

TURBO RESOURCES LIMITED

TO THE SHAREHOLDERS

As you are already aware from various reports, Turbo has been making concerted efforts during the last few weeks to undertake a refinancing of the Company's long term debt with its 11 banks and financial institutions.

This refinancing was necessary because the Company was unable to satisfactorily finance its extensive 1981 capital program of \$500 million (construction of its new Southern Alberta Refinery, the acquisition of Merland Explorations Limited and the addition of 8 deep capacity United States drilling rigs). This problem arose from the depressed North American capital markets that have persisted since September, 1981, and the problems associated with the completion of the Company's obligations under the initial Merland take over bid of July 1981. In addition to high interest rates experienced last year, (the Company paid \$64,616,000 in interest in 1981), cash flow was severely reduced by the effects of the National Energy Program, the Alberta-Canada Oil Pricing Agreements and the general downturn in the North American economy.

The Company is optimistic an agreement will be reached with its banking and financial group shortly.

It had been hoped that this refinancing agreement would have been completed by now and the Company could have issued its regular annual report with full details, including the effect of the refinancing arrangements. However, this was not possible and we are therefore issuing comparative financial statements for the year ended December 31, 1981, in order to meet statutory requirements. The Annual General Meeting of Shareholders is currently scheduled for June 30, 1982 in Calgary, and you will receive notice in due course.

This refinancing plan will include new repayment schedules, a re-determination of long and short term debt, a re-organization of the Company and a number of debt reduction measures such as the sale of certain assets, the joint venturing of others and strict cost reduction and economic restraint programs. The banks and financial institutions are being asked to provide additional funds to complete the capital programs still outstanding at year end. In fact, additional funds have been advanced by our principal bank subsequent to year end.

One of the key elements, which will substantially relieve the Company's current financial difficulties, is the significant cash flow expected to be generated by the new refinery and Turbo's marketing group. We are pleased to report that construction of the refinery is virtually complete and commissioning is now underway. The refinery is expected to be producing by July, reaching capacity production levels by September, 1982. The refinery is of conventional design, using proven technology. Product from this 30,000 barrel per day facility has been largely committed, either to Turbo's own 310 service stations or, through trades and term sales, to other retailers.

It was the Company's intention from the beginning to have a partner in the refinery and with its successful completion, discussions are currently underway with appropriate parties. Such arrangements will reduce Turbo's debt associated with the refinery.

The concentration of Turbo's mining and oil interests, including its 55% participation in Merland Explorations Limited, into one corporation, Bankeno Mines Limited, gives the Company a major

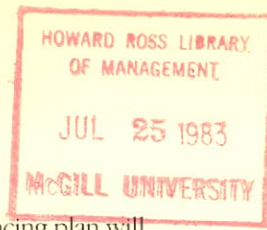
opportunity for growth in the resource industry.

Turbo is actively seeking the sale of its real estate holdings. The management and staff of this Turbo group have created significant assets for the Company and their sale will assist in reducing the Company's debt.



The recently announced Alberta royalty reduction and service program has caused significant improvement to occur in the Company's service rig operations. As mentioned earlier, Canada's National Energy Program and the downturn in the general economy were key factors in reducing cash flow from Company oil field operations. The Company's drilling operations in Canada were first to be affected, and more recently U.S. drilling operations have faced strong competition and lower drilling activity. A reduction in U.S. interest rates would significantly increase the chances for early improvement in the performance of the U.S. fleet of 32 rigs. Canadian drilling (13 rigs) opportunities require a change to national energy policies as well as lower interest rates, before substantial improvement can be expected. In the meantime, the Company's drilling operations are continuing to pursue contracts in North America and various other countries (3 rigs).

Turbo's current financial position can be resolved with the continued support of the banks and financial institutions. The Company's underlying strengths, its substantial asset base in excess of \$1 billion, and the dedication of all its employees provides the ability to achieve its goals.

R. G. Brawn
President



Turbo Resources Limited
CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31 (in thousands of Canadian dollars)	1981	1980
ASSETS		(restated)
CURRENT ASSETS:		
Cash and short-term deposits	\$ 9,904	\$ 2,373
Accounts receivable	100,225	65,032
Notes receivable	4,799	200
Inventories (Note 4)	94,440	32,609
Other	3,137	1,800
Total current assets	<u>212,505</u>	<u>102,014</u>
INVESTMENTS (Note 5)	<u>28,050</u>	<u>18,135</u>
PROPERTY, PLANT AND EQUIPMENT (Note 6)	<u>468,277</u>	<u>151,710</u>
PETROLEUM AND NATURAL GAS PROPERTIES (Note 7) (Under the full cost method of accounting)	<u>330,588</u>	<u>47,050</u>
OTHER ASSETS (Note 8)	<u>23,653</u>	<u>13,326</u>
Approved by the Board		
Director 		
Director 		
TOTAL ASSETS	<u>\$1,063,073</u>	<u>\$332,235</u>

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

Turbo Resources Limited
CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31 (in thousands of Canadian dollars)	1981	1980
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		(restated)
CURRENT LIABILITIES:		
Bank indebtedness (Note 9)	\$ 121,802	\$ 29,784
Accounts payable	102,728	46,106
Accrued liabilities	28,026	18,601
Current portion of long-term debt (Note 9)	40,934	4,144
Total current liabilities	293,490	98,635
LONG-TERM DEBT (Note 9)	562,703	119,633
DEFERRED REVENUE	10,148	—
DEFERRED INCOME TAXES	26,311	25,277
MINORITY INTEREST	55,903	1,398
COMMITMENTS AND CONTINGENCIES (Notes 14 and 16)		
SHAREHOLDERS' EQUITY:		
Share Capital (Note 10)		
Issued and fully paid:		
First preferred shares, series A	4,278	4,488
Second preferred shares, 1980 retractable series	24,416	24,902
Common shares	81,706	28,046
Special shares	1,575	1,628
Contributed surplus	1,181	1,109
Retained Earnings	1,362	27,119
Total shareholders' equity	114,518	87,292
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$1,063,073</u>	<u>\$332,235</u>

