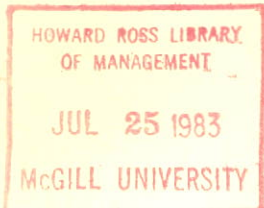




TURBO RESOURCES LIMITED

1982 REPORT TO
SHAREHOLDERS AND
FINANCIAL STATEMENTS



TO THE SHAREHOLDERS

The principal objective of your Company in 1982 was to survive. We were successful. You are well aware the Company is in serious financial difficulty, but our plan of recovery is taking shape and there is reason for optimism. The problems are extremely complex with a large number of outside forces constantly at work and many different groups of creditors with varying interests to be satisfied. In such circumstances progress comes slowly and only after many setbacks and a great deal of frustration. However, persistence is paying off and when our restructuring plan is approved, the Company will not only survive but be in a strong position to meet the future.

The financial results for 1982 clearly illustrate why a major restructuring is required. These statements were approved by the Board of Directors on May 27, 1983 and reflect all significant transactions to that date.

The consolidated balance sheet shows long-term debt and bank indebtedness of \$923 million on total assets of only \$1,162 million. Of this debt, \$723 million is owed by the parent company whose only direct cash flowing assets are those of the Oil Products group (refining and marketing). The returns from the assets of the Resource Services group (Challenger International Services Ltd.) and the Oil and Gas group (Bankeno Mines Limited and Merland Explorations Limited) are dedicated to servicing the debt of those respective subsidiary companies and no cash flow is available for the parent company.

The working capital deficit increased by \$339 million in 1982 primarily because of the reclassification to current liabilities of loans in the amount of \$133 million associated with the Company's purchase of Merland Explorations Limited, the additional \$80 million borrowed to complete the refinery and the deficit from operations of \$64 million. The Turbo unconsolidated balance sheet (enclosed as supplementary information) shows that the parent company had a working capital deficit at December 31, 1982 of \$448 million. This further emphasizes that the Company's financial problems lie primarily with the parent company rather than with the subsidiaries.

Revenues for 1982 of \$599 million showed an increase of \$39 million, or 7%, over those for 1981. This growth results from an improvement in revenues in the Oil and Gas segment of \$40 million and in the Oil Products segment of \$56 million, offset by a reduction in revenues from the Resource Services sector of \$57 million. The increased revenue from the Oil and Gas segment is primarily due to the fact that the comparative figures include only the last six months of Merland's operations in 1981. The increased revenues generated from oil product sales were

largely due to wholesale volume increases by the Oil Products group. The decline in Resource Services revenues reflects the depressed state of the drilling market in North America in 1982 which registered significant declines in both rig utilization rates and day rates.

Low margins for refined oil products and poor drilling industry conditions were the prime contributors to the operating loss of \$12.7 million. The depressed Western Canadian drilling industry has a two-fold impact on the Company, as it not only has an immediate and direct effect on the profitability of the Resource Services group, but also negatively impacts the demand for, and therefore the price of, diesel fuels in Western Canada, thus affecting the profitability of the Oil Products group. Operating income from the Oil and Gas segment improved substantially over 1981 to \$15.8 million due to the inclusion of Merland for the whole year and increases in production and pricing.

Interest expense of \$99 million and the extraordinary write down of the real estate assets by \$12 million further increased the loss in 1982 to \$128 million or \$5.10 per common share and \$4.24 per special share.

The details of the restructuring plan are still being finalized, but the essential elements are a continuing program to reduce debt by selling non-cash flowing assets, substantial conversions of debt to equity and a rescheduling of the remaining debt over a reasonable period of time. This will provide a sound financial base and allow management to concentrate on improving operating results.

Timetables for completion of the restructuring plan have been derailed several times over the past year, often by forces beyond the Company's control. Subject to this happening again, we hope to have reached a general consensus on our present plan with the ten lending institutions and the Alberta and Federal governments, by the date of the Annual General Meeting on June 29, 1983. This would permit us to announce details at that time and to commence the approval process with the Partially Convertible Debenture holders, the Bankeno Warrant holders, the Merland minority shareholders and the preferred, special and common shareholders. This process would likely take about three months, culminating in a special meeting of all our shareholders in October, 1983.

Our lenders have been supportive through this difficult period. All parties have been working towards an agreement which will ensure the Company has the ability to continue to operate after the restructuring. In the meantime, the Company has been operating on a cash-in cash-out basis as no additional funds have been provided by the lenders since the completion of the refinery. It is anticipated

that once the restructuring plan is in place no new funds will be required from lenders, as the Company will be able to generate sufficient cash flow to meet its ongoing obligations to trade creditors and meet interest and principal payments on the restructured debt.

The Alberta Government is owed \$46 million for deliveries of crude oil to the refinery prior to February 9, 1983. Of this amount, \$20 million is secured by a first mortgage on real estate assets. Subsequent to February 9, 1983, crude oil is being supplied under a daily payment arrangement. The Company owes \$26 million to the Federal Government for levies due on crude oil delivered to the refinery up to January 31, 1983. Both levels of government have been helpful and cooperative in agreeing to these amounts being dealt with under a restructuring plan.

The Company failed to meet the semi-annual interest payment of U.S. \$1.6 million due on May 15, 1983 on the U.S. \$25 million 12½% Partially Convertible Debentures due 1990. As a result and as part of the legal process, the Trustee for the debenture holders has demanded full payment of the principal and interest. However, no further action is anticipated until the refinancing plan is completed when it will be presented to the debenture holders for approval.

The warrants issued by Bankeno Mines Limited in conjunction with Bankeno's offer for Merland have a provision whereby the warrants could be put to Turbo for \$3.50 each during a thirty day period commencing March 17, 1983. As announced by Turbo prior to that date, Turbo was not able to meet that cash obligation. Turbo intends to make an offer to all Bankeno warrant holders (representing approximately 2.4 million warrants) as part of the restructuring agreement and not just to those who put their warrants to the Company.

Of all the issues to be resolved by the restructuring plan, the most complex is that relating to Turbo's obligation to the Merland minority shareholders, which arose when the Company acquired its interest in Merland in 1981. The Company has made it clear that it does not have the financial capacity to make an offer equivalent to \$13.13 per share for the balance of the Merland shares. A settlement, within the restructuring plan, using the "top up" concept, whereby the Merland minority keep their shares and receive compensating consideration from Turbo, is now the only practical solution.

A settlement proposal was made in December, 1982 suggesting the Company's U.S. oil and gas assets (excluding those owned by Bankeno and Merland) be accepted as a "top up", but this proposal was rejected by the Merland minority. Meetings were then held with an ad hoc committee of the Merland minority but their demands of a "top up" of either cash,

Merland shares held by Bankeno, Bankeno shares held by Turbo, or a splitting of Merland's assets into two separate companies, are either not within Turbo's financial capability or acceptable to the other principal creditors.

As you are aware, the Company announced on March 2, 1983, that it intended to sell its 90% interest in Bankeno Mines Limited in order to reduce bank debt. Bankeno holds approximately 55% of Merland, significant oil and gas assets of its own, a 25% royalty interest in the Polaris lead/zinc mine operated by Cominco in the Canadian Arctic, and a small minority interest in Panarctic Oils Ltd. This move was heralded as a very positive step by the Merland minority as they believe a separation of Merland from Turbo would be to their benefit. However, on March 22, 1983 the Ontario Securities Commission issued temporary orders and directions against Turbo, Bankeno and the Canadian Imperial Bank of Commerce, which effectively freezes the sale of the Bankeno or Merland shares until the Merland minority problem has been satisfactorily resolved. A hearing to be held by the OSC to determine whether these orders and directives should be made permanent will commence on July 11, 1983.

The Company is presently formulating a settlement offer within the restructuring plan which it believes to be fair and reasonable in the circumstances and which appears to meet most of the criteria of the Merland minority and the Ontario Securities Commission. The intent of the follow-up legislation under the Ontario Securities Act is to provide minority shareholders with the same premium as that received by a controlling shareholder. Based on this concept, the Company is proposing to offer, as a "top up", the difference between the average closing market price of Merland shares for the ten days prior to the Company acquiring the control block on June 24, 1981 (\$9.66) and \$13.13. This premium of \$3.47 per share, together with an average interest rate of 16% to the date the offer is officially made, results in a "top up" of approximately \$4.70 per share or a total of \$56 million. The Merland minority would receive in consideration the same combination of Turbo equity and debentures as the other unsecured creditors previously mentioned. At a recent meeting with the ad hoc committee there did not appear to be any disagreement over the amount of the "top up", but some representatives believed the form of payment should be different. Hopefully when this is resolved and agreement is reached with the Merland minority shareholders, the OSC will grant an exemption order which will resolve the matter. During 1982, the Company has made considerable progress in the sale of assets to reduce debt and to rationalize the Company's businesses into a more profitable and manageable form. Despite the soft

market, most of the real estate development properties have been sold and the real estate development group disbanded. The Turbo Chemicals division and the packaging plant in Edmonton have both been sold. It is expected that the packaging plant and warehouse in Winnipeg and the re-refinery and blending plant in Edmonton will be sold in the next few months. Fortunately, in the case of operating assets, the sales have involved the transfer of all or most employees so relatively few layoffs occurred.

A number of corporate and management changes have taken place over the past year. In a major corporate reorganization, the Company's oil and gas assets were sold to Bankeno in return for shares to form an oil, gas and mining resource company of which Turbo owns 90%. Mr. R. G. Brawn moved over to Bankeno/Merland as Chief Executive Officer of those two companies, to be responsible for this area of activity. The separate corporate identity for Challenger, as the Resource Services group, was strengthened and management of Challenger is now more clearly responsible to its own Board of Directors. Challenger was also successful in arranging the refinancing and rescheduling of its debt. Mr. R. H. Allen continues as Chief Executive Officer of Challenger. Queenston Gold Mines Limited is a subsidiary of Challenger but a separate management team and Board of Directors is in place for Queenston with Mr. Michael Gray as the Chief Executive Officer of Queenston. The corporate reorganization and strengthening of corporate entities was undertaken to more clearly establish similar areas of business under their own management teams and to provide more immediate and direct decision making. Under this concept, Turbo Resources Limited becomes a holding company and a refiner and marketer of petroleum products.

