# TURBO RESOURCES LIMITED

## 1980 ANNUAL REPORT

## Shareholders Meeting

The Annual Special General Meeting of Shareholders of Turbo Resources Limited will be held at the Calgary Inn, 320 - 4th Avenue S.W., Calgary, Alberta at 3:00 P.M., Thursday, May 7, 1981.

## Contents

The contents of this annual report are divided into two sections.

# Highlights

| FINANCIAL | 1980 ($000) | 1979 ($000) | % CHANGE |
|---|---|---|---|
| Total Revenue | **$325,756** | $242,072 | + 35 |
| Net Income | **$ 13,381** | $ 8,853 | + 51 |
| Capital Expenditures | **$116,295** | $ 44,859 | +159 |
| Total Assets | **$330,999** | $167,149 | + 98 |
| Long Term Debt | **$119,633** | $ 42,455 | +182 |
| Shareholders' Equity | **$ 87,084** | $ 48,494 | + 80 |
| Cash Flow from Operations | **$ 30,857** | $ 23,183 | + 33 |
| **PER SHARE (Undiluted)** | | | |
| Earnings per Common | **$ 1.88** | $ 1.53 | + 23 |
| Earnings per Special | **$ 1.57** | $ 1.27 | + 23 |
| Cash Flow (Common & Special) | **$ 4.92** | $ 3.99 | + 23 |

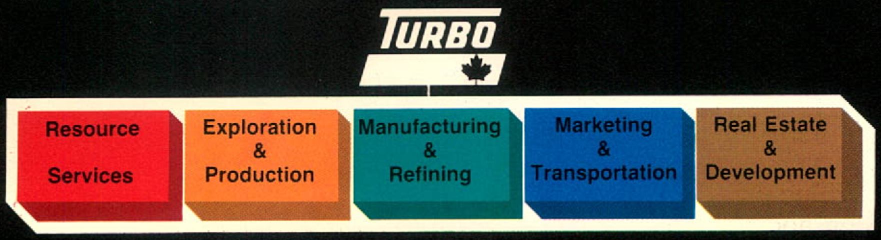
# Corporate Profile

Turbo Resources Limited of Calgary, Alberta, Canada, is an international integrated resource company. Its shares are listed on the Alberta, Montreal and Toronto stock exchanges, and traded on the NASDAQ system in the United States.

The company and its subsidiaries are organized into five operating groups:

- **Resource Services**
  contract drilling, servicing, manufacturing, rig-up and supply services to the petroleum, mining and construction industries around the world.
- **Exploration & Production**
  search for, recovery and sale of oil and natural gas in Canada and the United States.
- **Manufacturing & Refining**
  production, packaging and sales of chemicals, specialty lubricants and other automotive products; recyling used oils; (refining of fuels and related petroleum products in 1982.)
- **Marketing & Transportation**
  sales of gasoline and lubricants through Turbo retail outlets in Canada; haulage of petroleum and related products.
- **Real Estate & Development**
  acquisition and development of real estate assets in Canada and the United States.

Through subsidiaries and a controlled affiliate, Turbo has mining interests in gold and other base materials.



# Report to Shareholders

*Robert G. Brawn and Vance Kenneth Travis*

"We work with energy" is the motto the company adopted early in 1980. We believe it appropriate because it not only specifies the chief industry in which the company operates but it also describes the way our employees approach their responsibilities.

We are proud that the work ethic is high throughout the Company. It's part of the special Turbo character that has grown over the past decade — a character that has developed through the recognition of the worth of employees as individuals. We endeavour to provide an environment for personal growth and achievement with the company. As a result we have been able to attract, over the past 11 years a mix of personnel with outstanding capabilities that has proven effective in producing significant levels of growth for the company. This mix has given Turbo the character of an innovative and hard-driving company working with well planned programs and objectives.

Performance of the company continued at a high level for all the operating groups in 1980. Total revenue increased 35% over 1979 to $325.8 million and net income rose by 51% to $13.4 million. Cash flow from operations increased by 33% to $30.9 million, while total assets were up 98% to $331 million and shareholders' equity rose by 80% to $87.1 million.

The earnings per common share reached $1.88, a 23% increase over 1979 while the fully diluted value increased 32% to $1.73.

During the year we registered with the Securities and Exchange Commission in Washington, D.C., U.S.A. and Turbo common shares began trading on the NASDAQ system in the United States (Symbol TURBF) to complement our Canadian listings on the Alberta, Toronto and Montreal stock exchanges.