Turbo Resources Limited
CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31 (in thousands of Canadian dollars except per share data)	1981	1980 (Restated)	1979
REVENUE	<u>\$559,798</u>	<u>\$322,128</u>	<u>\$238,170</u>
COSTS AND EXPENSES:			
Cost of sales	455,166	237,701	178,826
Indirect costs including general and administrative	67,305	42,925	28,297
Depreciation, depletion and amortization	29,400	13,840	10,381
Total costs and expenses	<u>551,871</u>	<u>294,466</u>	<u>217,504</u>
OTHER INCOME:			
Gain on sale of property, plant and equipment	1,728	3,423	2,065
Gain on sale of investments	1,233	27	1,146
Share of income (loss) of affiliated companies	(576)	178	691
Total other income	<u>2,385</u>	<u>3,628</u>	<u>3,902</u>
OPERATING INCOME	<u>10,312</u>	<u>31,290</u>	<u>24,568</u>
INTEREST EXPENSE:			
Short-term	13,198	2,685	1,864
Long-term	32,988	8,888	5,811
Total interest expense	<u>46,186</u>	<u>11,573</u>	<u>7,675</u>
INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	<u>(35,874)</u>	<u>19,717</u>	<u>16,893</u>
NET PROVISION FOR (RECOVERY OF) TAXES (Note 11)	<u>(14,557)</u>	<u>5,779</u>	<u>7,684</u>
INCOME (LOSS) BEFORE MINORITY INTEREST	<u>(21,317)</u>	<u>13,938</u>	<u>9,209</u>
MINORITY INTEREST	<u>772</u>	<u>(349)</u>	<u>(356)</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ (20,545)</u>	<u>\$ 13,589</u>	<u>\$ 8,853</u>
<i>EARNINGS (LOSS) PER SHARE (Notes 2 and 12):</i>			
<i>Basic:</i>			
Common	<u>\$ (1.01)</u>	<u>\$.64</u>	<u>\$.51</u>
Special	<u>\$ (.84)</u>	<u>\$.53</u>	<u>\$.42</u>
<i>Fully Diluted:</i>			
Common	<u>\$ (1.01)</u>	<u>\$.59</u>	<u>\$.44</u>
Special	<u>\$ (.84)</u>	<u>\$.49</u>	<u>\$.36</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)	1981	1980	1979
		(Restated)	
WORKING CAPITAL PROVIDED:			
Net income (loss) for the year	\$ (20,545)	\$ 13,589	\$ 8,853
Add (deduct) items not affecting working capital:			
Depreciation, depletion and amortization	29,400	13,840	10,381
Deferred income taxes	(15,311)	5,931	7,669
Share of after-tax (income) loss of affiliated companies	576	(178)	(691)
Gain on sale of property, plant, equipment and investments	(2,961)	(3,450)	(3,211)
Other	(772)	308	182
Total working capital from operations	(9,613)	30,040	23,183
Proceeds from long-term debt	452,080	103,755	49,304
Issue of common and special shares, less costs of issue	50,774	23,928	14,172
Issue of preferred shares, less costs of issue	—	4,007	436
Proceeds from sale of property, plant, equipment and investments	13,664	8,273	8,037
Other	8,951	—	1,953
Total working capital provided	<u>515,856</u>	<u>170,003</u>	<u>97,085</u>
WORKING CAPITAL APPLIED:			
Additions to property, plant and equipment	294,680	95,329	37,325
Repayment and reclassification of long-term debt	88,508	26,577	50,588
Additions to petroleum and natural gas properties	35,017	20,966	7,534
Additions to investments	14,628	13,059	741
Additions to other assets	11,883	7,179	4,033
Dividends declared	3,537	2,121	817
Dividends paid by subsidiaries to minority interests	1,661	349	349
Acquisition of subsidiaries (Note 3)	148,636	2,278	342
Other	1,670	986	453
Total working capital applied	<u>600,220</u>	<u>168,844</u>	<u>102,182</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	(84,364)	1,159	(5,097)
WORKING CAPITAL AT THE BEGINNING OF THE YEAR	3,379	2,220	7,317
WORKING CAPITAL (DEFICIENCY) AT THE END OF THE YEAR (Note 9)	<u>\$ (80,985)</u>	<u>\$ 3,379</u>	<u>\$ 2,220</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)

	1981	1980	1979
		(Restated)	
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
INCREASE (DECREASE) IN CURRENT ASSETS:			
Cash and short-term deposits	\$ 7,531	\$ 290	\$ 1,319
Accounts receivable	35,193	26,092	12,454
Notes receivable	4,599	(675)	(5,918)
Inventories	61,831	19,175	3,197
Other	1,337	274	639
Net increase in current assets	<u>110,491</u>	<u>45,156</u>	<u>11,691</u>
INCREASE (DECREASE) IN CURRENT LIABILITIES:			
Bank indebtedness	92,018	18,668	3,940
Accounts payable and accrued liabilities	66,047	26,078	15,268
Current portion of long-term debt (Note 9)	36,790	(749)	(2,420)
Net increase in current liabilities	<u>194,855</u>	<u>43,997</u>	<u>16,788</u>
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	<u>\$ (84,364)</u>	<u>\$ 1,159</u>	<u>\$ (5,097)</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)

