\$ 1,575	6,028,365	\$ 1,628
Exercise of stock options		—	—	—	—	22,500	20
Conversion into common shares		(219,352)	(59)	(390,689)	(105)	(278,975)	(73)
Balance December 31		<u>5,161,849</u>	<u>\$ 1,411</u>	<u>5,381,201</u>	<u>\$ 1,470</u>	<u>5,771,890</u>	<u>\$ 1,575</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)

	<u>1983</u>	<u>1982</u>	<u>1981</u>
<b>(Deficit) Retained Earnings</b>			
Balance January 1	\$(127,587)	\$ 1,362	\$ 27,119
Net loss for the year	<u>(277,807)</u>	<u>(128,308)</u>	<u>(20,545)</u>
	<u>(405,394)</u>	<u>(126,946)</u>	<u>6,574</u>
Deduct			
Cost of share issues (net of related deferred taxes of \$1,446,000)	—	—	1,518
Dividends declared			
First preferred shares, series A	—	—	383
Second preferred shares, 1980 retractable series	—	641	2,593
Common shares	—	—	444
Special shares	—	—	117
Foreign capital tax paid on a subsidiary's issue of additional share capital	—	—	157
	<u>—</u>	<u>641</u>	<u>5,212</u>
Balance December 31	<u><u>\$(405,394)</u></u>	<u><u>\$(127,587)</u></u>	<u><u>\$ 1,362</u></u>
<b>Contributed Surplus</b>			
Balance January 1	\$ 423	\$ 1,181	\$ 1,109
Loss on common shares and warrants acquired by subsidiaries and subsequently sold	(53)	(779)	(13)
Discount on redemption of preferred shares	—	21	85
Balance December 31	<u><u>\$ 370</u></u>	<u><u>\$ 423</u></u>	<u><u>\$ 1,181</u></u>

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



# Notes to the Consolidated Financial Statements

At December 31, 1983 and 1982 and for the three years ended December 31, 1983  
(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 adversely affect this going concern assumption

- a) As shown in the 1983 consolidated financial statements, the Company has incurred a net loss of \$277,807,000, current liabilities exceed current assets by \$585,162,000, excluding the potential effect of the debt reclassification described in (b) below, and total liabilities exceed total assets by \$292,348,000.
- b) As described in Notes 10 and 11, 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 judgements registered by certain creditors amounting to \$208,645,000 at December 31, 1983. In addition, the Company has not maintained certain financial covenants of its loan agreements. Consequently, repayment of debt classified in the consolidated financial statements as long term of \$178,527,000 could be demanded.
- c) As described in Note 18, an obligation to make an offer to the Merland minority shareholders exists. The Company has made an offer, which was accepted by a majority of the Merland minority, which is subject to a number of conditions. If the conditions are not met, and alternative arrangements cannot be made, the Company does not have sufficient funds or other assets available to satisfy the demands of the Merland minority shareholders in this regard.
- d) The Company owes \$78 million (including accrued interest) to Alberta and Federal Government departments which it is currently unable to pay. \$51 million (including accrued interest) of this amount is secured by a \$20 million mortgage on certain real estate assets. The principal portion of the \$78 million relates to crude oil purchases and levies thereon prior to February 28, 1983. Subsequent to this date, the Company has met all its commitments in this regard.
- e) As described in Note 18, a liability exists to certain Bankeno warrant holders as of March 17, 1983. Turbo has indicated that it is not in a position to meet this obligation.
- f) As described more fully in Note 18, other litigation exists which may or may not have an effect on the continuing operations 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.

Since negotiations started in early 1982, the Company has been in continuous meaningful discussions with its lenders concerning alternative methods of rescheduling its debt repayments, debt reduction measures (including asset dispositions and conversions to equity) and reorganizing the Company's equity structure, which are the critical elements of any practical agreement. Factors which have prevented an agreement include an inability to resolve the various security claims, to obtain the concurrence of all parties with the offer to the Merland minority shareholders and to reconcile the diverse interests of the parties involved.

The parties whose concurrence is necessary for any successful agreement are ten financial institutions, the Trustee for the 12½% partially convertible debentures, the Bankeno warrant holders, the Merland minority shareholders, the Federal and Provincial Governments and the Company's shareholders.

The Company's continuation as a going concern is dependent upon obtaining an agreement or agreements with the parties above and achieving successful profitable operations under the new



structure. Negotiations with the various lenders and creditors are progressing well but a successful conclusion is not assured at this time. The Company is optimistic that an agreement will be reached which will result in the parties involved ultimately realizing more of their claims through the continued operations of the Company as a going concern than would be available in a bankruptcy or liquidation of the Company.

## **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 22.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Turbo Resources Limited, all its wholly owned subsidiaries and Challenger International Services Ltd. (Challenger — 100% equity interest, 94.18% voting control). Turbo's 90% owned subsidiary, Bankeno Mines Limited (Bankeno), which also owns 54% of Merland Explorations Limited (Merland), was previously consolidated (Note 6) but has been accounted for on the equity basis because there is a formal plan to dispose of this investment.

### **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.

### **Investments**

Investments in shares of affiliated companies, real estate joint ventures and in the production fund are accounted for using the equity method. Other investments are accounted for using the cost method.

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

Property, plant and equipment are recorded at cost and depreciation is provided as follows:

Buildings, refinery, transportation and other equipment — on both the straight-line and diminishing balance bases.

Drilling rigs — at a standard operating rate per day.

Petroleum and natural gas production equipment — on the unit-of-production basis used to compute depletion on petroleum and natural gas properties.

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.

Mining property in 1982 represented the acquisition cost of the royalty interest in the Polaris Mine owned by Bankeno. The mining property will be depleted on the unit of production basis when revenues are realized.

### **Petroleum and Natural Gas Properties**

The Company follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the exploration for and development of petroleum and natural gas are capitalized. These costs include lease acquisitions, geological and geophysical costs, lease rentals on undeveloped properties, drilling of productive and non-productive wells and all technical and administrative overhead directly related to exploration and development activities. Proceeds from disposition of properties reduce the carrying value of the properties except in the case of significant dispositions. In this case, gains or losses are recognized and included in the consolidated statements of loss. Depletion is computed on the basis of a North American cost centre using the composite unit-of-



production method based on proved reserves as determined by the Company's technical staff and independent consulting engineers.

A significant portion of the Company's petroleum and natural gas activity is conducted jointly with others. The accounts reflect only the Company's proportionate interest in these activities.