A number of cost cutting steps have been taken in all the companies to reduce operating and overhead expenses. This has resulted in necessary but unfortunate employee reductions. At the end of December, 1982 the overall Turbo Group of Companies had 1,942 employees compared to 2,875 employees at the end of 1981. Within Turbo itself there were 671 employees at the end of 1982 compared to 920 employees at the end of 1981. The employee count in Turbo at the end of May, 1983 was 570.

OPERATIONS REVIEW

Oil Products

The Oil Products group within Turbo is made up of refining, supply & distribution and marketing. Revenue of this group in 1982 amounted to \$385 million on assets of \$359 million. The group experienced an operating loss in 1982 of \$2.9 million, but generated

\$3.3 million of cash flow. However, it is important to note that the refinery only operated commercially for the last three months of the year.

Turbo's new 30,000 barrel per day refinery at Balzac, on the outskirts of Calgary, shipped its first product in August and was deemed to be in full commercial production October 1, 1983. The refinery has "state of the art" technology and produces gasoline, diesel fuel, heavy fuel oil, propane and butane. It has the capability of producing asphalt at little additional cost when market demand warrants this additional product. The refinery experienced a very smooth start-up with no serious problems. In a full examination of equipment undertaken during a planned shut down in May no unusual wear or other difficulties were encountered. The only problem for the refinery is throughput. It is currently operating at 68% of capacity owing to the drop in demand for refined petroleum products in Western Canada. The change has been dramatic as just two years ago diesel fuel was in short supply and effectively rationed in this same market.

Supply and Distribution is responsible for arranging the supply of feedstock (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. In late 1982, a successful sale of 300,000 barrels of diesel fuel was made to South Korea. In addition to such export opportunities, Turbo has identified and recently penetrated the North Western United States gasoline and diesel market in order to enlarge the marketing area for the refinery and improve throughput.

Turbo has approximately 300 retail and wholesale marketing outlets from Vancouver, British Columbia to Kingston, Ontario. Turbo's approach has been to provide full service and competitively priced products. Although 1982 sales volumes declined 5% from 1981 levels, this compares favourably with the 10% decline in volumes experienced by the industry generally. Efforts are being concentrated on rationalizing outlets, opening new outlets in higher growth areas and penetrating the industrial and wholesale markets.

In examining 1982 and first quarter results for 1983 of the Oil Products group, it is important to note that the dispute with Gulf Canada Limited, under an earlier Product Supply Agreement, was settled and an outstanding trade account of \$13.8 million was paid between September, 1982 and March, 1983 through the sale of diesel to Gulf.

The key to an improvement in the Oil Products group is a turn around in the general economy which has a direct impact on the demand and margins for

petroleum products. Prices at the pump, except for Ontario, have been holding well since March, 1983 and have improved our results. To give you an example of the impact prices have on Turbo, an increase of one cent per litre in the margin at the pump adds \$700,000 per month to the bottom line of the Company's financial results. It is easy to see what a devastating effect the gasoline price war had on Turbo during the period from September to December, 1982 and also the effect of the 60 day delay in passing on the December 31, 1982 oil price increase. Providing the economic recovery continues, late 1983 and 1984 volumes and prices should increase and bring about better results. In addition, the Oil Products group is suffering because the delay in a refinancing agreement is causing continued uncertainty and therefore acting as a disincentive for potential customers to trade with Turbo. It is felt that once a rescheduling is achieved the value of the refinery's strategic location will be realized and considerable improvement in domestic sales will occur.

Resource Services

The activities of the Resource Services group under Challenger International Services Ltd. include contract oil and gas well drilling and servicing, mineral and waterwell drilling, and oilfield supply, as well as the distribution of heavy construction equipment. It operates in overseas markets such as Libya, Egypt and Pakistan, in addition to Canada and the United States.

High interest rates, reduction in oil demand, Canada's National Energy Program and the general recessionary trend contributed to a disappointing year in 1982. The Canadian drilling industry experienced significantly lower activity levels throughout the year, with the greatest reduction taking place in deep hole drilling as no viable market existed for deep gas sales. This area, unfortunately, has been the drilling division's area of specialization and the decline in this activity explains the 32% utilization rate of Canadian drilling rigs in 1982 compared to 47% in 1981. The Canadian well servicing group, in contrast, maintained a reasonable level of activity and rig utilization rate as operators continued to service existing oilwells to maintain supply. Revenue dropped by 10% due to greater competition, but profits increased slightly as a result of operating efficiency.

The U.S. drilling and service rig market collapsed suddenly in the first quarter of 1982 due to an oversupply of rigs, changes in U.S. tax law, the cumulative pressures of high interest costs, continued lack of growth in the U.S. demand for energy, and limited investor confidence. Challenger's U.S. offshore rig, however, continues to operate efficiently and profitably.

Challenger's international operations showed continued good results in direct contrast to that of Canada and the U.S. Thus, overseas operations were expanded in 1982 and continued growth is being pursued in this area in 1983.

In response to the very poor drilling markets, the oilfield supply and related services operations were severely cut back during 1982.

The heavy construction equipment division, located in Western Canada, was severely hit by the downturn in construction activity and cost reduction measures were taken.

Mineral drilling, carried on by Heath & Sherwood Drilling, experienced a downturn due to lower world demand for metals and lower mineral prices, thereby reducing revenues.

Efforts by the Resource Services group to improve immediate and long-term operating results by increasing efficiency and reducing operating costs will continue in 1983. The group intends to provide a greater emphasis on marketing, particularly in the successful areas of its overseas operations. In Canada, the drilling division continues to obtain a few drilling contracts with large oil and gas companies as a result of their prior association in contracting services. Although the U.S. Operations did not meet profit expectations, there is tremendous potential in the U.S. and Challenger will maintain its position in the marketplace in selective and successful areas.

Oil and Gas

The most serious problem affecting the petroleum industry today is the reduction of demand for both oil and natural gas. This lack of demand has caused serious problems for the Oil and Gas group under Bankeno and Merland. For example, Merland was able to produce at only 65% capacity last year for their largest customer and have budgeted only 50% this year.

On the positive side, during 1982, the government policy of reducing Crown royalties in relationship to well performance was extended to include medium productivity wells and thus the Company will benefit through realizing higher net backs on gas sold. Also, a third category of oil price was introduced in July, 1982; Special Old Oil Price (S.O.O.P.). This category served to bring certain old oil to 75% of the world price. Practically all of Merland's oil production in Alberta falls into the Special Old Oil Price or New Oil Reference Price (N.O.R.P.) category.

In spite of the constraints outlined, Merland increased its market share of contracted natural gas supply and production. Contracted gas reserves were increased in existing contracts, initial deliveries commenced under new gas contracts, and industrial

sales gas contracts were entered into. The intention is to build a strong base from which to aggressively pursue the next expansion phase by strategies which result in good steady profits, a solid, experienced management team that works well under pressure, a good land inventory and balanced exploration and drilling programs.

During 1982, Bankeno exercised its option to acquire a 25% royalty interest in the Polaris Mine which achieved commercial production levels early in 1982. As initial cash flow from the mine is dedicated to repay the capital costs incurred by Cominco in developing the mine, cash flow to Bankeno will not occur until the late 1980's. However, the anticipated production capacity and reserves of the mine are expected to support activities for a minimum of 25 years.

Queenston Gold Mines Limited

Queenston Gold Mines Limited, 49% owned by Challenger International Services Ltd., is a gold exploration company primarily engaged in mine locating and development.

On May 17, 1983, Queenston and Inco Limited jointly announced that the two companies are proceeding immediately to develop the McBean open pit gold mine near the town of Dobie, 10 miles east of Kirkland Lake, Ontario. This decision, together with an agreement whereby Inco will rehabilitate Queenston's Upper Canada Mill, located 1 mile north of the mine, are major steps in the development of the Company's mining interest. Mine/Mill development should be completed by early 1984 and processing of ore at a rate of 500 tons per day is planned to follow. The estimated capital expenditure for the McBean Mine/Mill projects is \$6,040,000. Of this amount, Queenston must contribute \$1,166,000 to retain a 35% interest in the joint venture.

Queenston holds mineral property interests in 21 properties totalling 764 claims (30,599 acres), which are located in the heart of the gold mining district of northeastern Ontario and northwestern Quebec. Included in this holding are five past gold producers, all of which have additional gold recovery potential.

Current revenues are derived from a joint venture gold operation conducted by Lac Minerals Ltd. through its Macassa Mine at Kirkland Lake and from cash investments. It is anticipated that the revenues will increase significantly when the McBean Mine comes into production in 1984. In 1982, the Queenston/Lac Minerals jointly owned property produced 22,626 tons of ore from which 8,971 ounces of gold were recovered resulting in gold royalties to Queenston for the year of \$353,130. Queenston's working capital at December 31, 1982 was \$1,318,449.

CONCLUSION

The outlook for all segments of Turbo's businesses are directly related to an improvement in the economy generally and a realization at the federal and provincial levels of government that adequate cash flow must be left with the industry if Canada is to achieve its goal of energy self sufficiency. There is evidence the economy is improving although it is unlikely it will reflect itself in any marked change in the Company's businesses in 1983. However, there is more optimism for 1984 and beyond. The immediate goal is to achieve the restructuring of Turbo's debt and other outstanding obligations in such a manner as to allow its long-term success.