	1981		1980		1979	
	Shares	Amount	Shares(1)	Amount	Shares(1)	Amount
<i>Common Shares (Note 10):</i>						
Balance January 1	15,764,121	\$28,046	10,925,886	\$ 9,621	10,548,354	\$ 9,373
Issued	4,300,000	50,525	—	—	—	—
Exercise of:						
Stock options	351,855	2,702	118,806	164	53,205	43
Warrants	196,575	491	1,505,472	3,015	94,455	189
Conversions of:						
Special shares	278,975	73	609,240	160	135,531	35
Preferred shares	—	—	2,487,741	14,926	333	2
Acquisitions (Note 3)	—	—	30,000	250	—	—
Held by subsidiaries:						
January 1	82,467	612	169,443	522	263,451	501
December 31	(48,612)	(743)	(82,467)	(612)	(169,443)	(522)
Balance December 31	<u>20,925,381</u>	<u>\$81,706</u>	<u>15,764,121</u>	<u>\$28,046</u>	<u>10,925,886</u>	<u>\$ 9,621</u>
<i>Special shares (Note 10):</i>						
Balance January 1	6,028,365	\$ 1,628	6,590,730	\$ 1,712	6,670,152	\$ 1,697
Exercise of stock options	22,500	20	37,125	53	38,814	24
Conversion into common shares	(278,975)	(73)	(609,240)	(160)	(135,531)	(35)
Held by subsidiaries:						
January 1	—	—	9,750	23	27,045	49
December 31	—	—	—	—	(9,750)	(23)
Balance December 31	<u>5,771,890</u>	<u>\$ 1,575</u>	<u>6,028,365</u>	<u>\$ 1,628</u>	<u>6,590,730</u>	<u>\$ 1,712</u>

(1) The number of shares presented for the years 1980 and 1979 reflects the 3 for 1 share division in 1981.

Turbo Resources Limited

CONSOLIDATED STATEMENTS OF CHANGES IN PREFERRED SHARE CAPITAL

FOR THE YEARS ENDED DECEMBER 31 (in thousands of Canadian dollars)		1981		1980		1979	
		Shares	Amount	Shares	Amount	Shares	Amount
<i>First preferred shares (Note 10):</i>							
<i>Series A</i>							
Balance January 1		224,400	\$ 4,488	235,600	\$ 4,712	245,100	\$ 4,902
Redeemed and cancelled		(10,500)	(210)	(11,200)	(224)	(9,500)	(190)
Balance December 31		<u>213,900</u>	<u>\$ 4,278</u>	<u>224,400</u>	<u>\$ 4,488</u>	<u>235,600</u>	<u>\$ 4,712</u>
<i>Second preferred shares (Note 10):</i>							
<i>1979 convertible series</i>							
Balance January 1				749,500	\$14,990	—	\$ —
Issued				—	—	750,000	15,000
Converted to common shares				(746,323)	(14,926)	(100)	(2)
Redeemed and cancelled				(3,577)	(72)	—	—
Held by subsidiary:							
January 1				400	8	—	—
December 31				—	—	(400)	(8)
Balance December 31				<u>—</u>	<u>\$ —</u>	<u>749,500</u>	<u>\$14,990</u>
<i>1980 retractable series</i>							
Balance January 1		1,245,100	\$24,902	—	\$ —		
Issued during the year		—	—	1,250,000	25,000		
Redeemed and cancelled		(24,300)	(486)	(4,900)	(98)		
Balance December 31		<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 OTHER SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31 (in thousands of Canadian dollars)	1981	1980	1979
<i>Retained Earnings</i>			
Balance January 1			
As previously reported	\$ 26,911	\$16,811	\$ 9,477
Accounting changes (Note 2):			
Sales and excise tax assessments	(467)	—	—
Change in depletion method	675	—	—
Restated	27,119	16,811	9,477
Add (Deduct):			
Net income (loss) for the year	(20,545)	13,589	8,853
	6,574	30,400	18,330
Deduct:			
Cost of share issues	2,964	1,072	828
Less related deferred taxes	1,446	523	389
	1,518	549	439
Dividends declared:			
First preferred shares, series A	383	403	423
Second preferred shares:			
1979 convertible series	—	1,046	—
1980 retractable series	2,593	257	—
Common shares	444	292	260
Special shares	117	123	134
Foreign capital tax paid on a subsidiary's issue of additional share capital	157	611	263
	5,212	3,281	1,519
Balance December 31	\$ 1,362	\$27,119	\$16,811
<i>Contributed Surplus</i>			
Balance January 1	\$ 1,109	\$ 648	\$ 465
Gain (loss) on common shares and warrants acquired by subsidiaries and subsequently sold, net of deferred tax recovery of \$12,000 (deferred taxes 1980 — \$142,000; 1979 — \$34,000)	(13)	445	183
Discount on redemption of preferred shares	85	16	—
Balance December 31	\$ 1,181	\$ 1,109	\$ 648

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

Turbo Resources Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 1981 and 1980 and for the three years ended December 31, 1981.

(all tabular amounts in thousands of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Note 9). 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 18.

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), its 50.11% owned subsidiary, Merland Explorations Limited, and its 72% owned subsidiary, Bankeno Mines Limited.

Inventories

Inventories are valued at the lower of first-in, first-out cost and market value, which is net realizable value for work in process and finished goods and replacement cost for other inventories.

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, storage tanks 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.

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 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 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.

2. 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 cumulative effect of this change for periods prior to January 1, 1980 is not significant.

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 direct costs 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 loss before income taxes would have been increased to \$39,593,000 (1980 — income before income taxes would have been reduced to \$17,795,000). Also, net loss for the period would have been increased to \$23,470,000 (1980 — net income for the period would have been reduced to \$12,398,000).

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.

If the change had not been made, basic earnings (loss) per share would have been \$(1.13) per common (1980 — \$.57) and \$(.94) per special share (1980 — \$.48) and fully diluted earnings per share would have been \$(1.13) per common (1980 — \$.53) and \$(.94) per special share (1980 — \$.44).