#### **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**

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars as follows:

Current assets, (excluding inventories and prepaid expenses) and current liabilities — at the year-end exchange rate.

All other assets and liabilities — at the exchange rate at acquisition or incurrence.

Income and expenses, excluding depreciation, depletion and amortization — at the average exchange rate for the year.

Depreciation, depletion and amortization — at the same exchange rate as the related asset.

Translation gains and losses are included in the consolidated statements of loss.

#### **Income Taxes**

Investment tax credits are recorded on the flow through method of accounting, whereby the provision for federal income taxes is reduced in the year the credit is generated.

#### **Deferred Revenue**

In 1982, proceeds received under take-or-pay provisions of gas sales contracts were deferred and taken into income as production occurred or upon expiration of the contract period.

### **3. ACCOUNTING CHANGES**

On July 1, 1981 the Company changed its reserve base for computing depletion from proved developed reserves to total proved reserves. This change coincided with the acquisition of Merland which had significant proved undeveloped reserves. Since a portion of total acquisition costs was attributed to these reserves under the purchase method of accounting, the Company believes this change results in a better matching of costs with related revenues.

If the change had not been made, the 1981 loss before income taxes would be increased by \$2,751,000 and the net loss for the year would increase by \$1,632,000. The 1982 loss before income taxes and loss for the year would be increased by \$760,000. The 1983 loss before income taxes and loss for the year would be increased by \$1,193,000 due to an increased share of loss of Bankeno. The effect on earnings per share is not significant.

### **4. ACQUISITION OF SUBSIDIARIES**

During 1981, the Company acquired:

- (a) In July, a 50.11% interest in Merland Explorations Limited, a Canadian public oil and gas company. This interest was acquired by a stock exchange takeover bid and acquisition of all the outstanding shares of Merland Holdings Limited which had, as its only significant asset, shares of Merland.
- (b) In February, additional shares of Bankeno Mines Limited, a Canadian public development stage mining company, which increased the percentage of voting shares held from 34% to 72%.
- (c) All the outstanding shares of two Canadian private companies involved in equipment sales and gasoline transportation.

All the above acquisitions were accounted for by the purchase method. Working capital acquired was \$1,828,000. Other assets in amount of \$308,416,000 and liabilities in amount of \$159,780,000



were also acquired. The results of operations acquired are included in the consolidated statement of loss from the date of acquisition. Goodwill on acquisition of the private companies is amortized on the straight line basis over 25 years.

#### Supplemental Pro-forma Information

Based on the audited financial statements of the Company and those acquired subsidiaries noted above, if the acquisitions had occurred at January 1, 1981, revenue and net loss for the year ended December 31, 1981 would have been \$579,766,000 and \$29,742,000 respectively. Basic and fully diluted pro-forma loss per share would have been \$1.40 per common share and \$1.17 per special share.

During 1982 the following transactions took place:

- (a) In March 1982, Bankeno, a subsidiary company, issued 4,097,004 share purchase warrants to the holders of Bankeno's common shares as of the record date of February 16, 1982. 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 (Note 18).
- (b) (i) On March 17, 1982, Bankeno acquired 11,204,974 common shares and 56,030, \$2.00 cumulative redeemable convertible preferred shares of Merland by public offering (which included the acquisition of 10,074,687 common shares held by Turbo), by the issue of 11,330,089 units. Each unit consisted of 1.4 common shares of Bankeno (1.3 shares issued by Bankeno and 0.1 shares contributed by Turbo) plus 1 share purchase warrant. The common shares forming part of the offer were not transferable separately from the share purchase warrant until July 15, 1982 at which time the warrants acquired the same rights as described in the preceding paragraph. This acquisition represented a 55.4% voting interest. If all the preferred shares of Merland were converted, Bankeno's interest would have been reduced to 49.5%.
- (ii) In conjunction with the acquisition of Merland shares by Bankeno, Turbo exchanged all the outstanding common shares of two wholly owned subsidiaries, whose major assets were petroleum and natural gas properties, for 9,344,600 Bankeno common shares valued at \$10 per share. As a result of this transaction and the transaction described in the preceding paragraph, the Company increased its interest in Bankeno from 72% to approximately 90%.

For accounting purposes, the Company treated the 1982 events described above as a reorganization.

#### 5. INVENTORIES

	<u>1983</u>	<u>1982</u>
<b>For Resale</b>		
Land and property	\$15,226	\$ 24,589
Oil Products		
Raw materials	11,959	12,537
Finished petroleum products	34,067	30,744
Resource Services		
Drilling material and supplies	7,254	18,090
Construction machinery	7,437	8,640
Drilling rigs	4,196	16,212
	<u>80,139</u>	<u>110,812</u>
<b>Consumable Supplies</b>		
Refinery	2,735	2,126
Drilling materials and supplies	4,940	3,673
Other	99	22
	<u>7,774</u>	<u>5,821</u>
	<u>\$87,913</u>	<u>\$116,633</u>



Inventory of land and property for resale with a carrying value of \$7.0 million has been placed in a trust fund to secure the indemnity provided in the Company's articles 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.

## 6. INVESTMENTS

	% Ownership	Market Value		Carrying Value	
		1983	1982	1983	1982
Affiliated companies					
Bankeno Mines Limited (Notes 4 and 13)	89.7%	\$90,968	\$ —	\$83,864	\$ —
Queenston Gold Mines Limited					
Shares	50%	8,889	7,369	676	860
Convertible note receivable	—	—	—	97	121
Advances	—	—	—	—	(8)
Universal H.S. Drillers (Pty.) Ltd.					
Shares	83%	not quoted	—	—	474
Advances	—	—	—	—	1,857
Real estate joint ventures	—	not quoted	—	318	1,016
Panarctic Oils Ltd.	—	not quoted	—	—	2,612
TBR Gas & Oil Production Fund #4	—	not quoted	—	129	129
Other	—	not quoted	—	315	456
				<u>\$85,399</u>	<u>\$7,517</u>

The Queenston Gold Mines Limited note receivable is due in annual installments of \$24,000 plus interest at 6% per annum. The Company has the option, at each repayment date, of converting the principal portion due into shares at 15 cents per share.

Universal H.S. Drillers (Pty.) Ltd. was consolidated in 1983. In 1982, the Company owned 50%.

Market values are based on published quotations, as at December 31. These values may differ from what might be realized if the shares were sold as these holdings represent significant interests.