It has been a difficult year for Turbo and, as you are aware, a number of directors, particularly outside directors, felt it was necessary to resign. Their long association and dedication to Turbo is very much appreciated.

Under Turbo's current financial circumstances, it is not possible to attract strong outside directors because of the personal liabilities that may be incurred. As a result, the slate of directors to be voted on at the Annual General Meeting will continue to be comprised of senior Company officers. It is commendable that these officers have agreed to take on this added responsibility and liability.

It is anticipated that once the restructuring plan is in place, it will be possible to again attract strong outsiders to the Turbo Board to compliment members from senior management. In the meantime, it is our intention to constitute an Advisory Committee to the Board so as to obtain the benefit of outside advice and experience in the decision making process of the Company.

It is a tribute to the interest and dedication of all employees that they have stayed with the Company during these difficult times. Their determination to see the turn-around through is sincerely appreciated.

A final thank you to our shareholders who have been incredibly patient and understanding through a period of great disappointment. We will keep you informed of significant events through the press and the directors and management will continue to make every effort to bring your Company back to sound financial health.

On behalf of the Board



Norman R. Gish
President & Chief Executive Officer



Vance Kenneth Travis
Chairman of the Board of Directors

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, 1982 and 1981 and the related consolidated statements of (loss) income, changes in financial position, changes in common and special share capital, changes in preferred share capital and changes in other shareholders' equity (deficiency) for each of the three years in the period ended December 31, 1982. 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, 1982 and December 31, 1981. With respect to \$226,300,000 of such debt at December 31, 1982 and \$438,806,000 of such debt at December 31, 1981 more specifically described in Note 11(b) to the consolidated financial statements, the lenders have not provided us with confirmation of repayment terms. Accordingly, we are unable to determine the portion of such debt, if any, that should be included in current liabilities in the consolidated balance sheets.

In our opinion, except for the effect of adjustments on the 1982 and 1981 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, 1982 and 1981 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, 1982, in accordance with accounting principles generally accepted in Canada (see Notes 2 and 21) 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
May 19, 1983

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 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
May 19, 1983

Turbo Resources Limited

CONSOLIDATED BALANCE SHEETS

At December 31

(in thousands of Canadian dollars)

	<u>1982</u>	<u>1981</u>
ASSETS		
CURRENT ASSETS:		
Cash and short-term deposits	\$ 2,317	\$ 9,904
Accounts receivable	84,484	100,225
Notes receivable	3,810	4,799
Inventories (Note 5)	116,633	94,440
Other	<u>7,387</u>	<u>3,137</u>
Total current assets	214,631	212,505
INVESTMENTS (Note 6)	7,517	28,050
PROPERTY, PLANT AND EQUIPMENT (Note 7)	557,123	468,277
PETROLEUM AND NATURAL GAS PROPERTIES (Note 8)		
(Under the full cost method of accounting)	363,746	330,588
OTHER ASSETS (Note 9)	<u>19,224</u>	<u>23,653</u>
TOTAL	<u>\$1,162,241</u>	<u>\$1,063,073</u>

Approved by the Board

Director



Director



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

	<u>1982</u>	<u>1981</u>
LIABILITIES		
CURRENT LIABILITIES:		
Bank indebtedness (Note 10)	\$ 282,958	\$ 121,802
Accounts payable	110,054	102,728
Accrued liabilities	19,440	28,026
Current portion of long-term debt (Note 11)	221,731	40,934
Total current liabilities	<u>634,183</u>	<u>293,490</u>
LONG-TERM DEBT (Note 11)	418,601	562,703
DEFERRED REVENUE	29,932	10,148
DEFERRED INCOME TAXES	20,713	26,311
MINORITY INTEREST	73,439	55,903
	<u>1,176,868</u>	<u>948,555</u>
COMMITMENTS AND CONTINGENCIES (Notes 1 and 17)		
SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Share Capital (Note 12)		
Issued and fully paid:		
First preferred shares, series A	4,258	4,278
Second preferred shares, 1980 retractable series	24,360	24,416
Common shares	82,449	81,706
Special shares	1,470	1,575
Contributed surplus	423	1,181
Retained Earnings (Deficit)	(127,587)	1,362
Total shareholders' equity (net capital deficiency)	<u>(14,627)</u>	<u>114,518</u>
TOTAL	<u>\$1,162,241</u>	<u>\$1,063,073</u>

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF (LOSS) INCOME

For the Years Ended December 31

(in thousands of Canadian dollars except per share data)

	<u>1982</u>	<u>1981</u>	<u>1980</u>
REVENUE	<u>\$ 599,184</u>	<u>\$559,798</u>	<u>\$322,128</u>
COSTS AND EXPENSES:			(Restated)
Cost of sales	<u>483,578</u>	455,166	237,701
Indirect costs including general and administrative	<u>77,905</u>	67,305	42,925
Depreciation, depletion and amortization	<u>50,371</u>	29,400	13,840
Total costs and expenses	<u>611,854</u>	551,871	294,466
OPERATING INCOME (LOSS)	<u>(12,670)</u>	7,927	27,662
OTHER INCOME:			
Gain (loss) on sale of property, plant and equipment	(1,562)	1,728	3,423
Gain (loss) on sale of investments	(1,980)	1,233	27
Share of income (loss) of affiliated companies	(40)	(576)	178
Total other income (loss)	<u>(3,582)</u>	2,385	3,628
INTEREST EXPENSE:			
Short-term	28,870	13,198	2,685
Long-term	<u>70,220</u>	<u>32,988</u>	<u>8,888</u>
Total interest expense	<u>99,090</u>	46,186	11,573
INCOME (LOSS) BEFORE TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	<u>(115,342)</u>	(35,874)	19,717
NET PROVISION FOR (RECOVERY OF) TAXES (Note 13)	<u>(849)</u>	<u>(14,557)</u>	<u>5,779</u>
INCOME (LOSS) BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	<u>(114,493)</u>	(21,317)	13,938
MINORITY INTEREST	<u>1,725</u>	<u>(772)</u>	<u>349</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	<u>(116,218)</u>	(20,545)	13,589
EXTRAORDINARY ITEM (Note 14)	<u>12,090</u>	—	—
NET INCOME (LOSS) FOR THE YEAR	<u><u>\$ (128,308)</u></u>	<u><u>\$ (20,545)</u></u>	<u><u>\$ 13,589</u></u>
EARNINGS (LOSS) PER SHARE (Notes 3 and 15):			
Net income (loss) before extraordinary item			
Common	<u>\$ (4.64)</u>	<u>\$ (1.01)</u>	<u>\$.64</u>
Special	<u>\$ (3.86)</u>	<u>\$ (.84)</u>	<u>\$.53</u>
Net income (loss) for the year			
Common	<u>\$ (5.10)</u>	<u>\$ (1.01)</u>	<u>\$.64</u>
Special	<u>\$ (4.24)</u>	<u>\$ (.84)</u>	<u>\$.53</u>

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

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31

(in thousands of Canadian dollars)

	<u>1982</u>	<u>1981</u>	<u>1980</u> (Restated)
WORKING CAPITAL PROVIDED:			
Net income (loss) for the year before extraordinary item	\$(116,218)	\$(20,545)	\$ 13,589
Add (deduct) items not affecting working capital:			
Depreciation, depletion and amortization	50,371	29,400	13,840
Deferred income taxes	(6,518)	(15,311)	5,931
Share of (income) loss of affiliated companies	40	576	(178)
Losses (gains) on sale of assets	3,542	(2,961)	(3,450)
Other	5,088	(772)	308
Total working capital provided from (applied to) operations	<u>(63,695)</u>	<u>(9,613)</u>	<u>30,040</u>
Proceeds from long-term debt	42,531	452,080	103,755
Issue of common and special shares, less cost of issue	64	50,774	23,928
Issue of preferred shares, less cost of issue	—	—	4,007
Proceeds from sale of assets	30,608	13,664	8,273
Reclassification of assets	31,890	—	—
Advances on natural gas sales contracts	18,749	3,528	—
Interest acquired by minority on reorganization	16,574	—	—
Other	3,604	1,925	—
Total working capital provided	<u>80,325</u>	<u>512,358</u>	<u>170,003</u>
WORKING CAPITAL APPLIED:			
Additions to property, plant and equipment	136,320	294,680	95,329
Repayment of long-term debt	7,066	52,718	25,728
Reclassification of long-term debt	179,567	35,790	849
Additions to petroleum and natural gas properties	58,889	31,519	20,966
Additions to investments	4,800	14,628	13,059
Additions to other assets	15,422	11,883	7,179
Dividends declared	641	3,537	2,121
Dividends paid by subsidiaries to minority interests	2,874	1,661	349
Acquisition of subsidiaries (Note 4)	—	148,636	2,278
Extraordinary item	12,090	—	—
Other	1,223	1,670	986
Total working capital applied	<u>418,892</u>	<u>596,722</u>	<u>168,844</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	(338,567)	(84,364)	1,159
WORKING CAPITAL (DEFICIENCY) AT THE BEGINNING			
OF THE YEAR	(80,985)	3,379	2,220
WORKING CAPITAL (DEFICIENCY) AT THE END OF THE			
YEAR (Note 1)	<u>\$(419,552)</u>	<u>\$(80,985)</u>	<u>\$ 3,379</u>

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

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31

(in thousands of Canadian dollars)