3. ACQUISITION OF SUBSIDIARIES:

During 1980, the Company increased its voting interest in three subsidiaries (Challenger International Services Ltd., Coast Copper Company Limited and Leaside Resources Inc.) and acquired all the outstanding shares of three companies involved in real estate development and the manufacturing and marketing of drilling rigs. The net assets acquired and assigned values are:

	<i>Increased Subsidiary Interests</i>	<i>Other Acquisitions</i>	<i>Total</i>
ASSETS ACQUIRED:			
Working capital	\$ —	\$3,079	\$3,079
Property, plant and equipment	—	1,102	1,102
Petroleum and natural gas properties	55	—	55
Goodwill	74	—	74
Other	—	940	940
Reduction of minority interest	<u>107</u>	<u>—</u>	<u>107</u>
NET ASSETS ACQUIRED	<u>\$ 236</u>	<u>\$5,121</u>	<u>\$5,357</u>
FINANCED BY:			
Cash	\$ 236	\$4,871	\$5,107
Issue of common shares	<u>—</u>	<u>250</u>	<u>250</u>
	<u>\$ 236</u>	<u>\$5,121</u>	<u>\$5,357</u>

During 1981, the company acquired:

- (1) 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.
- (2) 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%.
- (3) 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:

	<i>Merland</i>	<i>Bankeno</i>	<i>Other</i>	<i>Total</i>
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 acquisitions are accounted for by the purchase method. The results of operations acquired are included in the income statement 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, 1980 and 1981 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 earnings per share have been calculated in accordance with the method described in Note 12.

	<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>

4. INVENTORIES:

	<u>1981</u>	<u>1980</u>
Land and property	\$ 4,976	\$ 2,111
Raw materials, drums and pallets	20,940	4,586
Drilling material and supplies	12,169	3,408
Work in process	9,587	4,535
Finished products	46,768	17,969
	<u>\$94,440</u>	<u>\$32,609</u>

5. INVESTMENTS:

	% Owner- ship	Market Value		Carrying Value	
		1981	1980	1981	1980
Affiliated companies:					
Bankeno Mines Limited:					
Shares	—	—	\$13,605	\$ —	\$ 5,984
Queenston Gold Mines Limited:					
Shares	48%	\$6,729	\$23,238	1,041	785
Convertible note receivable	—	—	—	145	170
Advances	—	—	—	(9)	(9)
Universal H.S. Drillers (Pty.) Ltd.:					
Shares	50%	not quoted	—	424	326
Advances	—	—	—	1,709	1,671
H.S.B. Ltda:					
Shares	50%	not quoted	—	—	36
Advances	—	—	—	—	752
Real estate joint ventures	—	not quoted	—	14,940	4,914
Panarctic Oils Ltd.	1.6%	not quoted	—	3,010	—
TBR Gas & Oil Production Fund #4	50%	not quoted	—	129	207
Other — quoted	—	\$4,050	\$ 2,777	5,367	2,834
Other — not quoted	—	—	—	1,294	465
				<u>\$28,050</u>	<u>\$18,135</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.

6. PROPERTY, PLANT AND EQUIPMENT:

	1981	1980	Depreciation
			Rates
Land	\$ 11,755	\$ 7,099	—
Buildings and leasehold improvements	19,975	15,453	2½ - 20%
Drilling and service rigs and related equipment	174,827	108,221	Daily rates and 10 - 20%
Storage tanks and other equipment	35,429	19,104	3 - 30%
Transportation equipment	7,154	5,086	20 - 30%
Petroleum and natural gas production equipment	53,237	5,731	See note 1
	<u>302,377</u>	<u>160,694</u>	
Less accumulated depreciation	39,877	23,719	
	<u>262,500</u>	<u>136,975</u>	
Assets in the development stage:			
Refinery	187,860	14,735	
Polaris royalty option	17,917	—	
	<u>205,777</u>	<u>14,735</u>	
Net property, plant and equipment	<u>\$468,277</u>	<u>\$151,710</u>	

Interest capitalized on assets in the development stage for the year amounted to \$18,430,000 (1980 — \$723,000). Total interest costs for the year were \$64,616,000 (1980 — \$12,296,000).

The Polaris royalty option is 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.

7. PETROLEUM AND NATURAL GAS PROPERTIES:

Petroleum and natural gas properties are carried at cost of \$343,024,000 at December 31, 1981 (1980 — \$49,881,000), less accumulated depletion of \$12,436,000 (1980 — \$2,831,000). Capitalized technical and administrative overhead amounted to \$1,727,000, \$771,000 and \$251,000 for the years ended December 31, 1981, 1980 and 1979 respectively.

A summary of oil and gas producing activities, prepared under the rules of the Securities and Exchange Commission (Note 18) follows.

Aggregate capitalized costs and the related accumulated depreciation, depletion and amortization allowances as at December 31, were:

	<i>Proved Properties</i>	<i>Unproved Properties</i>	<i>Accumulated Allowances</i>
1981			
Canada	\$308,014	\$13,047	\$11,150
United States	64,905	10,295	6,659
Total	<u>\$372,919</u>	<u>\$23,342</u>	<u>\$17,809</u>
1980			
Canada	\$ 26,361	\$10,455	\$ 2,522
United States	10,615	8,181	2,519
Total	<u>\$ 36,976</u>	<u>\$18,636</u>	<u>\$ 5,041</u>

Costs incurred (whether capitalized or charged to expense as incurred) during the three years ended December 31 were:

	<i>Property Acquisitions(1)</i>	<i>Exploration</i>	<i>Development and other(2)</i>	<i>Production (3)</i>	<i>Allowances</i>
1981					
Canada	\$257,391	\$11,670	\$44,693	\$4,578	\$8,628
United States	13,246	15,989	3,071	611	4,140
1980					
Canada	1,715	3,603	5,539	1,857	673
United States	7,912	4,030	1,026	626	1,823
1979					
Canada	385	1,225	2,070	1,657	678
United States	1,413	1,119	435	216	534

(1) 1981 property acquisition costs include \$252,897,000 (1980 — \$Nil) for the purchase of proved reserves in Canada and \$10,537,000 (1980 — \$5,219,000) in the United States.