In 1983, the Company announced its intention to sell the 90% interest it holds in Bankeno. This formal plan to dispose of a subsidiary requires the Company to account for its investment in Bankeno using the equity method. The following is a summary of Bankeno's financial results for 1983 with 1982 comparatives.

	1983	1982
Long term assets	\$298,759	\$465,042
Working capital deficiency	22,048	26,839
Long term liabilities	201,121	200,099
Shareholders' equity	75,590	238,104
Revenue	63,321	51,440
Expenses	62,400	56,848
Provision for impairment of property, plant and equipment	155,000	—
Taxes and minority interest	8,435	3,985
Net loss	162,514	9,393
Loss per common share	\$ 5.77	\$ 0.34

### 1982 Pro-forma Information

The following information compares the major balance sheet and income statement captions presented for 1983 and 1982 with those that would have resulted had the equity method been used effective January 1, 1982.

<u>Balance Sheet</u>	<u>1983</u>	<u>1982</u> <u>Pro-forma</u>	<u>1982</u> <u>As Presented</u>
Working capital deficiency	\$585,162	\$395,637	\$ 419,552
Investments	85,399	195,387	7,517
Property, plant and equipment	436,736	464,375	557,123
Petroleum and natural gas properties	8,546	17,258	363,746
Total assets	690,916	881,913	1,162,241
Long term debt	250,880	315,971	418,601
Deferred revenue	354	2,191	29,932
Deferred taxes	1,904	990	20,713
Minority interest	2,235	1,748	73,439
Total liabilities	983,264	902,206	1,176,868
Net capital deficiency	292,348	20,293	14,627
<u>Income Statement</u>			
Revenue	\$588,798	\$536,076	\$599,184
Operating loss	20,761	28,133	12,138
Share of loss of affiliated companies	5,063	6,625	40
Interest expense	94,909	80,377	99,090
Loss before taxes, minority interest, unusual and extraordinary items	123,994	119,169	115,342
Loss for the year	277,807	133,974	128,308
Loss per share (basic and fully diluted)			
Loss before extraordinary item			
Common	\$ 10.87	\$ 4.85	\$ 4.64
Special	\$ 9.09	\$ 4.03	\$ 3.86
Loss for the year			
Common	\$ 10.87	\$ 5.32	\$ 5.10
Special	\$ 9.09	\$ 4.42	\$ 4.24

The number of shares is computed on a weighted average basis (Note 16).

The pro-forma statements do not consider adjustments to interest expense, other costs or any gain or loss that may be realized upon the divestment of Bankeno because they are not determinable at this time.

The Company's cost of acquiring its interest in Bankeno exceeded the net book value of the assets acquired by \$124,321,000. \$14,732,000 was allocated to the mining property and will be depleted on the unit of production basis when revenues are realized. The balance of the difference was allocated to petroleum and natural gas properties and has been charged to loss through depletion, the share of loss and the provision for impairment.



## 7. PROPERTY, PLANT AND EQUIPMENT

	<u>1983</u>	<u>1982</u>	<u>Depreciation Rates</u>
Refinery	<b>\$266,348</b>	\$264,812	5%
Drilling and service rigs and related equipment	<b>175,322</b>	177,532	Daily rates and 10-20%
Buildings and leasehold improvements	<b>16,563</b>	17,094	2½ to 20%
Land	<b>11,253</b>	10,493	—
Transportation equipment	<b>6,609</b>	6,398	20-30%
Petroleum and natural gas production equipment	<b>3,852</b>	80,240	Note 2
Mining property	—	26,186	Note 2
Other equipment	<b>26,563</b>	34,850	3-30%
	<b>506,510</b>	617,605	
Less accumulated depreciation	<b>(69,774)</b>	(60,482)	
Net property, plant and equipment	<b><u>\$436,736</u></b>	<b><u>\$557,123</u></b>	

No interest was capitalized on assets in the development stage during 1983. (In 1982, \$29,864,000 of total interest costs of \$128,954,000 were capitalized).

## 8. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and natural gas properties are carried at cost of \$19,126,000 at December 31, 1983 (1982 — \$400,470,000), less accumulated depletion of \$10,580,000 (1982 — \$36,724,000).

## 9. OTHER ASSETS

	<u>1983</u>	<u>1982</u>
Deposits	<b>\$ 5,602</b>	\$ 5,033
Notes receivable		
TBR Gas & Oil Production Fund	<b>857</b>	935
Other	<b>4,300</b>	4,039
Patents	<b>1,435</b>	1,506
Capitalized pre-production costs on the refinery	<b>1,255</b>	2,773
Agreements for sale	<b>1,226</b>	1,026
Goodwill, less amortization	<b>1,007</b>	1,602
Deferred charges	<b>373</b>	1,713
Loans to directors, officers and employees	<b>458</b>	561
Other	<b>993</b>	36
	<b><u>\$17,506</u></b>	<b><u>\$19,224</u></b>

Deposits include U.S. \$3,901,000 deposited during 1980 with one of the underwriters of the partially convertible debenture issue. The deposit bears interest at 12.82% and is due November 15, 1990.

Capitalized pre-production costs on the refinery are being amortized over two years from the date of commercial production, October 1, 1982.

Goodwill, the unallocated excess of cost of investment in subsidiaries over net assets acquired at the dates of acquisition, is carried at cost of \$1,806,000 (1982 — \$2,186,000) less accumulated amortization of \$799,000 (1982 — \$584,000).

## 10. BANK INDEBTEDNESS

Included in bank indebtedness is an amount of \$215,882,000 (including \$88,209,000 of accrued and unpaid interest) owing to the Company's principal lender which is secured by a general assignment of accounts receivable of Turbo (excluding the accounts receivable of Challenger) 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 \$95,609,000 (including \$32,487,000 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.