	<u>1982</u>	<u>1981</u>	<u>1980</u>
			(Restated)
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
INCREASE (DECREASE) IN CURRENT ASSETS:			
Cash and short-term deposits	\$ (7,587)	\$ 7,531	\$ 290
Accounts receivable	(15,741)	35,193	26,092
Notes receivable	(989)	4,599	(675)
Inventories	22,193	61,831	19,175
Other	4,250	1,337	274
Net increase in current assets	<u>2,126</u>	<u>110,491</u>	<u>45,156</u>
INCREASE (DECREASE) IN CURRENT LIABILITIES:			
Bank indebtedness	161,156	92,018	18,668
Accounts payable and accrued liabilities	(1,260)	66,047	26,078
Current portion of long-term debt (Note 11)	180,797	36,790	(749)
Net increase in current liabilities	<u>340,693</u>	<u>194,855</u>	<u>43,997</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	<u><u>\$ (338,567)</u></u>	<u><u>\$(84,364)</u></u>	<u><u>\$ 1,159</u></u>

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

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF CHANGES IN PREFERRED SHARE CAPITAL

For the Years Ended December 31

(in thousands of Canadian dollars)

	1982		1981		1980	
	Shares	Amount	Shares	Amount	Shares	Amount
FIRST PREFERRED SHARES (Note 12):						
Series A						
Balance January 1	213,900	\$ 4,278	224,400	\$ 4,488	235,600	\$ 4,712
Redeemed and cancelled	(1,000)	(20)	(10,500)	(210)	(11,200)	(224)
Balance December 31	<u>212,900</u>	<u>\$ 4,258</u>	<u>213,900</u>	<u>\$ 4,278</u>	<u>224,400</u>	<u>\$ 4,488</u>
SECOND PREFERRED SHARES (Note 12):						
1979 convertible series						
Balance January 1					749,500	\$14,990
Converted to common shares					(746,323)	(14,926)
Redeemed and cancelled					(3,577)	(72)
Held by subsidiary:						
January 1					400	8
December 31					—	—
Balance December 31					<u>—</u>	<u>\$ —</u>
1980 retractable series						
Balance January 1	1,220,800	\$24,416	1,245,100	\$24,902	—	\$ —
Issued during the year	—	—	—	—	1,250,000	25,000
Redeemed and cancelled	(2,800)	(56)	(24,300)	(486)	(4,900)	(98)
Balance December 31	<u>1,218,000</u>	<u>\$24,360</u>	<u>1,220,800</u>	<u>\$24,416</u>	<u>1,245,100</u>	<u>\$24,902</u>

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

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON AND SPECIAL SHARE CAPITAL

For the Years Ended December 31

(in thousands of Canadian dollars)

	1982		1981		1980	
	Shares	Amount	Shares	Amount	Shares(1)	Amount
COMMON SHARES (Note 12):						
Balance January 1	20,925,381	\$81,706	15,764,121	\$28,046	10,925,886	\$ 9,621
Issued	59,020	64	4,300,000	50,525	—	—
Exercise of:						
Stock options	—	—	351,855	2,702	118,806	164
Warrants	300	1	196,575	491	1,505,472	3,015
Conversions of:						
Special shares	390,689	105	278,975	73	609,240	160
Preferred shares	—	—	—	—	2,487,741	14,926
Acquisitions	—	—	—	—	30,000	250
Held by subsidiaries:						
January 1	48,612	743	82,467	612	169,443	522
December 31	(159,757)	(170)	(48,612)	(743)	(82,467)	(612)
Balance December 31	<u>21,264,245</u>	<u>\$82,449</u>	<u>20,925,381</u>	<u>\$81,706</u>	<u>15,764,121</u>	<u>\$28,046</u>
SPECIAL SHARES (Note 12):						
Balance January 1	5,771,890	\$ 1,575	6,028,365	\$ 1,628	6,590,730	\$ 1,712
Exercise of stock options	—	—	22,500	20	37,125	53
Conversion into common shares	(390,689)	(105)	(278,975)	(73)	(609,240)	(160)
Held by subsidiaries:						
January 1	—	—	—	—	9,750	23
December 31	—	—	—	—	—	—
Balance December 31	<u>5,381,201</u>	<u>\$ 1,470</u>	<u>5,771,890</u>	<u>\$ 1,575</u>	<u>6,028,365</u>	<u>\$ 1,628</u>

(1) The number of shares presented for the year 1980 reflects the 3 for 1 share division in 1981.

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

Turbo Resources Limited

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

For the Years Ended December 31

(in thousands of Canadian dollars)

	<u>1982</u>	<u>1981</u>	<u>1980</u>
RETAINED EARNINGS (DEFICIT):			
Balance January 1:			
As previously reported	\$ 1,362	\$ 26,911	\$16,811
Accounting changes (Note 3):			
Sales and excise tax assessments	—	(467)	—
Change in depletion method	—	675	—
Restated	<u>1,362</u>	<u>27,119</u>	<u>16,811</u>
Net income (loss) for the year	<u>(128,308)</u>	<u>(20,545)</u>	<u>13,589</u>
	<u>(126,946)</u>	<u>6,574</u>	<u>30,400</u>
Deduct:			
Cost of share issues	—	2,964	1,072
Less related deferred taxes	—	1,446	523
	—	<u>1,518</u>	<u>549</u>
Dividends declared:			
First preferred shares, series A	—	383	403
Second preferred shares:			
1979 convertible series	—	—	1,046
1980 retractable series	641	2,593	257
Common shares	—	444	292
Special shares	—	117	123
Foreign capital tax paid on a subsidiary's issue of additional share capital	—	157	611
	<u>641</u>	<u>5,212</u>	<u>3,281</u>
Balance December 31	<u><u>\$(127,587)</u></u>	<u><u>\$ 1,362</u></u>	<u><u>\$27,119</u></u>
CONTRIBUTED SURPLUS:			
Balance January 1	\$ 1,181	\$ 1,109	\$ 648
Gain (loss) on common shares and warrants acquired by subsidiaries and subsequently sold, with no deferred taxes (deferred tax recovery 1981 — \$12,000; deferred taxes 1980 — \$142,000)	<u>(779)</u>	<u>(13)</u>	<u>445</u>
Discount on redemption of preferred shares	<u>21</u>	<u>85</u>	<u>16</u>
Balance December 31	<u><u>\$ 423</u></u>	<u><u>\$ 1,181</u></u>	<u><u>\$ 1,109</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1982 and 1981 and for the three years
ended December 31, 1982

(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 consolidated financial statements, the Company has incurred a net loss of \$128,308,000 (1981 — \$20,545,000), current liabilities exceed current assets by \$419,552,000 (1981 — \$80,985,000), excluding the potential effect of the debt reclassification described in (b) below, and total liabilities exceed total assets by \$14,627,000.
- b) As described in Notes 10 and 11, the Company has not maintained certain financial covenants of its loan agreements and, consequently, repayment of debt classified in the consolidated financial statements as long term of \$226,300,000 (1981 — \$438,806,000) could be demanded. In addition, 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.
- c) As described in Note 17, an obligation to make an offer to the Merland minority shareholders exists. 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 \$72 million (\$46 million at December 31, 1982) to Alberta and Federal Government departments which it is currently unable to pay. \$46 million of this amount is secured by a \$20 million mortgage on certain real estate assets. The \$72 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 17, 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 17, 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 concluding an agreement include an inability to resolve the various security claims, the determination of the amount and nature of additional consideration to be paid to the Merland minority shareholders and a reconciliation of 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 Alberta 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 liquidation of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

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, is provided in Note 21.

Principles of consolidation

The consolidated financial statements include the accounts of Turbo Resources Limited, all its wholly-owned subsidiaries, Challenger International Services Ltd. (100% equity interest, 94.18% voting control) and its 90% owned subsidiary, Bankeno Mines Limited. The consolidated financial statements of Bankeno Mines Limited include the accounts of its 55% owned subsidiary, Merland Explorations Limited.

Inventories

Land and property, work in process and finished products are stated at the lower of cost and net realizable value. Other inventories are stated at the lower of cost and replacement cost. 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:

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

Drilling rigs — at a standard operating rate per day.

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

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 represents the acquisition cost of the royalty interest in the Polaris Mine. Amortization of this cost will be provided when revenues become attributable to the Company.

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) income. 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.

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

Proceeds received under take-or-pay provisions of gas sales contracts are deferred and taken into income as production occurs or upon expiration of the contract period.

3. ACCOUNTING CHANGES

Change in depletion method

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 Explorations Limited which has 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 will result in a better matching of costs with related revenues in future periods.

As a result of this change, figures reported for 1980 have been restated to reflect decreased depletion expense of \$1,236,000 and increased income taxes of \$561,000. 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 would be increased by \$760,000 and the net loss for the year would increase by \$760,000.

Sales tax assessment

In 1981 the Company was assessed additional sales and excise taxes on gasoline sales. Figures reported for 1980 have been restated to reflect increased indirect costs and decreased working capital of \$817,000 and decreased income taxes of \$350,000.

The effect of both these restatements on earnings per share is not significant.

Change in depreciation rates

Effective April 1, 1980 the Company changed its depreciation rate on oil and gas drilling rigs and related equipment. The Company now depreciates this equipment over 3,300 operating days instead of over 2,250 operating days. The Company believes that this change more accurately reflects the estimated useful lives of equipment.

If the change had not been made, the net income (loss) and the earnings (loss) per share would have been as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Income (loss) before income taxes, minority interest and extraordinary item	\$(117,635,000)	\$(39,593,000)	\$17,795,000
Income (loss) for the period	\$(130,601,000)	\$(23,470,000)	\$12,398,000
Basic earnings (loss) per share			
Common	\$(5.19)	\$(1.13)	\$.57
Special	\$(4.31)	\$(.94)	\$.48
Fully diluted earnings (loss) per share			
Common	\$(5.19)	\$(1.13)	\$.53
Special	\$(4.31)	\$(.94)	\$.44

If the change had taken place effective January 1, 1980, income before income taxes in 1980 would have been increased to \$20,574,000 and net income for the period would have been increased to \$14,125,000.

4. ACQUISITION OF SUBSIDIARIES

During 1981, the company acquired:

- (a) In July, a 50.11% interest in Merland Explorations Limited (Merland), 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 (Bankeno), 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.