(2) 1981 development and other costs include \$29,029,000 for the purchase of tangible equipment related to acquisition of a subsidiary.

(3) Production (lifting) costs exclude depletion or depreciation of capitalized costs and income taxes.

Net revenues from oil and gas production were:

	<i>Year Ended December 31</i>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Canada	\$17,355	\$ 2,354	\$ 1,366
United States	2,605	1,781	541
Total	<u>\$19,960</u>	<u>\$ 4,135</u>	<u>\$ 1,907</u>

8. OTHER ASSETS:

	<u>1981</u>	<u>1980</u>
Deposits	\$ 6,655	\$ 5,045
Notes receivable:		
TBR Gas & Oil Production Fund	950	1,150
Other	7,657	2,761
Goodwill, less amortization	1,797	1,156
Loans to directors, officers and employees substantially for the purchase of shares and warrants	3,828	1,726
Deferred charges	1,484	273
Other	1,282	1,215
	<u>\$23,653</u>	<u>\$13,326</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 \$2,163,000 (1980 — \$1,437,000), less accumulated amortization of \$366,000 (1980 — \$281,000).

9. LONG-TERM DEBT:

	<u>1981</u>	<u>1980</u>
(a) Long-term debt consists of:		
Term bank loans:		
Canadian dollar loans, bearing interest at rates varying from bank prime (17¼% at December 31, 1981) plus ¼% to plus ½%, of which \$137,969,000, relating to refinery construction, is secured by a \$150 million debenture containing first fixed and floating charges on refinery assets and \$132,856,000 is secured by hypothecation of 10,074,687 common shares of Merland	\$303,825	\$ 30,000
U.S. \$92 million bearing interest at rates varying from 11.8% to U.S. base rate (16¼% at December 31, 1981) plus ¼%, of which U.S. \$10 million, relating to refinery construction, is secured by the same debenture securing the Canadian dollar portion, and U.S. \$10 million is secured by fixed charges on certain real estate with a carrying value of \$6 million	108,032	34,527
Canadian dollar loans, secured by certain Canadian producing petroleum and natural gas properties of Merland, bearing interest at rates varying from bank prime to bank prime plus ½%, repayable quarterly in equal installments of \$2,778,000 commencing in April, 1982	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	—
U.S. \$25 million, 12½% partially convertible debentures, which may be converted to the extent of U.S. \$250 for each U.S. \$1,000 debenture at a rate of Cdn. \$10.08 per common share	29,175	29,175
Floating rate notes, bearing interest at bank prime rate less ¾%	25,000	—
Income debenture	—	14,280
Other	29,798	15,795
Total long-term debt	603,637	123,777
Less current portion	40,934	4,144
Net long-term debt	<u>\$562,703</u>	<u>\$119,633</u>
Principal repayments are due as follows:		
1982	\$ 40,934	
1983	\$ 178,600	
1984	\$ 65,814	
1985	\$ 62,165	
1986	\$ 29,817	
Thereafter	\$ 226,307	

Bank indebtedness, included in current liabilities, includes approximately \$48 million secured by general assignments of substantially all Canadian accounts receivable and specific assignments of certain Canadian raw materials and finished products.

Subsequent to December 31, 1981, the Company pledged a \$50 million first supplementary debenture on refinery assets to secure additional refinery construction financing. Concurrent with the Bankeno offer to Merland shareholders described in Note 16, the Company borrowed \$50,856,000, bearing interest at bank prime rate plus $\frac{3}{8}\%$, repayable in April, 1983 and secured by the hypothecation of 11,161,229 common shares and 2,949,632 warrants of Bankeno and a \$17 million floating charge debenture on the Company's assets. The proceeds of this loan were utilized to reduce to \$82 million the bank loan utilized to finance the acquisition in 1981 of 10,074,687 common shares of Merland. In addition, the Company hypothecated the 10,074,687 units of Bankeno received pursuant to the offer as security for the \$82 million bank loan, in return for the release of the hypothecation of the 10,074,687 common shares of Merland.

Pursuant to a loan agreement made with a bank on December 13, 1979, the Company pledged to the bank a debenture (which was registered) for the principal sum of \$60 million to secure amounts owing up to this amount. The total advance was repaid prior to December 31, 1980 and the debenture was not discharged and was retained by the bank. Subsequent to December 31, 1981 the bank stated to the Company that this debenture was being held as security for all debts and liabilities to the bank.

- (b) As a result of the Company's current financial position, certain financial covenants contained in its debt instruments have not been maintained, and the Company has not been able to generate sufficient cash flow from operations to meet all the interest payments due on its debt obligations subsequent to December 31, 1981. The primary covenant breached required the Company to generate cash flow from operations before interest expense of not less than twice the interest expense on all long-term debt. By virtue of the cross-default provisions of certain debt instruments, the principal amounts of such debt may be declared due and payable.

Continuance of operations is dependent upon the successful outcome of current negotiations with the Company's lenders who continued to advance substantial funds to finance ongoing operational and capital expenditures subsequent to December 31, 1981.

If the negotiations are successful, the refinancing may include rescheduling of debt payments and debt reduction measures including the sale of certain assets. Management is sufficiently confident that a satisfactory refinancing arrangement will be achieved to warrant presentation of consolidated financial statements which assume the Company's continuing operations.

If the negotiations are unsuccessful and payment of debt instruments which contain the cross-default provisions is demanded by the lenders, the consolidated financial statements would be affected by the reclassification of this debt to reflect the current nature of the obligations as follows:

	<i>Before</i>	<i>Increase</i>	<i>After</i>
	<i>Reclassification</i>	<i>(Decrease)</i>	<i>Reclassification</i>
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
<i>Basic and fully diluted</i>			
<i>loss per share:</i>			
<i>Common</i>	\$ 1.01	\$.03	\$ 1.04
<i>Special</i>	\$.84	\$.02	\$.86

10. SHARE CAPITAL:

Authorized

At January 1, 1979, 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 \$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 \$500,000,000.