## 11. LONG-TERM DEBT

(a) Long-term debt consists of

	<u>1983</u>	<u>1982</u>
Amounts owed by Turbo (excluding subsidiaries)	<u>\$425,928</u>	<u>\$447,151</u>
Amounts owed by subsidiaries		
Canadian \$49.4 million and U.S. \$22.6 million repayable in 34 equal quarterly installments commencing March 31, 1984 and secured by a general assignment of the accounts receivable of Challenger, a fixed charge on Challenger's service and drilling rigs and a floating charge on all Challenger's remaining assets. These agreements contain various covenants, including restrictions on additional indebtedness, payment of dividends, acquisition or issuance of capital stock and capital expenditures. (This security also covers Challenger's bank indebtedness in the amount of \$17,287,000.) Interest is at bank prime plus 1% or Libor plus 1½%	<u>76,763</u>	<u>76,763</u>
Long-term debt of Bankeno and its subsidiaries including U.S. \$7 million	—	115,885
Other	<u>806</u>	<u>533</u>
Total long-term debt	<u>503,497</u>	<u>640,332</u>
Less — amounts due and unpaid by Turbo (excluding subsidiaries)	<u>235,032</u>	<u>27,486</u>
— current portion of remaining debt	<u>17,585</u>	<u>194,245</u>
Net long-term debt	<u>\$250,880</u>	<u>\$418,601</u>

Principal repayments are due as follows

1984	\$252,617
1985	\$ 51,609
1986	\$ 21,660
1987	\$ 21,507
1988	\$ 24,147
Thereafter	\$131,957



(b) Turbo (excluding subsidiaries)

(i) Amounts owed by Turbo (excluding subsidiaries) consist of

	<u>1983</u>	<u>1982</u>
Bank loans		
Refinery loan, (including U.S. \$10 million) bearing interest at rates varying from bank prime (11.0% at December 31, 1983) plus $\frac{5}{8}\%$ to plus $\frac{7}{8}\%$ , 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 and replacement loans, bearing interest at bank prime plus $\frac{3}{8}\%$ , principal and interest secured by 12,971,559 common shares and 10,074,687 warrants of Bankeno Mines Limited exchanged for Merland Explorations Limited shares as described in Note 4(b)(i), 9,344,600 Bankeno common shares exchanged for Merbank and Leaside shares as described in Note 4(b)(ii), and 2,949,632 shares and 2,949,632 warrants representing the original ownership of Bankeno by Turbo prior to the Bankeno offer of March 17, 1982. Of the above security, 11,854,220 shares and 6,077,427 warrants are held by subsidiaries and are hypothecated directly in support of these loans	<b>132,856</b>	132,856
U.S. \$67.5 million bearing interest at rates varying from 11.8% to U.S. base rate (11.5% at December 31, 1983) plus $\frac{3}{4}\%$ of which U.S. \$7.5 million, principal and interest, is secured by fixed charges on certain real estate with a carrying value of \$1.6 million	<b>80,594</b>	81,595
Floating rate notes, unsecured and bearing interest at bank prime rate less $\frac{3}{8}\%$	<b>25,000</b>	25,000
U.S. \$25 million, 12 $\frac{1}{2}\%$ partially convertible debentures, unsecured	<b>31,110</b>	30,735
Other	<b>6,368</b>	26,965
Total amount owed by Turbo (excluding subsidiaries)	<b><u>\$425,928</u></b>	<b><u>\$447,151</u></b>

(ii) \$184,527,000 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 10. As a result of this security and that described in Notes 1(d), 10 and 11(b)(i), virtually all of the assets of Turbo (excluding subsidiaries) are pledged.

(c) 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 negotiations referred to in Note 1 are unsuccessful and repayment of the applicable debt is demanded, the consolidated financial statements for 1983 would be affected by the reclassification of this debt to reflect the current nature of the obligations as follows:

	<b>Before Reclassi- fication</b>	<b>Increase (Decrease)</b>	<b>After Reclassi- fication</b>
Current liabilities	\$727,891	\$ 181,332	\$909,223
Long-term debt	250,880	(178,527)	72,353
Working capital deficiency	585,162	181,332	766,494
Loss before taxes, minority interest and unusual items	123,994	2,805	126,799
Loss for the year	277,807	2,805	280,612
Basic and fully diluted loss per share			
Common	\$ 10.87	\$ 0.11	\$ 10.98
Special	\$ 9.09	\$ 0.09	\$ 9.18

- (d) On July 5, 1982, Canada Trustco Mortgage Company and Guaranty Trust Company of Canada ("Trust Companies") filed suit against the Company and the Canadian Imperial Bank of Commerce claiming that a negative pledge covenant had been breached. This covenant was contained in the Note Purchase Agreement dated March, 1981 under which \$25,000,000 Floating Rate Notes were issued to the Trust Companies. In addition, the Trust Companies sued the Company for judgement on the Notes, plus interest, together with an application for an interlocutory injunction against Turbo granting any security, or any further security. The Trust Companies, having alleged a breach of the negative pledge covenant, claim that they are entitled to security held by the Canadian Imperial Bank of Commerce on a pari passu basis, or, alternatively, are entitled to a first charge on unencumbered assets at an appraised value equal to \$25,000,000.

The Company filed a statement of defence stating therein, among other statements, that it had not breached the negative pledge covenant. In October, 1983, upon application by the Trust Companies, summary judgement was granted in favour of the Trust Companies in the amount of \$30,879,000. Canada Trustco Mortgage Company, under a writ of execution filed pursuant to the summary judgement, instructed the Sheriff to seize the shares owned by Turbo in its subsidiaries, Challenger International Services Ltd., Merbank Resources (1982) Ltd. and Viscount Financial Services Ltd. Turbo has filed a notice of objection to the seizure of these shares.

The Company has made application to the Courts to be discharged from any further proceedings in the lawsuit commenced by the Trust Companies, particularly with respect to the allegations of the breach of the negative pledge covenant and entitlement to security as a result thereof. The Company believes that the summary judgement granted to the Trust Companies is the full measure of the legal remedies available to the Trust Companies.

- (e) Concurrent with the award of summary judgement to the Trust Companies, the Company consented to judgements amounting to \$177,766,000 to certain unsecured creditors (of which \$97,631,000 is included in Bank Indebtedness) in its efforts to keep all default creditors on an equal basis. These creditors filed writs of execution pursuant to the judgements in October, 1983.

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 judgement to the Canadian Imperial Bank of Commerce for \$525,370,000 (of which \$215,882,000 is included in Bank Indebtedness) and 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 judgement nor acted under its right to appoint a receiver.

- (f) 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. If the action succeeds, all or a portion of the security granted with respect to the refinery assets, the Bankeno shares, inventories, and the \$17 million floating charge debenture could be declared void. The Company has filed a statement of defence denying that a fraudulent preference was created when the security was granted. The Company believes it has a valid defence to this action.

## **12. SHARE CAPITAL**

### **Authorized**

At December 31, 1982 and 1983, the authorized share capital was:

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

150,000,000 common voting 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 the 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.