The company has been very pleased with the increase during 1980 in the share trading volume and price. The fact they reached record levels is indicative of the recognition by investors of the company's strong performance and intrinsic worth.

On May 7, 1981 the voting shareholders will be asked to approve a three for one stock split for both the common and special shares. This split has been recommended by the Board of Directors to enhance the liquidity of the shares and to bring the price of the shares to a level which will allow greater investor participation in the company.

Assuming the split is approved, and the record date established, the necessary administrative and legal procedures must be attended to. The additional two shares for each share held as of the record date then will be distributed to shareholders by mail, and can be expected to arrive in early June, 1981. The opening trading price of the shares following the split will be approximately one-third of the value before the split.

The common share warrants will be affected when the common shares commence trading on a subdivided basis. A holder of a warrant certificate will be able to determine the number of warrants held by multiplying the number appearing on the face of the certificate by three (3) and they will then be designated fractional trading warrants. Three (3) fractional trading warrants will entitle the holder to purchase three (3) common shares of the company for a total price of $7.50.

The year 1980 has been truly a banner year for the company. A goal of a decade culminated in the attainment of a most sought after objective — approval to build a crude oil refinery. When the refinery comes on stream, we will have seen Turbo evolve within 12 years of its beginning into the largest publicly traded Canadian independent integrated oil company in Canada.

Operational highlights, which will be expanded in the following pages are:

- expansion of U.S.A. operation through the purchase of additional drilling rigs, a well servicing company and a drilling rig fabricating company.
- adding significantly to oil and gas land holdings, particularly in the U.S.A. and taking part in a number of successful wells with the most significant being the West Fletcher prospect in Oklahoma.
- the greater acceptance of "Turflo" in oil and gas well stimulation.
- acquisition of Ontario service stations creating a new market area.
- development of real estate activities in Canada and the U.S.A.

Our new Computer System department is working out very well, and has exceeded the operational expectations when initiated in 1979. Not only has the department mastered the mushrooming information needs of the company, but it also has developed systems, ideas, and an interface which have been patented and sold for use by other companies.

We now have a decentralized, end-user system of 12 inter-linked computers located in Calgary, Edmonton, Toronto, Denver and Houston, with plans to add one in Columbia, Mississippi and one at our overseas office in The Hague, Holland.

Late in 1980 Turbo made a cash offer to purchase all outstanding shares of Bankeno Mines Limited. By the expiry date (February 6, 1981) Turbo controlled approximately 69% of Bankeno's common shares.

We believe that the mining industry will prosper in Canada in the 1980's and we plan to expand our involvement through Bankeno and Queenston Gold Mines Limited, a controlled affiliate. Such a move will further strengthen the diversified nature of our company.

The National Energy Program proposed for Canada on October 28, 1980 presented the Canadian Oil and Gas Industry with a dilemma. They heartily endorsed the three objectives of energy self-sufficiency for Canada, Canadianization of the industry and re-distribution of the revenue. The means proposed to accomplish this however, put the cost almost entirely on the already heavily taxed and regulated industry and left netbacks that were not competitive to other exploration areas in the world. As a result the reduced exploration activity in Canada will lead to shortages of new oil and gas finds and Canada will not reach self-sufficiency in the near term.

The Canadian Government's National Energy Program will have only a small impact on Turbo's overall performance. The slowdown in the Canadian petroleum drilling and servicing industry, for instance, will be substantially offset for us by the continuing de-regulation of the oil and gas industry in the United States and the resultant increase in exploration activity there. Our continuing move toward greater involvement of capital and equipment in that country will yield excellent returns for Turbo.

In addition, we are continuing to pursue expansion opportunities in other parts of the Americas as well as Europe, the Middle East and Asia. We expect our international operations to increase substantially during the next few years.

Turbo has added many employees in a number of countries since 1970. Most of the 80 or so employees we had during that first year were Albertans. Today we employ over 2700 persons throughout the Americas, Africa, Europe and the Middle East.