1,000,000 first 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 October 19, 1979 Special General Meeting of Shareholders, 10,000,000 second preferred shares were created, having a par value of \$20 each, issuable in series.

At the May 7, 1981 Annual Special General Meeting of Shareholders, the existing share capital of the Company was re-organized 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, 1981, 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 the construction of a 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.

Second preferred shares, 1979 convertible series

In 1979, the Company issued 750,000 8¼% 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.

Stock Options

In 1972 the shareholders approved a stock option plan for officers and employees of the Company. During 1981, the Board of Directors increased the number of common shares registered under the plan by 1,095,000 shares. At December 31, 1981 24,561 special shares and 1,393,548 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:

	<i>Stock Options</i>	
	<u>Common</u>	<u>Special</u>
Balance January 1, 1979	214,164	114,750
Exercised (at prices ranging from \$1.45 to \$2.10)	<u>(53,205)</u>	<u>(38,814)</u>
Balance December 31, 1979	160,959	75,936
Granted	166,500	—
Exercised (at prices ranging from \$.67 to \$2.10)	(118,806)	(37,125)
Expired	<u>(12,342)</u>	<u>(9,000)</u>
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	<u>(66,456)</u>	<u>(2,811)</u>
Balance December 31, 1981	<u>431,200</u>	<u>4,500</u>

Stock options are outstanding at prices ranging from \$1.28 to \$10.13 per share. Stock options granted prior to 1980 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 1980 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, 1981 there are stock options exercisable for 83,340 common shares.

Stock options expire in:

	<u>Common</u>	<u>Special</u>
1982	4,500	4,500
1985	30,000	—
1986	<u>396,700</u>	—
	<u>431,200</u>	<u>4,500</u>

Fractional Warrants

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

Balance January 1, 1979	3,745,755
Exercised	<u>(94,455)</u>
Balance December 31, 1979	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	<u>1,949,253</u>

These fractional warrants are 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 three 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.

11. INCOME TAXES:

The components of the provision for taxes are:

	<i>Year ended December 31</i>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Current:			
Canadian income taxes	\$ (15)	\$ (144)	\$ 112
Provincial rebates	(1,034)	(260)	(97)
Foreign	298	252	—
Petroleum and gas revenue tax	1,505	—	—
Deferred income taxes	<u>(15,311)</u>	<u>5,931</u>	<u>7,669</u>
	<u><u>\$(14,557)</u></u>	<u><u>\$5,779</u></u>	<u><u>\$7,684</u></u>

The difference between the Canadian statutory rate and the effective tax rate in the consolidated income statements results from:

	<i>Year ended December 31</i>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Statutory rate	(49)%	49%	47%
Increases (decreases) resulting from:			
Non-deductibility of:			
Crown royalties	5	2	2
Debenture interest	4	3	4
Non-taxable portion of capital (gains) losses	5	(3)	(5)
Foreign tax rate difference	(33)	(12)	1
Loss carry-forwards without virtual certainty of utilization	28	—	—
Petroleum and gas revenue tax	4	—	—
Rate adjustments:			
Investment tax credits	—	(6)	(1)
Resource allowance	(6)	(2)	(2)
Earned depletion	(2)	—	(2)
Other	3	(2)	2
	<u><u>(41)%</u></u>	<u><u>29%</u></u>	<u><u>46%</u></u>

Consolidated deferred tax expense results 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>1981</u>	<u>1980</u>	<u>1979</u>
Excess of capital cost allowance for income tax purposes over depreciation for accounting purposes	\$ (5,360)	\$ (577)	\$1,799
Excess of exploration and development costs deductible for income tax purposes over depletion for accounting purposes	2,558	7,898	5,669
Tax losses available to reduce future taxable incomes recorded as there is reasonable assurance of utilization	(15,430)	(1,045)	—
Other	<u>2,921</u>	<u>(345)</u>	<u>201</u>
	<u>\$ (15,311)</u>	<u>\$5,931</u>	<u>\$7,669</u>

12. EARNINGS PER SHARE:

Due to the unique characteristics of the Company's share capital (Note 10), 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 of the Company.

Basic earnings per share

Basic earnings 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 have been allocated between the two classes in proportion to the weighted numbers outstanding.

Fully diluted earnings per share

Fully diluted earnings 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 have been adjusted for the income (net of tax) which would have been earned on the proceeds, assuming interest rates of 19½%, 14¾% and 12¾% in 1981, 1980 and 1979 respectively. These potential transactions have no dilutive effect for the year ended December 31, 1981.

Conversion of special to common shares

If all outstanding special shares were converted to common shares, basic earnings (loss) per share would be \$(.97) (1980 — \$.60; 1979 — \$.48) and fully diluted earnings (loss) per share would be \$(.97) (1980 — \$.56; 1979 — \$.41).

13. LEASE OBLIGATIONS:

The Company has operating lease obligations for retail gasoline outlets, drilling rigs, equipment, and office space expiring from 1982 to 1991. Minimum annual rental payments are:

1982	\$12,257
1983	\$ 6,984
1984	\$ 6,423
1985	\$ 5,805
1986	\$ 4,576
Thereafter	\$ 2,643

14. COMMITMENTS AND CONTINGENCIES:

The Company considers that the offer by Bankeno Mines Limited satisfied an outstanding commitment to the shareholders of Merland Explorations Limited. This is being disputed by the Ontario Securities Commission and the Company's potential liability cannot be determined. The terms and results of the offer are described in Note 16.

If all the Bankeno warrants described in Notes 16(a) and 16(b) were tendered to Turbo, the cost to Turbo would be \$8,410,000.

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.

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.

Contracts have been signed for the development of an industrial site and for the construction of a refinery. At December 31, 1981 the estimated costs to complete the refinery were approximately \$31,200,000 excluding interest.