Details of net assets acquired and assigned values are:

	<u>Merland</u>	<u>Bankeno</u>	<u>Other</u>	<u>Total</u>
ASSETS ACQUIRED:				
Working capital	\$ —	\$ 6,609	\$ 605	\$ 7,214
Property, plant and equipment	29,029	9,633	2,388	41,050
Petroleum and natural gas properties	263,434	—	—	263,434
Goodwill	—	—	726	726
Other	430	2,776	—	3,206
	<u>292,893</u>	<u>19,018</u>	<u>3,719</u>	<u>315,630</u>
LIABILITIES ASSUMED:				
Working capital deficiency	5,386	—	—	5,386
Deferred revenue	6,620	—	—	6,620
Long term debt	76,498	3,000	—	79,498
Deferred income taxes	16,611	1,151	7	17,769
Minority interest	54,000	1,893	—	55,893
	<u>159,115</u>	<u>6,044</u>	<u>7</u>	<u>165,166</u>
NET ASSETS ACQUIRED				
(financed by bank debt)	<u>\$133,778</u>	<u>\$12,974</u>	<u>\$3,712</u>	<u>\$150,464</u>

All the above acquisitions are accounted for by the purchase method. The results of operations acquired are included in the consolidated statement of loss from the date of acquisition. Goodwill is amortized on the straight line basis over 25 years.

Supplemental pro-forma information

The following consolidated pro-forma information, based on the audited financial statements of the Company and those acquired subsidiaries noted above, gives effect to the acquisitions as if they had occurred at January 1, 1981, and 1980 respectively.

	<u>1981</u>	<u>1980</u>
REVENUE	<u>\$579,766</u>	<u>\$354,761</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>\$(29,742)</u>	<u>\$ 1,604</u>

The following pro-forma losses per share have been calculated in accordance with the method described in Note 15.

	<u>1981</u>	<u>1980</u>
BASIC AND FULLY DILUTED PRO-FORMA EARNINGS (LOSS) PER SHARE:		
Common	<u>\$(1.40)</u>	<u>\$.04</u>
Special	<u>\$(1.17)</u>	<u>\$.03</u>

The following transactions took place in 1982:

- (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 require Turbo to purchase the warrants for \$3.50 per warrant during a thirty day period, or such longer period as may be permitted by Turbo, commencing March 17, 1983 (Note 17).
- (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 consists 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 have the same rights as described in the preceding paragraph. This acquisition represents a 55.4% voting interest. If all the preferred shares of Merland were converted, Bankeno's interest would be reduced to 49.5%.
 - (ii) In conjunction with the Merland share acquisition, 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 has treated the 1982 events described above as a reorganization.

5. INVENTORIES

	<u>1982</u>	<u>1981</u>
Land and property	\$ 24,589	\$ 4,976
Raw materials, drums and pallets	15,826	20,940
Drilling material and supplies	11,886	12,169
Work in process	8,255	9,587
Finished products	56,077	46,768
	<u>\$116,633</u>	<u>\$94,440</u>

6. INVESTMENTS

	%	Market Value		Carrying Value	
		<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>
Affiliated companies:					
Queenston Gold Mines Limited:					
Shares	49%	\$7,369	\$6,729	\$ 860	\$ 1,041
Convertible note receivable	—	—	—	121	145
Advances	—	—	—	(8)	(9)
Universal H.S. Drillers (Pty.) Ltd.:					
Shares	50%	not quoted		474	424
Advances	—	—	—	1,857	1,709
Real estate joint ventures	—	not quoted		1,016	14,940
Panarctic Oils Ltd.	1.45%	not quoted		2,612	3,010
TBR Gas & Oil Production Fund #4	—	not quoted		129	129
Other — quoted	—	—	\$4,050	—	5,367
Other — not quoted	—	—	—	456	1,294
				<u>\$7,517</u>	<u>\$28,050</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.

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.

7. PROPERTY, PLANT AND EQUIPMENT

	1982	1981	Depreciation Rates
Land	\$ 10,493	\$ 11,755	—
Buildings and leasehold improvements	17,094	19,975	2½-20%
Drilling and service rigs and related equipment	177,532	174,827	Daily rates and 10-20%
Refinery	264,812	—	5%
Transportation equipment	6,398	7,154	20-30%
Petroleum and natural gas production equipment	80,240	53,237	Note 2
Mining property	26,186	—	Note 2
Other equipment	34,850	35,429	3-30%
	<u>617,605</u>	<u>302,377</u>	
Less accumulated depreciation	<u>(60,482)</u>	<u>(39,877)</u>	
	<u>557,123</u>	<u>262,500</u>	
Assets in the development stage:			
Refinery	—	187,860	
Polaris royalty option	—	17,917	
	<u>—</u>	<u>205,777</u>	
Net property, plant and equipment	<u>\$557,123</u>	<u>\$468,277</u>	

Interest capitalized on assets in the development stage for the year amounted to \$29,864,000 (1981 — \$18,430,000). Total interest costs for the year were \$128,954,000 (1981 — \$64,616,000).

The Polaris royalty option was to acquire a 25% royalty interest in the total net proceeds of production from the Polaris lead/zinc mine on Little Cornwallis Island. Bankeno exercised this option for cash of \$7,263,000 in March, 1982. The royalty interest is shown as Mining property.

The refinery went into commercial production on October 1, 1982.

8. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and natural gas properties are carried at cost of \$400,470,000 at December 31, 1982 (1981 — \$343,024,000), less accumulated depletion of \$36,724,000 (1981 — \$12,436,000).

9. OTHER ASSETS

	1982	1981
Deposits	\$ 5,033	\$ 6,655
Notes receivable:		
TBR Gas & Oil Production Fund	935	950
Other	4,039	4,710
Goodwill, less amortization	1,602	1,797
Loans to directors, officers and employees	150	3,828
Deferred charges	1,713	1,484
Patents	1,506	72
Agreements for sale	1,026	2,947
Capitalized pre-production costs on the refinery	2,773	—
Other	447	1,210
	<u>\$19,224</u>	<u>\$23,653</u>

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.

Goodwill, the unallocated excess of cost of investment in subsidiaries over net assets acquired at the dates of acquisition, is carried at cost of \$2,186,000 (1981 — \$2,163,000) less accumulated amortization of \$584,000 (1981 — \$366,000).

Capitalized pre-production costs on the refinery are being amortized over 2 years from the date of commercial production.

10. BANK INDEBTEDNESS

Included in bank indebtedness is an amount of \$175,412,000 (including \$58,744,000 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 Bankeno Mines), and by a \$17 million floating charge debenture on all the assets of Turbo (excluding subsidiaries). In addition, \$87,159,000 of the above amount, is secured by an assignment of inventories of Turbo (excluding subsidiaries) and \$70,210,000 is secured by a \$50 million first supplementary debenture and a \$15 million second supplementary debenture containing first fixed and floating charges on refinery assets.

11. LONG TERM DEBT

(a) Long-term debt consists of:

	<u>1982</u>	<u>1981</u>
Amounts owed by Turbo (excluding subsidiaries)	\$447,151	\$445,002
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 \$4,893,000.) Interest is at bank prime plus 1% or LIBOR plus 1½%	76,763	47,406
Term loans, secured by certain Canadian producing petroleum and natural gas properties of Merland, bearing interest at rates varying from bank prime plus ½% to bank prime plus ¾%, repayable quarterly in equal installments of \$2,778,000 which commenced in April, 1982	84,537	79,841
Income debentures, Cdn. \$20 million and U.S. \$7 million, secured by certain Canadian producing petroleum and natural gas properties of Merland, bearing interest at one-half of bank prime rate plus 1¾%, reducing to prime plus 1¼% after July, 1983, repayable quarterly commencing in September, 1983 in amounts ranging from \$1,048,000 to \$1,747,000, ending in June, 1988	27,966	27,966
Other	3,915	3,422
Total long-term debt	<u>640,332</u>	<u>603,637</u>
Less amounts due in 1982 and unpaid by Turbo (excluding subsidiaries)	27,486	—
Less current portion of remaining debt	<u>194,245</u>	<u>40,934</u>
Net long-term debt	<u>\$418,601</u>	<u>\$562,703</u>

Principal repayments are due as follows:

1983	\$221,731
1984	\$ 72,079
1985	\$ 70,701
1986	\$ 40,127
1987	\$ 41,984
Thereafter	\$193,710

(b) Turbo (excluding subsidiaries):

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

	<u>1982</u>	<u>1981</u>
Bank loans:		
Refinery loan, (including U.S. \$10 million) bearing interest at bank prime (12.5% at December 31, 1982) plus 5/8% to plus 7/8%, principal and interest secured by a \$150 million debenture providing first fixed and floating charges on refinery assets	\$150,000	\$150,000
Acquisition and replacement loans, bearing interest at bank prime plus 3/8%, due April 1, 1983, 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	132,856	132,856
U.S. \$70 million bearing interest at rates varying from 11.8% to U.S. base rate (12% at December 31, 1982) of which U.S. \$10 million, principal and interest, is secured by fixed charges on certain real estate with a carrying value of \$3.5 million	81,595	81,595
Floating rate notes, unsecured and bearing interest at bank prime rate less 3/8%, due in 1991	25,000	25,000
U.S. \$25 million, 12 1/2% partially convertible debentures, due 1990, unsecured (convertible to the extent of U.S. \$250 for each U.S. \$1,000 debenture at a rate of Cdn. \$10.08 per common share)	30,735	29,175
Other	<u>26,965</u>	<u>26,376</u>
Total amount owed by Turbo (excluding subsidiaries)	<u>\$447,151</u>	<u>\$445,002</u>

(ii) \$296,857,000 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.