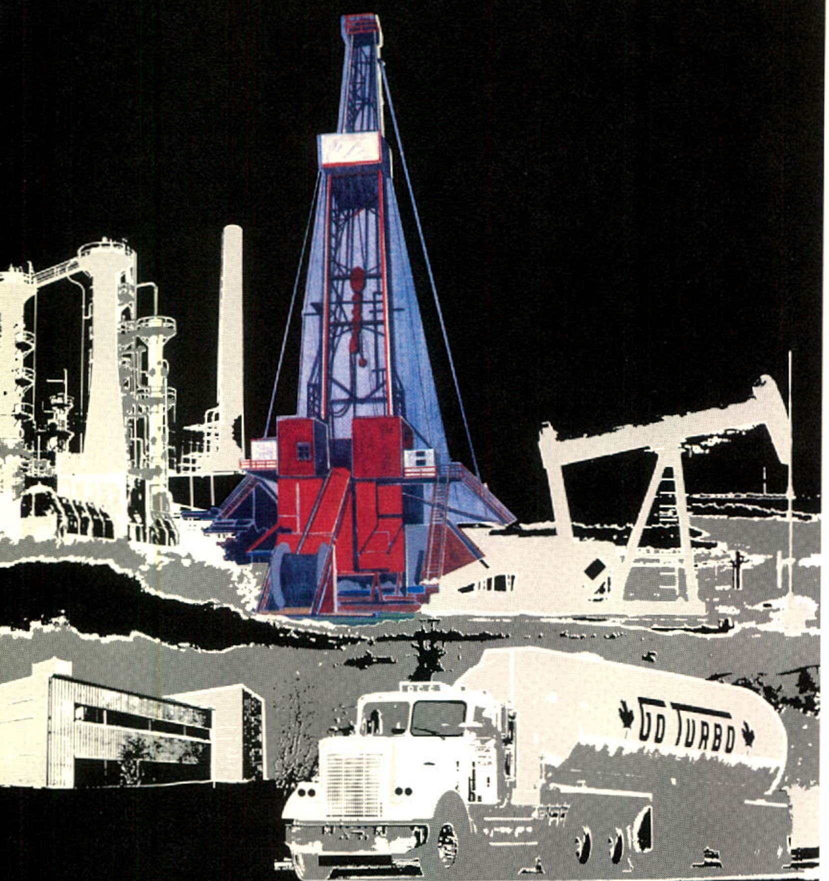
We look forward to continued growth for Turbo in the decade ahead. The varied mix and international scope of our operations combined with the energy, ingenuity and dedication of our employees gives the flexibility to react quickly to opportunities that arise or to lessen the impact of disruptions that occur.

To you who have joined the Turbo family during the past year as employees, shareholders or customers, we bid you a warm welcome. To all who have participated in or with Turbo during the past year we say "Thank You" for contributing to our success. It is your continuing participation that will keep Turbo in the forefront of the resources industry and make our motto "We work with energy" a byword for the future.

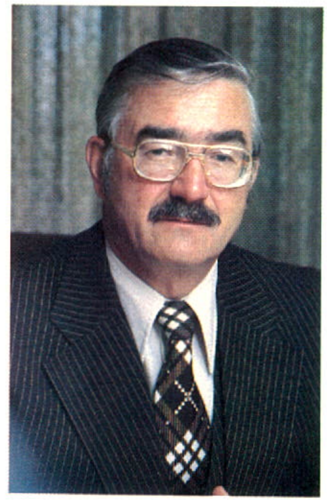
ON BEHALF OF THE BOARD

Robert G. Brawn
President and Chief Executive Officer

Vance Kenneth Travis
Chairman of the Board




# Resource Services

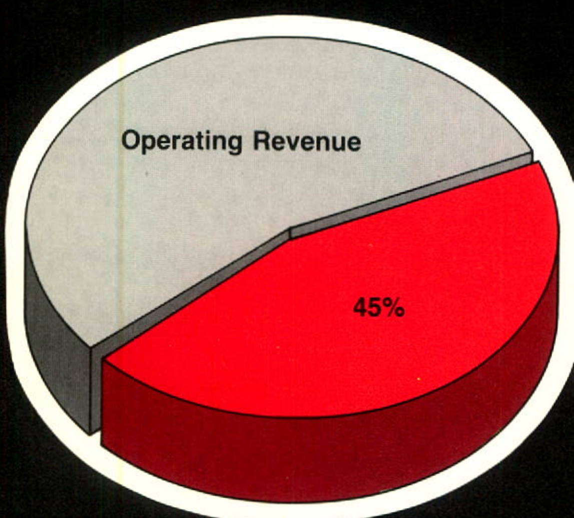


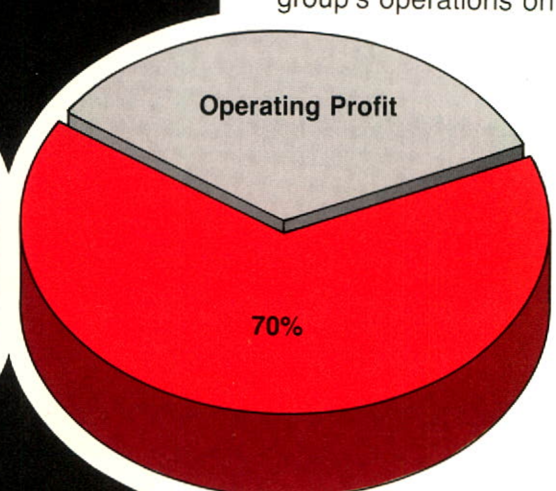
*Roy H. Allen, Senior Vice President, Resource Services*