### **Common Shares**

On June 12, 1981 the Company issued 4,300,000 common shares to the public. Net cash proceeds to the Company of \$47,561,000 were used to repay bank loans incurred for construction of the refinery and for general corporate purposes.

### **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, 1983 was \$745,000 and at March 31, 1984 was \$838,000.

As the Company has been unable to pay a total of eight 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 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. 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, 1983 was \$5,116,000 and at March 31, 1984 was \$5,755,000.

As the Company has been unable to pay a total of eight 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 1982 and 1983, the Board of Directors did not grant any further stock options. At December 31, 1983 no special shares and 144,500 common shares were reserved for purchase under outstanding stock options, all of which expire in 1986.

	<u>Stock Options</u>	
	<u>Common</u>	<u>Special</u>
Balance, January 1, 1981	196,311	29,811
Granted	653,200	—
Exercised (at prices ranging from \$.67 to \$10.13)	(351,855)	(22,500)
Expired	(66,456)	(2,811)
Balance, December 31, 1981	431,200	4,500
Expired	(166,500)	(4,500)
Balance, December 31, 1982	264,700	—
Expired	(120,200)	—
Balance, December 31, 1983	<u>144,500</u>	<u>—</u>

Stock options are outstanding at prices ranging from \$4.40 to \$9.70 per share. Stock options granted prior to 1981 may be exercised to acquire up to 20% of the shares under option in any one year on a cumulative basis. Stock options granted during or after 1981 are either exercisable within 60 days of granting or may be exercised to acquire up to 20% of the shares under option in any one year on a cumulative basis. At December 31, 1983 there are stock options exercisable for 57,800 common shares.

### Common Shares Reserved For Conversion of Debentures

No common shares are reserved for conversion of debentures (Note 11(e)).

## 13. UNUSUAL ITEMS

	<u>1983</u>
Equity share of unusual impairment provision in Bankeno	<b>\$108,431</b>
Writedown of Assets	
Inventory held by the resource services group	14,571
Petroleum and natural gas properties	7,747
Real Estate	4,931
U.S. accounts receivable	4,012
Other	1,413
Settlement of long term lease obligation	6,402
Settlement of lawsuit	754
	<u>\$148,261</u>



The equity share of unusual impairment provision reflects the reduction by Bankeno of the carrying value of certain of its petroleum and natural gas properties. The impairment was computed under conditions existing at December 31, 1983 and was based on the aggregate present value, using a 10% discount rate, of estimated future net revenues of proven reserves using prices in accordance with the existing Federal/Alberta Government pricing agreements up to 1986 and holding prices constant thereafter, plus the estimated fair value of undeveloped properties.

#### 14. INCOME TAXES

The components of the provision for (recovery of) taxes are

	Year ended December 31		
	1983	1982	1981
Current			
Foreign taxes	\$ 3,389	\$ 4,465	\$ 298
Petroleum and gas revenue tax	121	6,331	1,505
Provincial rebates	(138)	(5,127)	(1,034)
Canadian income taxes	—	—	(15)
Deferred income taxes	1,831	(6,518)	(15,311)
	<u>\$ 5,203</u>	<u>\$ (849)</u>	<u>\$(14,557)</u>

The differences between the Canadian statutory rate and the effective tax rate in the consolidated statements of loss result from

	Year ended December 31		
	1983	1982	1981
Statutory rate	(49)%	(49)%	(49)%
Increases (decreases) resulting from			
Non-deductibility of			
Investment writedown	9	—	—
Equity loss	1	—	—
Crown royalties	—	1	5
Debenture interest	—	1	4
Loss carry-forwards without virtual certainty of utilization	38	48	28
Foreign tax rate difference	3	1	(33)
Petroleum and gas revenue tax	—	5	4
Non-taxable portion of capital losses	—	—	5
Rate adjustments			
Resource allowance	—	(6)	(6)
Earned depletion	—	(1)	(2)
Other	—	(1)	3
Effective tax rate	<u>2%</u>	<u>(1)%</u>	<u>(41)%</u>

Consolidated deferred taxes result from timing differences in the recognition of revenue and expense items for tax and financial statement purposes. The tax effect of these differences is

	<u>1983</u>	<u>1982</u>	<u>1981</u>
Excess of capital cost allowance for income tax purposes over depreciation for accounting purposes	\$ 7,376	\$ (251)	\$ (5,360)
Tax losses without virtual certainty of utilization	(8,466)	—	—
Foreign taxes payable which are not due until after 1984	1,831	—	—
Foreign taxes applicable to prior years which were not due until the current year	—	(3,960)	—
Tax losses available to reduce future taxable incomes recorded as there is reasonable assurance of utilization	—	(2,276)	(15,430)
Excess of exploration and development costs deductible for income tax purposes over depletion for accounting purposes	—	523	2,558
Other	1,090	(554)	2,921
	<u>\$ 1,831</u>	<u>\$(6,518)</u>	<u>\$(15,311)</u>

As at December 31, 1983 the consolidated group had loss carry forwards for income tax purposes of approximately \$557,123,000. The benefit of approximately \$134,147,000 of these losses has been recognized through a reduction of deferred tax credits. The losses may be utilized by reducing future years' taxable income. The losses expire as follows

	<u>Canada</u>
1983	\$ 13
1985	204
1986	129,760
1987	182,387
1990	134,966
	<u>\$447,330</u>
	<u>United States</u>
1992	\$ 11
1993	130
1994	149
1995	2,865
1996	34,601
1997	58,809
1998	13,228
	<u>\$109,793</u>

#### 15. EXTRAORDINARY ITEM

During 1982, a decision was made to sell the Company's real estate development assets. The real estate assets were written down to net realizable value as at December 31, 1982 (Note 22). No provision has been made for taxes because the Company does not have virtual certainty of utilization of losses.

#### 16. LOSS PER SHARE

Due to the unique characteristics of the Company's share capital (Note 12), loss per share can be calculated on varying assumptions. The method adopted is considered most representative of the interests of special and common shareholders in the retained earnings or deficit of the Company.



### Basic Loss Per Share

Basic loss per share has been calculated using the monthly weighted average number of shares of each class outstanding during the year. The weighted 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 numbers outstanding.