(iii) 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 debt instruments on which the covenants have not been maintained is demanded, the consolidated financial statements would be affected by the reclassification of this debt to reflect the current nature of the obligations as follows:

	<u>Before Reclassification</u>	<u>Increase (Decrease)</u>	<u>After Reclassification</u>
1982			
Current liabilities	\$634,183	\$230,459	\$864,642
Long term debt	418,601	(226,300)	192,301
Working capital deficiency	419,552	230,459	650,011
Loss before taxes, minority interest and extraordinary item	115,342	4,159	119,501
Loss before extraordinary item	116,218	4,159	120,377
Net loss for the year	128,308	4,159	132,467
Basic and fully diluted loss per share:			
Loss before extraordinary item			
Common	\$4.64	\$.15	\$4.79
Special	\$3.86	\$.13	\$3.99
Net loss for the year			
Common	\$5.10	\$.15	\$5.25
Special	\$4.24	\$.13	\$4.37
1981			
Current liabilities	\$293,490	\$440,085	\$733,575
Long term debt	562,703	(438,806)	123,897
Working capital deficiency	80,985	440,085	521,070
Loss before taxes and minority interest ...	35,874	1,279	37,153
Net loss for the year	20,545	656	21,201
Basic and fully diluted loss per share:			
Common	\$1.01	\$.03	\$1.04
Special	\$.84	\$.02	\$.86

- (iv) On July 5, 1982, Canada Trustco Mortgage Company and Guaranty Trust Company of Canada filed suit against the Company claiming that Turbo and the Canadian Imperial Bank of Commerce breached the negative pledge covenant contained in the Note Purchase Agreement dated March, 1981 under which \$25 million Floating Rate Notes were issued. In addition, they are suing the Company for judgement on the Notes, plus interest, and are seeking an interlocutory injunction against Turbo granting any security.

The Company has filed a statement of defence and believes that it has not breached the negative pledge covenant and has a good defence. If Canada Trustco and Guaranty Trust are successful in their claim, they could be granted a share, on a pari passu basis, of security held by the Canadian Imperial Bank of Commerce or granted a first charge on unencumbered assets at an appraised value equal to \$25 million.

- (v) Subsequent to the year end, a writ of summons has been obtained, but not 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 is proceeded with and succeeds, all or a portion of the security granted with respect to the refinery assets, the Bankeno shares, and inventories, together with the \$17 million floating charge debenture, could be declared void.

In addition, Turbo (excluding subsidiaries) has been unable to meet principal and interest payments that have come due. As a consequence of not meeting the semi-annual interest payments due May 15, 1983 on the U.S. \$25 million 12½% partially convertible debentures due 1990, the Trustee has demanded payment of principal and interest.

12. SHARE CAPITAL

Authorized

At January 1, 1980, the authorized share capital of the Company was:

5,000,000 special voting shares without nominal or par value, convertible share for share into common shares, maximum aggregate consideration of \$3,125,000.

50,000,000 common voting shares without nominal or par value with a per share dividend entitlement 1.2 times that paid on special shares, maximum aggregate consideration of \$500,000,000.

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.

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

At the May 7, 1981 Annual Special General Meeting of Shareholders, the existing share capital of the Company was reorganized by:

dividing each issued and unissued common share into three common shares;

dividing each issued and unissued special share into three special shares;

deleting the maximum aggregate consideration for which the common and special shares may be issued; and

increasing the authorized capital of the Company by creating an additional 25,000,000 preferred shares with a par value of \$20 each (junior preferred shares).

At December 31, 1982, 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.

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.

During the year, the Company redeemed 1,000 shares at \$20.00 per share plus accrued dividends.

The total amount of dividends in arrears at December 31, 1982 was \$373,000 and at March 31, 1983 was \$466,000.

The holders of the first preferred shares are entitled to one vote per share if there are 8 quarterly dividends in arrears except that they may only elect 2 directors, voting separately and as a class.

Second preferred shares, 1979 convertible series

In 1979, the Company issued 750,000 8¾% cumulative redeemable second preferred shares, 1979 convertible series with a par value of \$20 each.

On December 19, 1980, the Company redeemed these shares at \$21.00 per share plus accrued dividends. 2,487,741 common shares were issued and \$75,000 cash was paid for shares redeemed.

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.

During the year the Company redeemed 2,800 shares at \$20.00 per share. The total amount of dividends in arrears at December 31, 1982 was \$2,559,000 and at March 31, 1983 was \$3,198,000.

The holders of the second preferred shares are entitled to one vote per share if there are 8 quarterly dividends in arrears except that they may only elect one director, voting as a class.

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, the Board of Directors did not grant any further stock options. At December 31, 1982 no special shares and 264,700 common shares were reserved for purchase. Outstanding stock options, after giving effect to the 1981 three for one division of common and special shares are 264,700 all of which expire in 1986.

	Stock Options	
	Common	Special
Balance, January 1, 1980	160,959	75,936
Granted	166,500	—
Exercised (at prices ranging from \$.67 to \$2.10)	(118,806)	(37,125)
Expired	(12,342)	(9,000)
Balance, December 31, 1980	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	<u>264,700</u>	<u>—</u>

Stock options are outstanding at prices ranging from \$4.10 to \$10.13 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, 1982 there are stock options exercisable for 52,940 common shares.

Fractional Warrants

Warrant transactions, after giving effect to the 1981 three for one division of common and special shares, were:

Balance, January 1, 1980	3,651,300
Exercised	<u>(1,505,472)</u>
Balance, December 31, 1980	2,145,828
Exercised	<u>(196,575)</u>
Balance, December 31, 1981	1,949,253
Exercised	(300)
Expired	<u>(1,948,953)</u>
Balance, December 31, 1982	<u>—</u>

These fractional warrants were exercisable at \$2.50 per share to December 1, 1982.

Common shares reserved for conversion of debentures

On November 13, 1980, the Company issued U.S. \$25,000,000 12½% partially convertible debentures due 1990. For each U.S. \$1,000 debenture, U.S. \$250 is convertible, after March 31, 1981, into common shares of the Company at Cdn. \$10.08 per common share (with a fixed exchange rate of U.S. \$1.00 = Cdn. \$1.1670). 723,348 common shares have been reserved for potential conversions.

13. INCOME TAXES

The components of the provision for taxes are:

	Year ended December 31		
	1982	1981	1980
Current:			
Canadian income taxes	\$ —	\$ (15)	\$ (144)
Provincial rebates	(5,127)	(1,034)	(260)
Foreign taxes	4,465	298	252
Petroleum and gas revenue tax	6,331	1,505	—
Deferred income taxes	(6,518)	(15,311)	5,931
	<u>\$ (849)</u>	<u>\$(14,557)</u>	<u>\$5,779</u>

The differences between the Canadian statutory rate and the effective tax rates in the consolidated statements of (loss) income result from:

	Year ended December 31		
	1982	1981	1980
Statutory rate	(49)%	(49)%	49%
Increases (decreases) resulting from:			
Non-deductibility of:			
Crown royalties	1	5	2
Debenture interest	1	4	3
Non-taxable portion of capital (gains) losses	—	5	(3)
Foreign tax rate difference	1	(33)	(12)
Loss carry-forwards without virtual certainty of utilization	48	28	—
Petroleum and gas revenue tax	5	4	—
Rate adjustments:			
Investment tax credits	—	—	(6)
Resource allowance	(6)	(6)	(2)
Earned depletion	(1)	(2)	—
Other	(1)	3	(2)
	<u>(1)%</u>	<u>(41)%</u>	<u>29%</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>1982</u>	<u>1981</u>	<u>1980</u>
Excess of capital cost allowance for income tax purposes over depreciation for accounting purposes	\$ (251)	\$ (5,360)	\$ (577)
Excess of exploration and development costs deductible for income tax purposes over depletion for accounting purposes	523	2,558	7,898
Tax losses available to reduce future taxable incomes recorded as there is reasonable assurance of utilization	(2,276)	(15,430)	(1,045)
Foreign taxes applicable to prior years which were not due until the current year	(3,960)	—	—
Other	(554)	2,921	(345)
	<u>\$ (6,518)</u>	<u>\$ (15,311)</u>	<u>\$ 5,931</u>

As at December 31, 1982 the consolidated group had loss carry forwards for income tax purposes of approximately \$310,698,000. 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
1986	129,489
1987	78,277
	<u>\$207,779</u>
	<u>United States</u>
1992	\$ 185
1993	926
1994	197
1995	7,174
1996	44,831
1997	49,606
	<u>\$102,919</u>

14. EXTRAORDINARY ITEM

During 1982, a decision was made to sell the Company's real estate development assets. The real estate assets have been written down as at December 31, 1982 to net realizable value (Note 21). No provision has been made for taxes because the Company has no virtual certainty of utilization of losses.

15. EARNINGS (LOSS) PER SHARE

Due to the unique characteristics of the Company's share capital (Note 12), earnings 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 earnings (loss) per share

Basic earnings (loss) per share have 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. Earnings (losses) have been allocated between the two classes in proportion to the weighted numbers outstanding.

Fully diluted earnings (loss) per share

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Net income (loss) before extraordinary item			
Common	<u>\$(4.64)</u>	<u>\$(1.01)</u>	<u>\$.59</u>
Special	<u>\$(3.86)</u>	<u>\$ (.84)</u>	<u>\$.49</u>
Net income (loss) for the year			
Common	<u>\$(5.10)</u>	<u>\$(1.01)</u>	<u>\$.59</u>
Special	<u>\$(4.24)</u>	<u>\$ (.84)</u>	<u>\$.49</u>

Fully diluted earnings (loss) per share have been calculated assuming the conversion of debentures and the exercise of options and warrants 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. Earnings (losses) have been adjusted for the income (net of tax) which would have been earned on the proceeds, assuming interest rates of 15 $\frac{1}{10}$ %, 19 $\frac{1}{8}$ % and 14 $\frac{3}{8}$ % in 1982, 1981 and 1980 respectively.