Resource Services Group during 1980 reported significant increases in both revenue and operating profit, and continued to be the major contributor to the success of the company.

The group successfully expanded its operations during 1980, particularly in the North American marketplace. Through key acquisitions in the United States it increased its ownership of oil and gas well drilling rigs in that country and entered the well servicing and rig fabrication fields in the U.S.

Following is a more detailed review of the group's operations on a divisional basis.




| | 1980 ($000) | 1979 ($000) | % CHANGE |
|---|---|---|---|
| Revenue | 145,703 | 103,777 | + 40 |
| Operating Profit | 25,105 | 17,278 | + 45 |
| Capital Expenditures | 61,541 | 28,790 | +114 |
| Total Assets | 162,315 | 87,224 | + 86 |
| Number of Employees | 1,687 | 1,247 | + 35 |
| Drilling Rigs | 39 | 27 | + 44 |
| Service Rigs | 47 | 24 | + 96 |
| Mineral & Other Rigs | 103 | 81 | + 27 |

## Oil & Gas Well Drilling

**948 Employees**
**66% of Group's Revenue**

The principal operating identity within this component is Challenger Drilling, a company with over 32 years experience that continues

### Conversion Equivalent

1 inch = 2.54 centimetres
1 foot = 30.5 centimetres
1 foot = .305 metres

to be one of Canada's major oil and gas well drilling contractors. It has conducted drilling operations in Canada, the United States and overseas.

During 1980 this division moved aggressively to expand its exposure within the United States market. It added 12 oil and gas drilling rigs to its fleet and relocated one rig from Canada.

Since year end, the division has taken delivery in the U.S. of Challenger's largest rig capable of drilling to 7 620 metres. This rig was built by the group's newly acquired Drill Systems division in Lafayette. In addition, three other rigs have been moved to the U.S. from Canada, all under contract, with immediate plans to move three more, which will bring our total in the U.S. to 25.

Two factors have contributed to these moves: the increasingly buoyant drilling market in the United States created by continuing de-regulation, and the downturn in the Canadian drilling market caused by the Canadian government's National Energy Program (N.E.P.).

Moves to de-regulate the petroleum industry in the United States have provided considerable impetus to oil and gas well drilling activity there. The demand for rigs is expected to remain high for at least the next two years and Challenger plans to double the number of rigs it has available in that market before the end of 1982.

In Canada the N.E.P. has caused several major exploration companies to cancel or buy out long term drilling contracts under which we had rigs working steadily during the last four years.

Because of the flexibility we have in the North American drilling market through established operations and strong management teams on both sides of the Canada-U.S. border, we expect that 1981 will be another year of high activity and profitability for Challenger Drilling.


*Rig #10E — Rocky Mountain House, Alberta*

### Oil & Gas Drilling Rigs
(December 31, 1980)

| Drilling Capability | Canada | United States | North Africa | Total |
|---|---|---|---|---|
| to 914 metres ....... | — | — | 1 | 1 |
| to 1 981 metres ....... | 2 | 4 | — | 6 |
| to 2 743 metres ....... | 2 | 2 | — | 4 |
| to 3 048 metres ....... | 1 | 2 | — | 3 |
| to 3 658 metres ....... | 3 | 1 | — | 4 |
| to 4 572 metres ....... | 6 | 5 | 1 | 12 |
| to 5 486 metres ....... | 4 | 1 | — | 5 |
| to 6 096 metres ....... | — | 2 | — | 2 |
| to 6 706 metres ....... | 1 | 1 | — | 2 |
| | 19 | 18 | 2 | 39 |

## Well Servicing
**323 Employees**
**12% of Group's Revenue**

This component of the group provides well workover, production maintenance and well completion services to the oil and gas industry in Canada, United States and overseas.

Its operations more than doubled during 1980 with the acquisition of Deepwell Service Inc. of Columbia, Mississippi, one of the largest independent workover and well servicing companies east of Texas.