### Fully Diluted Loss Per Share

Fully diluted loss per share has been calculated assuming the exercise of options at the later of the beginning of each year or the date of issue. Conversion of special to common shares is not determinable, so no effect has been given to potential conversions. Losses have been adjusted for the income (net of tax) which would have been earned on the proceeds, assuming interest rates of 11¼%, 15<sup>9</sup>/<sub>10</sub>% and 19<sup>1</sup>/<sub>8</sub>% in 1983, 1982 and 1981 respectively.

These potential transactions have no dilutive effect for each of the three years in the period ended December 31, 1983.

### Conversion of Special to Common Shares

If all outstanding special shares were converted to common shares, basic and fully diluted loss per share before extraordinary item would be \$10.52 (1982 — \$4.48; 1981 — \$.97) and basic and fully diluted loss per share would be \$10.52 (1982 — \$4.92; 1981 — \$.97).

## 17. LEASE OBLIGATIONS

The Company has operating lease obligations for retail gasoline outlets, equipment, and office space expiring from 1984 to 1991. Minimum annual rental payments are

1984	\$ 4,264
1985	\$ 3,663
1986	\$ 3,156
1987	\$ 2,258
1988	\$ 1,251
Thereafter	\$ 4,819

## 18. COMMITMENTS AND CONTINGENCIES

Offer for Merland

- (a) In the process of acquiring Merland Explorations Limited, Bankeno, a subsidiary company, issued share purchase warrants (Note 4). 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, Turbo indicated that it would not be in a position to meet this cash obligation but intended to make an offer to the holders of Bankeno share purchase warrants as part of the overall restructuring of Turbo's debt. There are 2,402,774 warrants owned by investors outside of the Turbo group.
- (b) The Company has an obligation to the Merland minority shareholders stemming from the Ontario Securities Act follow-up rules. It is the Company's view that the obligation arose out of the clarification statement dated July 8, 1981 which was issued in relation to the Company's offer dated June 26, 1981 addressed to holders of common shares of Merland. The clarification statement required the Company to effect, or cause to be effected, an offer of a consideration equivalent in value to \$13<sup>1</sup>/<sub>8</sub> for the balance of the Merland common shares. However, the Ontario Securities Commission (O.S.C.), in subsequent hearings, held that the consideration offered by Bankeno (Note 4) was not equivalent to \$13<sup>1</sup>/<sub>8</sub>. The O.S.C. also sought and received a compliance order in the Ontario courts requiring the Company to comply with the decisions of the O.S.C. The Company was denied leave to appeal this order.

On January 18, 1983, Turbo Resources Limited and certain of the minority shareholders formed an informal committee to work towards reaching a compromise settlement. The O.S.C. deferred



further proceedings until it was determined whether a settlement could be reached in this manner.

On March 2, 1983, the Company announced its intention to sell the 90% interest it holds in Bankeno. The O.S.C. then issued temporary orders and directions preventing the Company and its principal banker from trading or otherwise dealing in shares of Bankeno and Merland without their approval. The temporary orders remain outstanding.

Turbo completed a settlement agreement with representatives of the Merland minority shareholders and the Canadian Imperial Bank of Commerce in July, 1983. The Merland minority shareholders of record on July 28, 1983 were asked to approve the settlement offer in September, 1983. The offer was accepted by 94% of the 82% of the Merland minority shares voted. The offer provided that Turbo would sell its interest in Bankeno and distribute the first \$133 million of the proceeds to the Canadian Imperial Bank of Commerce to repay secured loans relating to the original purchase of Turbo's 55% interest in Merland. To the extent that the proceeds of sale exceeded \$133 million, the next \$56 million would be distributed pro rata to the Merland minority shareholders of record on July 28, 1983. Under this offer, Merland minority shareholders would be permitted to retain their Merland shares and receive such pro rata amount, if any, as a "top up" in settlement of any obligation which Turbo may have to the Merland minority shareholders.

In an order of the O.S.C. dated November 8, 1983, the Commission granted Turbo an exemption from any obligation Turbo may have to purchase any of the common shares or preferred shares of Merland provided that the sale of Bankeno and the subsequent distribution to the Merland minority shareholders occurred on or before February 1, 1984. Subsequent orders by the O.S.C. extended, until May 31, 1984, the time within which Turbo could complete the sale of Bankeno and meet the conditions of its offer to the minority shareholders of Merland.

The offer is conditional upon (i) the Supreme Court of Ontario granting Turbo a variance of the Compliance Order so as to permit Turbo's compliance to be in accordance with the settlement offer; and (ii) all approvals necessary to permit Turbo to restructure its debt and to direct the Trustee to distribute the settlement proceeds being received by Turbo. Negotiations are continuing to obtain approval of a restructuring plan from the various creditor groups involved.

The Company is liable as the General Partner in six Alberta Limited Partnerships, the TBR Gas and Oil Production Funds and Programs.

Some overseas subsidiaries currently operate in jurisdictions where the application of tax law is uncertain. The Company has prudently estimated the tax liability based on tax legislation currently in force. The actual liability may differ from that provided and any adjustments will be made when the ultimate liability is known.

At December 31, 1983 the Company had outstanding letters of credit totalling U.S. \$4,874,000 and Cdn. \$2,645,000.

Merland is a defendant in an action arising from the 1979 acquisition of certain oil and gas properties which were placed on production in 1980. Merland is defendant in another action arising from the 1980 acquisition of certain oil and gas properties which were placed on production in 1981. The plaintiffs allege to hold an interest in the respective properties. The Company is not able to estimate the effect, if any, on earnings which would result from settlement in the plaintiffs' favour or on the resultant carrying value of the Company's investment.

The Company is defendant in an action by certain of Bankeno's minority shareholders claiming that the 1982 acquisition, by Bankeno, of Merland and oil and gas properties formerly owned by Turbo caused substantial dilution and loss of value of the Bankeno minority's shareholdings. The Company has filed a statement of defence denying the allegations. The outcome of this action is not determinable at this time.

Challenger is a defendant in a suit filed in the District Court of Montgomery County, Texas. The plaintiff alleges that Challenger was in violation of its contractual agreement to purchase a deep oil and gas drilling rig. This action is currently in the discovery stage and the outcome is not determinable at this time.



## 19. REMUNERATION OF DIRECTORS AND OFFICERS

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

	<u>1983</u>	<u>1982</u>
Directors' fees	\$ 55	\$ 70
Officers	<u>1,497</u>	<u>1,894</u>
	<u>\$1,552</u>	<u>\$1,964</u>

At December 31, 1983, the Company had 8 directors and 8 officers, 5 of whom were serving in both capacities. During the year, the Company had 9 directors and 11 officers, 6 of whom served in both capacities. In 1982, the Company had 15 directors and 20 officers, 11 of whom served in both capacities during the year.