These potential transactions have no dilutive effect for the years ended December 31, 1981 and December 31, 1982.

Conversion of special to common shares

If all outstanding special shares were converted to common shares, basic earnings (loss) per share before extraordinary item would be \$(4.48) (1981 — \$(.97); 1980 — \$.60) and basic earnings (loss) per share would be \$(4.92) (1981 — \$(.97); 1980 — \$.60). Fully diluted earnings (loss) per share before extraordinary item would be \$(4.48) (1981 — \$(.97); 1980 — \$.56) and fully diluted earnings (loss) per share would be \$(4.92) (1981 — \$(.97); 1980 — \$.56).

16. LEASE OBLIGATIONS

The Company has operating lease obligations for retail gasoline outlets, drilling rigs, equipment, and office space expiring from 1983 to 1991. Minimum annual rental payments are:

1983	\$10,421
1984	\$ 9,248
1985	\$ 8,579
1986	\$ 6,878
1987	\$ 1,779
Thereafter	\$ 9,151

17. 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 require Turbo to purchase the warrants for \$3.50 per warrant during a thirty day period, or such longer period as may be permitted by Turbo, 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 $\frac{1}{2}$ for the balance of the Merland common shares. However, the Ontario Securities Commission (O.S.C.), in subsequent hearings, held that the consideration offered was not equivalent to \$13 $\frac{1}{2}$. 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 August 16, 1982, a Merland minority shareholder initiated a Writ of Summons which was issued but not served on the Company. This step was taken to preserve the time within which the shareholder could initiate an action. The writ claims, on behalf of all Canadian resident Merland minority shareholders, payment equal in value to \$13 $\frac{1}{2}$ plus interest and damages for breach of contract and negligence. The potential liability of the Company to certain Merland shareholders cannot reasonably be determined at this time.

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 is determined whether a settlement can be reached in this manner. At March 31, 1983, the minority shareholders of Merland held 9,227,440 common shares and 1,247,958 preferred shares (which are convertible for 2.232 common shares for each preferred share held).

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.

A former employee has filed a statement of claim for \$7.7 million plus interest and costs pertaining to a bonus incentive agreement. The Company estimates the ultimate liability, if any, will not have a material effect on operations.

At December 31, 1982 the Company had outstanding letters of credit totalling U.S. \$2,450,000.

Merland Explorations Limited (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 reclassification of assets.

Challenger Drilling Inc. (Challenger), a wholly owned subsidiary of the Company, is a co-defendant in a suit filed in the District Court of Harris County, Texas. The plaintiff alleges Challenger was in violation of its contractual obligations and drilled a well with substantial inclination and directional deviations. This action is currently in the discovery stage and while Challenger intends to defend vigorously such action and claims, it is not possible to predict the ultimate outcome of this suit. The Company feels that the ultimate liability, if any, will not have a material effect on operations.

18. REMUNERATION OF DIRECTORS AND OFFICERS

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

	<u>1982</u>	<u>1981</u>
Directors' fees	\$ 70	\$ 36
Officers	<u>1,894</u>	<u>1,905</u>
	<u>\$1,964</u>	<u>\$1,941</u>

At December 31, 1982, the Company had 8 directors and 11 officers, 6 of whom were serving in both capacities. During the year, the Company had 20 officers and 15 directors, 11 of whom served in both capacities. In 1981, the Company had 9 directors and 17 officers, 5 of whom served in both capacities during the year.

Officers' 1981 remuneration includes bonuses of \$573,000 accrued for 1980 but not allocated until 1981. No officers' bonuses have been accrued for 1982 or 1981.

19. 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, \$342,100 of which was owing at December 31, 1982 and is due on or before September 2, 1983 with interest accruing at the rate of 14% per annum.

Amounts due from directors, officers and employees relate principally to loans granted to key employees prior to 1982 under the Key Employee Share Option and Warrant Programs. As a result of the severe decline in the market values of the Company's shares, the loans had become a major burden to these employees with the result that the programs were acting as a disincentive and adversely impacting the performance of key personnel. After considering the actions taken by other companies in similar circumstances, the directors decided to reduce the loan amount to the market value of the related shares or warrants and to accelerate payment of the remaining balance to May 31, 1983. This resulted in these loans being reduced by \$2,839,000, of which \$693,000 represented loans to officers.

20. CLASSIFICATIONS

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

21. 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:

Financial Accounting Standards Board Statement No. 8 requires 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, 1981 and 1980 long-term debt would have increased by \$6,650,000, \$2,018,000 and \$1,935,000 respectively.

The Securities and Exchange Commission (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 be reduced by \$22,459,000 in 1982 and in 1981. Depreciation and depletion expense would have been reduced by \$1,760,000 in 1982 (1981 — \$1,047,000 and 1980 — \$625,000) 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.

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

	<u>1982</u>	<u>1981</u>	<u>1980</u> (Restated)	<u>Pro-Forma</u> (Note 22)
Income (loss) before extraordinary item (as reported)	\$(116,218)	\$(20,545)	\$13,589	\$(121,884)
Adjustments, net of applicable income taxes for:				
(Income) loss from operations of:				
Discontinued real estate operations	(1,299)	(6,074)	(1,776)	(1,299)
Bankeno Mines Limited	—	—	—	7,544
Long-term debt translation	(4,171)	(43)	(967)	(4,162)
Full cost accounting	(22,319)	(1,611)	(394)	(10,791)
Deferred tax accounting	1,760	1,047	625	625
Accounting changes	—	675	(675)	—
Income (loss) from continuing operations	<u>(142,247)</u>	<u>(26,551)</u>	<u>10,402</u>	<u>(129,967)</u>
Discontinued operations				
Income from operations of discontinued				
Real Estate Division	1,299	6,074	1,776	1,299
Write-down of assets of Real Estate				
Division (Note 14)	(12,090)	—	—	(12,090)
Loss from operations of Bankeno				
Mines Limited	—	—	—	(7,544)
Net income (loss) as adjusted	<u>\$(153,038)</u>	<u>\$(20,477)</u>	<u>\$12,178</u>	<u>\$(148,302)</u>

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

	<u>1982</u>	<u>1981</u>	<u>1980</u> (Restated)	<u>Pro-Forma</u>
Basic and fully diluted earnings (loss) per share:				
Net income (loss) from continuing operations				
Common	<u>\$ (5.64)</u>	<u>\$ (1.27)</u>	<u>\$.45</u>	<u>\$ (5.16)</u>
Special	<u>\$ (4.69)</u>	<u>\$ (1.05)</u>	<u>\$.38</u>	<u>\$ (4.29)</u>
Net income (loss) for the year				
Common	<u>\$ (6.06)</u>	<u>\$ (1.01)</u>	<u>\$.52</u>	<u>\$ (5.87)</u>
Special	<u>\$ (5.04)</u>	<u>\$ (.84)</u>	<u>\$.43</u>	<u>\$ (4.89)</u>

Under the accounting rules of the S.E.C., the Company's second preferred shares, 1980 retractable series would be classified outside of shareholders' equity on the consolidated balance sheet as redeemable preferred shares with mandatory redemption provisions. As at December 31, 1982 and 1981 shareholders' equity (deficiency) as shown on the consolidated balance sheets would have amounted to \$(59,064,000) and \$94,114,000 respectively, had the preferred shares been shown separately and consolidated retained earnings (deficit) adjusted for the effect of these differences.

Under the accounting rules of the S.E.C., fully diluted earnings per share would be shown on the face of the income statement instead of in a note to the financial statements.

22. SUBSEQUENT EVENTS

In addition to the matters described in Note 11(b)(v) the Company announced its intention to sell the 90% interest it holds in Bankeno Mines Limited, a Canadian public oil and gas company. As well as significant oil and gas assets of its own, Bankeno holds a 55.4% interest in Merland Explorations Limited, a Canadian public oil and gas company, and a 25% royalty interest in the Polaris lead/zinc mine located in the Canadian Arctic.

The Ontario Securities Commission (O.S.C.) has 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 Company believes that upon the attainment of an agreement reorganizing the Company's debt, to which the Merland minority shareholders will be a party, these temporary orders and directions will be lifted.

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

This plan will require the Company to account for its investment in Bankeno using the equity method. The following presentation compares the balance sheet and income statement presented for 1982 with those that would have resulted had the equity method been used.