This acquisition established our well servicing division in the United States and provided us with 23 service rigs located throughout Mississippi, Alabama and Florida as well as an auxiliary truck fleet used in oilfield hauling and treating operations and an oilfield equipment rental component. This operation is continuing under the name of Challenger Deepwell Services.

In Canada, where the division operates as Pine Well Servicing and Challenger Well Servicing, the number of service rigs remained at 22 throughout the year. Two additional service rigs remained in operation overseas, in Libya, with the possibility of contracting two more rigs in that country during 1981. The number of service hours worked by the division in 1980 rose 44% over 1979. This increase is solely attributable to the addition of the U.S. operation.

We expect the National Energy Program will cause a softening in the 1981 Canadian market, however the U.S. is expected to continue and increase its activity level.

*Well Servicing Rig #30 — Swan Hills, Alberta*

## Well Servicing Rigs
(December 31, 1980)

| Drilling Capability | Canada | United States | North Africa | Total |
|---|---|---|---|---|
| to 1 220 metres ....... | 1 | — | — | 1 |
| to 2 134 metres ....... | 6 | — | — | 6 |
| to 2 438 metres ....... | 4 | — | — | 4 |
| to 2 743 metres ....... | 2 | 2 | — | 4 |
| to 3 045 metres ....... | 3 | — | 2 | 5 |
| to 3 658 metres ....... | 4 | 7 | — | 11 |
| to 4 267 metres ....... | 2 | 14 | — | 16 |
| | 22 | 23 | 2 | 47 |

## Mineral & Construction Drilling
**192 Employees**
**11% of Group's Revenue**

In Canada this component operates as Heath & Sherwood Drilling, based in Toronto, Ontario. It is one of the oldest and most respected mineral drilling contractors in Canada and is a world leader in deep capacity diamond drilling. In the United States, operations are carried on principally by Becker Drills Inc. of Denver, Colorado.

These divisions are equipped to service the drilling needs of both the construction and mining industries through diamond drilling and coring, wireline retrievable coring, chip sampling, reverse circulation sampling and dual wall rod sampling, including down hole hammer percussion drilling.

During 1980 total footage drilled increased in Canada by 5% and United States by 28%.

Challenger owns and operates two large diameter shaft rigs. Both these rigs are located in the United States, where the potential for continuing contracts is greater. These shaft rigs are particularly useful to the mining and pollution control industries. One rig is under contract in New Mexico and the other just completed a contract in the eastern U.S.

In addition, the company holds a 50% interest in a 13 rig limited partnership in South America and a 50% interest in a company owning 39 rigs in Africa.


*Heath & Sherwood Rig #75 — Thomson, Manitoba*

The group is involved in an exploratory drilling program in Botswana, sponsored by the Canadian International Development Agency, has worked for the Federal Government Mining Agency in Mexico and during the year completed a labour contract in Panama.

Year end count shows 30 surface and 4 underground drills in Canada, 15 surface drills and 2 large diameter rigs in the U.S. were working or under contract. The company also had interests in 52 rigs in other countries for a total of 103 drills and rigs.

Drilling capabilities range from 3.8 centimetres to 3.7 metres depending on the diameter and nature of operations.

## Equipment Rental, Sales & Supplies

**88 Employees**
**9% of Group's Revenue**

Under the trade name Challenger Rentals, the group rents equipment to energy related businesses in Western Canada. It provides a balanced inventory of modern equipment that is well maintained and capable of filling complex rental demands even on short notice. This operation was moved during the year to larger facilities in Nisku, South of Edmonton, Alberta, to allow for the growth of this business.

Through two divisions, Bishop Machinery and Bishop Oilfield Supply, both of Edmonton, Alberta, the group sells drilling and oilfield equipment and supplies, and sells and services a wide range of construction machinery and equipment. Most equipment and machinery sales are made under franchise arrangements.

Supply stores are located in Edmonton, Grande Prairie and Provost, all in Alberta. A machinery sales office was opened in Calgary, Alberta during the year. The supply division plans to locate new stores in New Iberia, Louisiana and Houston, Texas during the first half of 1981, and to open an additional three stores in the U.S. before year end.