15. REMUNERATION OF DIRECTORS AND OFFICERS:

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

	<u>1981</u>	<u>1980</u>
Directors' fees	\$ 36	\$ 24
Officers	<u>1,905</u>	<u>1,295</u>
	<u>\$1,941</u>	<u>\$1,319</u>

In 1981, the Company had nine directors and seventeen officers, five of whom served in both capacities during the year. In 1980, the Company had nine directors and thirteen officers, five 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 1981.

16. SUBSEQUENT EVENTS:

Bankeno offer for Merland

(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.

(b) (i) On March 17, 1982 Bankeno acquired 11,204,974 common shares of Merland and 56,030, \$2.00 cumulative redeemable convertible preferred shares 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 unit are not transferable separately from the share purchase warrant until July 15, 1982, at which time the warrants have the same rights as described in Note 16(a). 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 Merbank Resources Ltd. and Leaside Resources, Inc. for 9,344,600 Bankeno common shares valued at \$10 per share. As a result of this transaction and the transaction described in Note 16(b)(i) above, the Company increased its interest in Bankeno from 72% to approximately 90%.
- (c) The Company believes that the public offer by Bankeno satisfies an obligation of the Company to the shareholders of Merland. 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 requires the Company to effect, or cause to be effected, an offer equivalent in value to $\$13\frac{1}{8}$ for the balance of the Merland common shares. However, the Ontario Securities Commission (O.S.C.), in subsequent hearings held that the offer was not equivalent to $\$13\frac{1}{8}$. Those decisions of the O.S.C. are currently under appeal to the Courts. The O.S.C. also sought and received a compliance order of the Ontario Supreme Court requiring the Company to comply with the decisions of the O.S.C. The Order was stayed pending the appeals of the O.S.C. decisions. The Company has also appealed the compliance order of the Ontario Supreme Court.

If the Company is found not to have met its obligation under the clarification statement, the potential liability of the Company to certain Merland shareholders cannot reasonably be determined because rights or claims of those shareholders would depend on each individual's circumstances. At March 31, 1982, the minority shareholders of Merland hold 9,053,726 common shares and 1,247,958 preferred shares (which are convertible for 2.232 common shares for each preferred share held).

Cumulative Preferred Share Dividends

Cumulative preferred share dividends of \$93,144 due March 31, 1982 on the first preferred shares, series A and \$639,450 due April 1, 1982 on the second preferred shares, 1980 retractable series were not paid.

17. CLASSIFICATIONS:

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

18. ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES:

The accounting policies described in Note 1 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, there would not have been a material effect on earnings reported for the year ended December 31, 1979. For the years ended December 31, 1981 and 1980, long-term debt would have increased by \$1,279,000 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 1981 and \$4,690,000 in 1980. Depreciation and depletion expense would have been reduced by \$1,047,000 in 1981 (1980 and 1979 — \$625,000) due to the resulting differences in assigned values.

Accounting Principles Board Opinion Number 20 requires recording a change in depletion method (Note 2) 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>1981</u>	<u>1980</u>	<u>1979</u>
		<i>(Restated)</i>	
<i>Net income (loss) as reported</i>	\$(20,545)	\$13,589	\$8,853
Adjustments, net of applicable income taxes for:			
Long-term debt translation	(43)	(967)	—
Full cost accounting	(1,611)	(394)	(123)
Deferred tax accounting	1,047	625	625
Accounting changes	675	(675)	—
Net income (loss) as adjusted	<u>\$(20,477)</u>	<u>\$12,178</u>	<u>\$9,355</u>

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

	<u>1981</u>	<u>1980</u>	<u>1979</u>
		<i>(Restated)</i>	
<i>Basic and fully diluted earnings (loss) per share:</i>			
Common	<u>\$(1.01)</u>	<u>\$.52</u>	<u>\$.52</u>
Special	<u>\$.84</u>	<u>\$.43</u>	<u>\$.43</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, 1981 and 1980 shareholders' equity as shown on the consolidated balance sheets would have amounted to \$94,114,000 and \$64,403,000 respectively, had the preferred shares been shown separately and consolidated retained earnings adjusted for the effect of these differences.

19. SEGMENT INFORMATION:

The Company's consolidated operations can be divided into five 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;

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

Manufacturing and Refining includes the production of recycled oil, automotive products and industrial chemicals;

Marketing and Transportation includes the distribution and marketing of refined petroleum products;

Real Estate includes the acquisition, development, rental and sale of real estate properties.

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

BY BUSINESS SEGMENT:

	<i>DECEMBER 31</i>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
REVENUE:			
Resource Services sales:			
Customers	\$197,834	\$143,058	\$103,777
Inter-segment	195	228	—
Exploration and Production sales:			
Customers	24,812	7,062	4,895
Inter-segment	—	—	—
Manufacturing and Refining sales:			
Customers	67,329	30,390	19,173
Inter-segment	25,391	2,244	1,228
Marketing and Transportation sales:			
Customers	261,846	139,382	108,579
Inter-segment	851	209	137
Real Estate sales:			
Customers	5,264	1,537	344
Inter-segment	1,626	670	553
Corporate and Other sales:			
Customers	2,713	699	1,402
Inter-segment	483	26	22
Inter-segment eliminations	(28,546)	(3,377)	(1,940)
Consolidated	<u>\$559,798</u>	<u>\$322,128</u>	<u>\$238,170</u>

BY BUSINESS SEGMENT:

DECEMBER 31

	<u>1981</u>	<u>1980</u>	<u>1979</u>
		<i>(Restated)</i>	
DEPRECIATION, DEPLETION AND AMORTIZATION:			
Resource Services	\$ 13,834	\$ 10,968	\$ 7,942
Exploration and Production	11,363	546	1,144
Manufacturing and Refining	707	515	307
Marketing and Transportation	1,892	1,268	825
Real Estate	281	85	45
Corporate and Other	1,323	458	118
Consolidated	<u>\$ 29,400</u>	<u>\$ 13,840</u>	<u>\$ 10,381</u>
OPERATING INCOME:			
Resource Services	\$ 4,994	\$ 25,105	\$ 17,278
Exploration and Production	3,608	2,204	813
Manufacturing and Refining	(2,204)	(590)	833
Marketing and Transportation	2,413	7,560	5,397
Real Estate	6,881	1,558	615
Corporate and Other	(6,470)	(4,735)	(358)
Consolidation eliminations	1,090	188	(10)
Consolidated	<u>\$ 10,312</u>	<u>\$ 31,290</u>	<u>\$ 24,568</u>
TOTAL ASSETS:			
Resource Services	\$ 265,352	\$162,315	\$ 87,224
Exploration and Production	420,675	62,564	35,596
Manufacturing and Refining	241,672	37,407	12,193
Marketing and Transportation	41,515	20,404	9,453
Real Estate	44,194	25,965	8,854
Corporate and Other	49,665	23,580	13,829
Consolidated	<u>\$1,063,073</u>	<u>\$332,235</u>	<u>\$167,149</u>
CAPITAL EXPENDITURES:			
Resource Services	\$ 74,838	\$ 61,541	\$ 28,790
Exploration and Production	56,683	22,322	7,593
Manufacturing and Refining	179,673	13,332	1,010
Marketing and Transportation	8,080	7,362	2,324
Real Estate	2,442	8,472	4,889
Corporate and Other	7,981	3,266	253
Consolidated	<u>\$ 329,697</u>	<u>\$116,295</u>	<u>\$ 44,859</u>

BY GEOGRAPHIC AREA:

	<i>DECEMBER 31</i>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
REVENUE:		<i>(Restated)</i>	
Canada			
Customers	\$ 439,729	\$266,976	\$215,197
Transfers	341	1,924	1,117
	<u>440,070</u>	<u>268,900</u>	<u>216,314</u>
United States			
Customers	105,710	42,900	10,599
Transfers	6	—	—
	<u>105,716</u>	<u>42,900</u>	<u>10,599</u>
Other			
Customers	14,359	12,252	12,374
Transfers	—	—	—
	<u>14,359</u>	<u>12,252</u>	<u>12,374</u>
Inter-segment eliminations	<u>(347)</u>	<u>(1,924)</u>	<u>(1,117)</u>
Consolidated	<u>\$ 559,798</u>	<u>\$322,128</u>	<u>\$238,170</u>
OPERATING INCOME			
Canada	\$ 26,809	\$ 23,583	\$ 22,079
United States	(2,582)	6,475	1,084
Other	1,076	1,945	1,892
Consolidation eliminations	<u>(14,991)</u>	<u>(713)</u>	<u>(487)</u>
Consolidated	<u>\$ 10,312</u>	<u>\$ 31,290</u>	<u>\$ 24,568</u>
DEPRECIATION, DEPLETION AND AMORTIZATION			
Canada	\$ 16,315	\$ 6,553	\$ 7,543
United States	12,257	6,370	1,394
Other	828	917	1,444
Consolidated	<u>\$ 29,400</u>	<u>\$ 13,840</u>	<u>\$ 10,381</u>
TOTAL ASSETS:			
Canada	\$ 781,507	\$211,614	\$125,418
United States	276,837	113,300	32,476
Other	19,720	9,941	11,456
Consolidation eliminations	<u>(14,991)</u>	<u>(2,620)</u>	<u>(2,201)</u>
Consolidated	<u>\$1,063,073</u>	<u>\$332,235</u>	<u>\$167,149</u>

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, 1981 and 1980 and the related consolidated statements of income, changes in financial position, changes in common and special share capital, changes in preferred share capital and changes in other shareholders' equity for each of the three years in the period ended December 31, 1981. 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 lenders as to the existence and terms of obligations outstanding as at December 31, 1981. With respect to \$438,806,000 of such debt, more specifically described in Note 9 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 sheet.

In our opinion, except for the effect of adjustments, 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, 1981 and 1980 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, 1981, in accordance with generally accepted accounting principles in Canada (see Notes 1 and 18) 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 2 to the financial statements.

Deloitte Haskins & Sells

Auditors
Calgary, Alberta, Canada
April 30, 1982

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 1981 financial statements would have required a qualification with respect to the outcome of the uncertainties as described in Note 9 to the consolidated financial statements, relating to the company's ability to continue as a going concern, and in Notes 14 and 16 relating to the offer to shareholders of Merland Explorations Limited.

Deloitte Haskins & Sells

Auditors
Calgary, Alberta, Canada
April 30, 1982

Turbo Resources Limited

QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1981, 1980 and 1979 is as follows:

	<i>Three months ended</i>			
	<u>Mar. 31</u>	<u>Jun. 30</u>	<u>Sep. 30</u>	<u>Dec. 31</u>
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)
<i>Basic earnings (loss) per share:</i>				
Common .....	.11	(.08)	(.20)	(.84)
Special .....	.09	(.06)	(.17)	(.70)
<i>Fully diluted earnings (loss) per share:</i>				
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
<i>Basic earnings per share:</i>				
Common .....	.11	.10	.18	.25
Special .....	.10	.08	.15	.20
<i>Fully diluted earnings per share:</i>				
Common .....	.10	.10	.15	.24
Special .....	.09	.08	.12	.20
1979				
Revenue	\$ 49,432	\$ 54,261	\$ 64,786	\$ 69,691
Income before income taxes and minority interest	2,932	2,365	4,212	7,384
Net income	1,525	1,153	1,814	4,361
<i>Basic earnings per share:</i>				
Common .....	.09	.06	.11	.25
Special .....	.07	.05	.13	.17
<i>Fully diluted earnings per share:</i>				
Common .....	.08	.06	.08	.22
Special .....	.06	.05	.07	.18



TURBO RESOURCES LIMITED
1035 - 7th Avenue Southwest
Calgary, Alberta, Canada
T2P 3E9