BALANCE SHEET

	<u>As Presented</u>	<u>Pro-forma</u>
ASSETS		
Current Assets		
Cash and short-term deposits	\$ 2,317	\$ 2,317
Accounts and notes receivable	88,294	59,195
Due from affiliated companies	—	3,098
Inventories	116,633	114,217
Other	7,387	6,842
Total current assets	<u>214,631</u>	<u>185,669</u>
Investments	7,517	195,387
Property, plant and equipment	557,123	464,375
Petroleum and natural gas properties	363,746	17,258
Other assets	19,224	19,224
TOTAL	<u>\$1,162,241</u>	<u>\$881,913</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness	\$ 282,958	\$281,463
Accounts payable	110,054	82,492
Accrued liabilities	19,440	8,875
Current portion of long term debt	221,731	208,476
Total current liabilities	<u>634,183</u>	<u>581,306</u>
Long term debt	418,601	315,971
Deferred expenses	50,645	3,181
Minority interest	73,439	1,748
Total liabilities	<u>1,176,868</u>	<u>902,206</u>
CAPITAL DEFICIENCY		
Share capital	112,537	112,537
Deficit, net of contributed surplus	(127,164)	(132,830)
Net capital deficiency	<u>(14,627)</u>	<u>(20,293)</u>
TOTAL	<u>\$1,162,241</u>	<u>\$881,913</u>

STATEMENT OF LOSS

	<u>As Presented</u>	<u>Pro-forma</u>
REVENUE	\$ 599,184	\$547,816
COSTS AND EXPENSES:		
Cost of sales	483,578	475,831
Indirect costs including general and administrative	77,905	71,411
Depreciation, depletion and amortization	50,371	24,229
Total costs and expenses	<u>611,854</u>	<u>571,471</u>
OPERATING LOSS	12,670	23,655
Equity loss	40	7,544
Other losses	3,542	3,542
Interest expense	99,090	83,774
Loss before taxes, minority interest and extraordinary item	115,342	118,515
Write down of oil and gas properties	—	5,666
Net provision for (recovery of) taxes	(849)	(3,432)
Loss before minority interest and extraordinary item	114,493	120,749
Minority interest	1,725	1,135
Loss before extraordinary item	116,218	121,884
Extraordinary item (Note 14)	12,090	12,090
Net loss for the year	<u>\$ 128,308</u>	<u>\$133,974</u>
LOSS PER SHARE (Basic and Fully Diluted)		
Loss before extraordinary item		
Common (21,083,870 shares)	<u>\$ 4.64</u>	<u>\$ 4.85</u>
Special (5,601,554 shares)	<u>\$ 3.86</u>	<u>\$ 4.03</u>
Loss for the year		
Common (21,083,870 shares)	<u>\$ 5.10</u>	<u>\$ 5.32</u>
Special (5,601,554 shares)	<u>\$ 4.24</u>	<u>\$ 4.42</u>

The number of shares is computed on a weighted average basis (Note 15).

Any gain or loss which may arise due to the divestment of Turbo's 90% interest in Bankeno is not determinable at this time.

23. SEGMENT INFORMATION

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

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 includes oil and gas acquisition, exploration, development and production;

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

Real Estate includes the acquisition, development, rental and sale of real estate properties (Note 14).

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

BY BUSINESS SEGMENT

	December 31		
	1982	1981	1980 (Restated)
REVENUE:			
Resource Services sales:			
Customers	\$141,321	\$197,834	\$143,058
Inter-segment	535	195	228
Oil and Gas sales:			
Customers	65,505	24,768	7,007
Inter-segment	—	—	—
Oil Products sales:			
Customers	385,102	329,219	169,827
Inter-segment	197	206	638
Real Estate sales:			
Customers	6,556	5,264	1,537
Inter-segment	121	1,626	670
Corporate and Other sales:			
Customers	700	2,713	699
Inter-segment	3,341	483	26
Inter-segment eliminations	(4,194)	(2,510)	(1,562)
Consolidated	<u>\$599,184</u>	<u>\$559,798</u>	<u>\$322,128</u>

	December 31		
	1982	1981	1980 (Restated)
DEPRECIATION, DEPLETION AND AMORTIZATION:			
Resource Services	\$ 10,955	\$ 13,830	\$ 10,966
Oil and Gas	29,809	11,358	541
Oil Products	6,237	2,604	1,788
Real Estate	549	281	85
Corporate and Other	2,821	1,327	460
Consolidated	<u>\$ 50,371</u>	<u>\$ 29,400</u>	<u>\$ 13,840</u>
OPERATING INCOME (LOSS):			
Resource Services	\$ (11,172)	\$ 5,542	\$ 23,238
Oil and Gas	15,826	3,718	1,502
Oil Products	(2,927)	(304)	6,855
Real Estate	2,621	5,329	868
Corporate and Other	(17,018)	(7,448)	(4,989)
Consolidation eliminations	—	1,090	188
Consolidated	<u>\$ (12,670)</u>	<u>\$ 7,927</u>	<u>\$ 27,662</u>
TOTAL ASSETS:			
Resource Services	\$ 232,798	\$ 265,338	\$162,303
Oil and Gas	476,382	420,482	62,368
Oil Products	359,182	283,380	58,007
Real Estate	38,351	44,194	25,965
Corporate and Other	55,528	49,679	23,592
Consolidated	<u>\$1,162,241</u>	<u>\$1,063,073</u>	<u>\$332,235</u>
CAPITAL EXPENDITURES:			
Resource Services	\$ 15,807	\$ 74,838	\$ 61,528
Oil and Gas	86,202	53,184	22,321
Oil Products	80,889	187,754	20,695
Real Estate	2,378	2,442	8,472
Corporate and Other	9,933	7,981	3,279
Consolidated	<u>\$ 195,209</u>	<u>\$ 326,199</u>	<u>\$116,295</u>

BY GEOGRAPHIC AREA

	December 31		
	1982	1981	1980 (Restated)
REVENUE:			
Canada			
Customers	\$ 505,185	\$ 439,729	\$266,976
Transfers	239	341	1,924
	<u>505,424</u>	<u>440,070</u>	<u>268,900</u>
United States			
Customers	57,792	105,710	42,900
Transfers	—	6	—
	<u>57,792</u>	<u>105,716</u>	<u>42,900</u>
Other			
Customers	36,207	14,359	12,252
Transfers	529	—	—
	<u>36,736</u>	<u>14,359</u>	<u>12,252</u>
Inter-segment eliminations	(768)	(347)	(1,924)
Consolidated	<u>\$ 599,184</u>	<u>\$ 559,798</u>	<u>\$322,128</u>
DEPRECIATION, DEPLETION AND AMORTIZATION:			
Canada	\$ 39,146	\$ 16,315	\$ 6,553
United States	8,114	12,257	6,370
Other	3,111	828	917
Consolidated	<u>\$ 50,371</u>	<u>\$ 29,400</u>	<u>\$ 13,840</u>
OPERATING INCOME (LOSS):			
Canada	\$ (417)	\$ 10,144	\$ 21,220
United States	(22,583)	(4,322)	4,731
Other	10,330	2,105	1,711
Consolidated	<u>\$ (12,670)</u>	<u>\$ 7,927</u>	<u>\$ 27,662</u>
TOTAL ASSETS:			
Canada	\$ 893,003	\$ 781,507	\$211,614
United States	242,493	261,846	110,680
Other	26,745	19,720	9,941
Consolidated	<u>\$1,162,241</u>	<u>\$1,063,073</u>	<u>\$332,235</u>

Turbo Resources Limited

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1982, 1981 and 1980 is as follows:

	Three months ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
1982				
Revenue	\$141,801	\$144,837	\$134,111	\$178,435
Income (loss) before income taxes, minority interest and extraordinary item	(16,215)	(14,838)	(39,367)	(44,922)
Net income (loss)	(9,809)	(22,563)	(39,839)	(56,097)
Basic earnings (loss) per share:				
Common	(.41)	(.90)	(1.58)	(2.21)
Special	(.34)	(.75)	(1.31)	(1.84)
Fully diluted earnings (loss) per share:				
Common	(.41)	(.90)	(1.58)	(2.21)
Special	(.34)	(.75)	(1.31)	(1.84)
1981				
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)
Net income (loss)	3,053	(883)	(3,809)	(18,906)
Basic earnings (loss) per share:				
Common .....	.11	(.08)	(.20)	(.84)
Special .....	.09	(.06)	(.17)	(.70)
Fully diluted earnings (loss) per share:				
Common .....	.11	(.08)	(.20)	(.84)
Special .....	.09	(.06)	(.17)	(.70)
1980				
Revenue	\$ 69,264	\$ 73,286	\$ 92,487	\$ 87,091
Income before income taxes and minority interest	4,819	3,535	5,569	5,794
Net income	2,317	2,128	3,755	5,389
Basic earnings per share:				
Common .....	.11	.10	.18	.25
Special .....	.10	.08	.15	.20
Fully diluted earnings per share:				
Common .....	.10	.10	.15	.24
Special .....	.09	.08	.12	.20

SUPPLEMENTARY INFORMATION

Turbo Resources Limited

UNCONSOLIDATED BALANCE SHEETS (UNAUDITED)

At December 31

(in thousands of Canadian dollars)

	<u>1982</u>	<u>1981</u>
ASSETS		
CURRENT ASSETS:		
Cash and short term deposits	\$ 1,166	\$ —
Accounts receivable		
Trade	25,033	33,221
Affiliates	8,661	77,169
Inventories	69,993	39,067
Other current assets	4,609	904
Total current assets	<u>109,462</u>	<u>150,361</u>
INVESTMENTS — at cost:		
Subsidiaries	217,218	167,678
Other	129	17,294
PROPERTY, PLANT AND EQUIPMENT	302,140	235,976
PETROLEUM AND NATURAL GAS PROPERTIES	2,539	12,903
DUE FROM SUBSIDIARY COMPANY	214,659	151,122
OTHER ASSETS	<u>14,540</u>	<u>21,686</u>
TOTAL	<u>\$860,687</u>	<u>\$757,020</u>

	<u>1982</u>	<u>1981</u>
LIABILITIES		
CURRENT LIABILITIES:		
Bank indebtedness	\$276,303	\$ 87,350
Accounts payable and accrued charges	72,517	76,916
Due to subsidiaries	21	12,901
Current portion of long-term debt	<u>208,336</u>	<u>32,828</u>
Total current liabilities	557,177	209,995
LONG-TERM DEBT	238,815	412,174
DEFERRED REVENUE	2,113	1,135
DEFERRED INCOME TAXES	—	10,052
	<u>798,105</u>	<u>633,356</u>
SHAREHOLDERS' EQUITY		
Share Capital:		
Issued and fully paid:		
First preferred shares, series A	4,258	4,278
Second preferred shares, 1980 retractable	24,360	24,416
Common shares	82,620	82,449
Special shares	1,470	1,576
Contributed surplus	126	105
Retained earnings (deficit)	<u>(50,252)</u>	<u>10,840</u>
Total shareholders' equity	62,582	123,664
TOTAL	<u>\$860,687</u>	<u>\$757,020</u>