The aggregate amount paid to directors and officers by non-consolidated subsidiaries was \$37,000.

No officers' bonuses have been accrued for 1983 or 1982.

## 20. RELATED PARTY TRANSACTIONS

Effective July 30, 1982, the assets of Turbo's Chemicals Divisions in Canada and the U.S. were sold to a company owned by a former officer and director. The total selling price was \$821,000, \$351,000 of which was owing at December 31, 1982 and was due on or before September 2, 1983 with interest accruing at the rate of 14% per annum. The agreement was amended on September 2, 1983 to extend the period of repayment for the original principal sum of \$351,000 plus accrued interest of \$47,000. The new principal sum, with interest at 14% per annum, is due in 6 equal semi-annual principal payments of \$66,000 commencing June 30, 1984.

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 affiliated companies, Merland and Bankeno. The terms of the joint venture agreements are considered comparable with non-related parties.

Amounts due from directors, officers and employees relating principally to loans granted prior to 1982 under the Key Employee Share Option and Warrant Programs were repaid during 1983.

## 21. CLASSIFICATIONS

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

## 22. 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 requires 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 years ended December 31, 1982 and 1981, long-term debt would have increased by \$6,650,000 and \$2,018,000 respectively.

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.

Accounting Principles Board Opinion Number 16 prohibits recording pre-acquisition deferred income taxes of subsidiaries by an acquiring company. Under this opinion, deferred income taxes payable in the consolidated financial statements would not be affected in 1983 and in 1982 would have been reduced by \$19,723,000. Depreciation and depletion expense would have been reduced by \$625,000 in 1983 (1982 — \$1,760,000 and 1981 — \$1,047,000) due to the resulting differences in assigned values.

Accounting Principles Board Opinion Number 20 requires recording a change in depletion method (Note 3) in the consolidated statement of income in the year in which the change is made. Under Canadian generally accepted accounting principles, this change was applied retroactively.

The S.E.C. requires that idle drilling rigs be depreciated. The Company policy is to depreciate drilling rigs at a standard operating rate per day. Had the idle drilling rigs been depreciated at 4%, depreciation expense would have increased by \$2,500,000 in 1983.

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

	<u>1983</u>	<u>1982</u>	<u>1981</u>
Loss before extraordinary item (as reported)	<b>\$(277,807)</b>	\$(116,218)	\$(20,545)
Adjustments, net of applicable income taxes for			
Loss (income) from discontinued operations of			
Real estate	<b>2,946</b>	(1,299)	(6,074)
Bankeno	<b>113,047</b>	—	—
Long-term debt translation	<b>(877)</b>	(4,171)	(43)
Full cost accounting	<b>22,865</b>	(22,319)	(1,611)
Deferred tax accounting	<b>625</b>	1,760	1,047
Depreciation of idle drilling rigs	<b>(2,500)</b>	—	—
Accounting changes	<b>—</b>	—	675
Loss from continuing operations	<b>(141,701)</b>	(142,247)	(26,551)
Discontinued operations			
Loss (income) from operations of discontinued			
Real Estate Division	<b>(2,946)</b>	1,299	6,074
Write-down of assets of Real Estate Division			
(Note 15)	<b>—</b>	(12,090)	—
Loss from operations of Bankeno	<b>(113,047)</b>	—	—
Loss as adjusted	<b><u>\$(257,694)</u></b>	<b><u>\$(153,038)</u></b>	<b><u>\$(20,477)</u></b>

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

	<u>1983</u>	<u>1982</u>	<u>1981</u>
Basic and fully diluted loss per share			
Loss from continuing operations			
Common	<b>\$ 5.60</b>	\$5.64	\$1.27
Special	<b>\$ 4.68</b>	\$4.69	\$1.05
Loss for the year			
Common	<b>\$10.09</b>	\$6.06	\$1.01
Special	<b>\$ 8.43</b>	\$5.04	\$0.84



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. In addition, \$6,922,000 of translation adjustments would have been accumulated in a separate component of equity. As at December 31, 1983 and 1982 net capital deficiency as shown on the consolidated balance sheets would have amounted to \$315,750,000 and \$59,064,000 respectively, had the preferred shares and translation adjustments been shown separately and consolidated deficit adjusted for the effect of these differences.

### 23. SEGMENT INFORMATION

The Company's consolidated operations can be divided into two business segments:

Oil Products includes the refining, distribution and marketing of petroleum products and

Resource Services includes oil and gas well drilling and well servicing, mineral exploration drilling, construction drilling, oilfield equipment rentals, machinery and oilfield supply sales and the manufacture of specialty rigs and drilling tools.

Oil and Gas included oil and gas acquisition, exploration, development and production in prior years and is no longer a segment in 1983 as there is a formal plan to dispose of Bankeno. Any remaining oil and gas is in Corporate and Other in 1983.

Real Estate included the acquisition, development, rental and sale of real estate properties in prior years and is no longer a segment in 1983. Any remaining real estate is in Corporate and Other in 1983.

The following tables summarize the Company's operations by business segment and geographic area.

#### By Business Segment

	December 31		
	1983	1982	1981
<b>Revenue</b>			
Oil Products sales			
Customers	<b>\$498,758</b>	\$385,102	\$329,219
Inter-segment	<b>248</b>	197	206
Resource Services sales			
Customers	<b>83,258</b>	141,321	197,834
Inter-segment	<b>114</b>	535	195
Corporate and Other sales			
Customers	<b>6,782</b>	700	2,713
Inter-segment	<b>1,576</b>	3,341	483
Oil and Gas sales			
Customers	—	65,505	24,768
Inter-segment	—	—	—
Real Estate sales			
Customers	—	6,556	5,264
Inter-segment	—	121	1,626
Inter-segment eliminations	<b>(1,938)</b>	(4,194)	(2,510)
Consolidated	<b><u>\$588,798</u></b>	<u>\$599,184</u>	<u>\$559,798</u>

## By Business Segment

	December 31		
	1983	1982	1981
<b>Depreciation, depletion and amortization</b>			
Oil Products	\$ 15,216	\$ 6,237	\$ 2,604
Resource Services	7,980	10,955	13,830
Corporate and Other	3,868	2,821	1,327
Oil and Gas	—	29,809	11,358
Real Estate	—	549	281
Consolidated	<u>\$ 27,064</u>	<u>\$ 50,371</u>	<u>\$ 29,400</u>
<b>Operating loss (income)</b>			
Oil Products	\$ 4,920	\$ 2,927	\$ 304
Resource Services	9,548	11,172	(5,542)
Corporate and Other	6,293	16,486	7,334
Oil and Gas	—	(15,826)	(3,718)
Real Estate	—	(2,621)	(5,329)
Consolidation eliminations	—	—	(1,090)
Consolidated	<u>\$ 20,761</u>	<u>\$ 12,138</u>	<u>\$ (8,041)</u>
<b>Total assets</b>			
Oil Products	\$365,206	\$ 359,182	\$ 283,380
Resource Services	191,851	232,798	265,338
Corporate and Other	49,995	55,528	49,679
Oil and Gas	—	476,382	420,482
Real Estate	—	38,351	44,194
Investment in Bankeno	83,864	—	—
Consolidated	<u>\$690,916</u>	<u>\$1,162,241</u>	<u>\$1,063,073</u>
<b>Capital expenditures</b>			
Oil Products	\$ 3,878	\$ 80,889	\$ 187,754
Resource Services	5,369	15,807	74,838
Corporate and Other	399	9,933	7,981
Oil and Gas	—	86,202	53,184
Real Estate	—	2,378	2,442
Consolidated	<u>\$ 9,646</u>	<u>\$ 195,209</u>	<u>\$ 326,199</u>



## By Geographic Area

	December 31		
	1983	1982	1981
<b>Revenue</b>			
Canada			
Customers	\$537,263	\$ 505,185	\$ 439,729
Transfers	1,338	239	341
	<u>538,601</u>	<u>505,424</u>	<u>440,070</u>
United States			
Customers	22,357	57,792	105,710
Transfers	—	—	6
	<u>22,357</u>	<u>57,792</u>	<u>105,716</u>
Other			
Customers	29,178	36,207	14,359
Transfers	—	529	—
	<u>29,178</u>	<u>36,736</u>	<u>14,359</u>
Inter-segment eliminations	<u>(1,338)</u>	<u>(768)</u>	<u>(347)</u>
Consolidated	<u>\$588,798</u>	<u>\$ 599,184</u>	<u>\$ 559,798</u>
<b>Operating loss (income)</b>			
Canada	\$ 17,522	\$ (115)	\$ (10,258)
United States	9,631	22,583	4,322
Other	(6,392)	(10,330)	(2,105)
Consolidated	<u>\$ 20,761</u>	<u>\$ 12,138</u>	<u>\$ (8,041)</u>
<b>Depreciation, depletion and amortization</b>			
Canada	\$ 20,929	\$ 39,146	\$ 16,315
United States	3,870	8,114	12,257
Other	2,265	3,111	828
Consolidated	<u>\$ 27,064</u>	<u>\$ 50,371</u>	<u>\$ 29,400</u>
<b>Total assets</b>			
Canada	\$519,878	\$ 893,003	\$ 781,507
United States	129,778	242,493	261,846
Other	41,260	26,745	19,720
Consolidated	<u>\$690,916</u>	<u>\$1,162,241</u>	<u>\$1,063,073</u>

Canadian operations include export sales of \$47,311,000 in 1983, all to customers in the United States. Canadian operations in 1982 include export sales of \$15,400,844, primarily to customers in Korea (1981 export sales were insignificant).

# SUPPLEMENTARY INFORMATION

## Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except per share amounts) for 1983, 1982 and 1981 is as follows

	Three months ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
<b>1983</b>				
Revenue	\$130,835	\$138,562	\$156,658	\$162,743
Loss before income taxes and minority interest	37,890	31,093	29,125	25,886
Loss for the quarter	38,619	33,170	30,768	175,250
Basic and fully diluted loss per share				
Common	1.52	1.32	1.22	6.81
Special	1.27	1.10	1.02	5.70
<b>1982</b>				
Revenue	\$141,801	\$144,837	\$134,111	\$178,435
Loss before income taxes, minority interest and extraordinary items	16,215	14,838	39,367	44,922
Loss for the quarter	9,809	22,563	39,839	56,097
Basic and fully diluted loss per share				
Common	.41	.90	1.58	2.21
Special	.34	.75	1.31	1.84
<b>1981</b>				
Revenue	\$113,615	\$133,075	\$168,888	\$144,220
(Income) loss before income taxes and minority interest	(3,027)	3,948	6,941	28,012
(Income) loss for the quarter	(3,053)	883	3,809	18,906
Basic and fully diluted (earnings) loss per share				
Common	(.11)	.08	.20	.84
Special	(.09)	.06	.17	.70



# Corporate Information

## BOARD OF DIRECTORS AND CORPORATE OFFICERS

† Roy H. Allen Calgary, Alberta	President Challenger International Services Ltd.
Paul A. Core Calgary, Alberta	Vice President, Refining
† Edward A. Earle Calgary, Alberta	Senior Vice President Finance and Administration Challenger International Services Ltd.
† Norman R. Gish Calgary, Alberta	President Chairman of the Board
Daniel H. Herron Calgary, Alberta	Treasurer
David L. James Calgary, Alberta	Secretary
† Bruce P. R. Millar Calgary, Alberta	Vice President, Marketing
† Ian R. Mills Toronto, Ontario	Vice President of Finance Campbell Resources, Inc.
† Robert McClinton Calgary, Alberta	Vice President, Finance & Administration
† J. Gerald Sioui Calgary, Alberta	Vice President, Supply & Distribution
† Vance K. Travis Calgary, Alberta	President and Chief Executive Officer Liberty Holdings and Industries Ltd.
† Director of the Company	

**HEAD OFFICE**

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**REGISTRAR AND TRANSFER AGENT**

Canada Trustco Mortgage Company  
Calgary, Alberta  
Winnipeg, Manitoba  
Toronto, Ontario  
Montreal, Quebec  
Vancouver, British Columbia

**STOCK EXCHANGE LISTINGS**

Alberta Stock Exchange  
Toronto Stock Exchange  
Montreal Stock Exchange

**SHAREHOLDERS' MEETING**

The Annual and Special General Meeting of Shareholders has been scheduled for Thursday, June 21, 1984 at 3:30 p.m. in the Alberta Room of the Palliser Hotel, 133 - 9 Avenue S.W., Calgary, Alberta.





**TURBO**