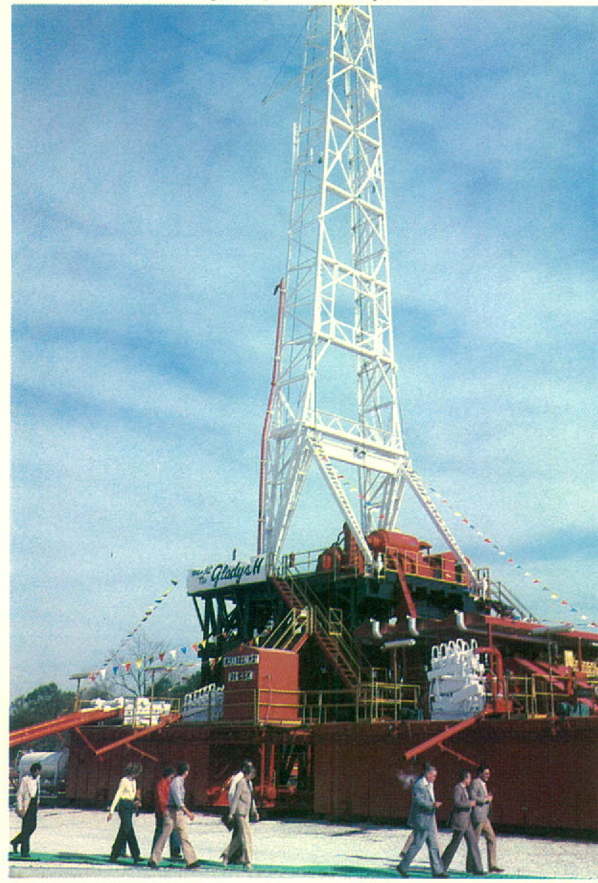
*Testing Bishop Equipment — Edmonton, Alberta*

## Rig & Tool Fabrication

**136 Employees**
**2% of Group's Revenue**

Veran, Inc. of Lafayette, Louisiana was purchased in mid-December and now operates under the Drill Systems name. It brings to the group the capability of building approximately 10 new rigs a year while offering drilling contractors an assembly and overhaul service for all makes and sizes of drilling equipment. It also is active in the purchase, overhaul, rig-up and sale of used rigs.

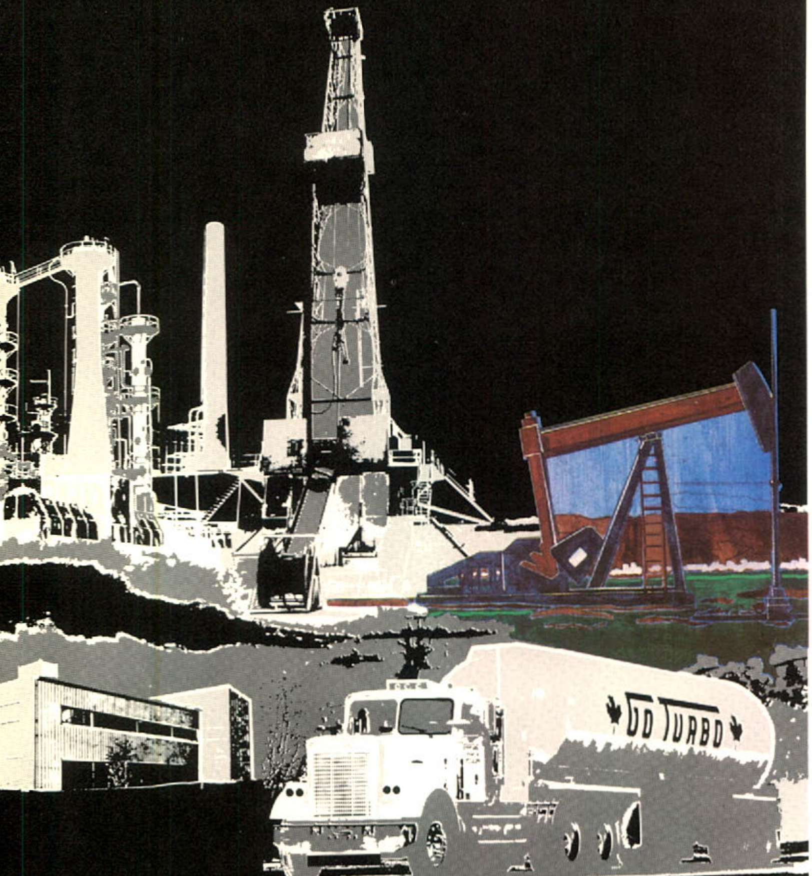
With the demand, in the U.S.A. for new oil and gas drilling rigs and associated equipment expected to remain high for at least the next five years, Drill Systems will effectively increase its contribution to the success of the group in the years ahead.


*Rig #32, "The Gladys H", Challenger's Largest, Constructed by Drill Systems — Lafayette, Louisiana*

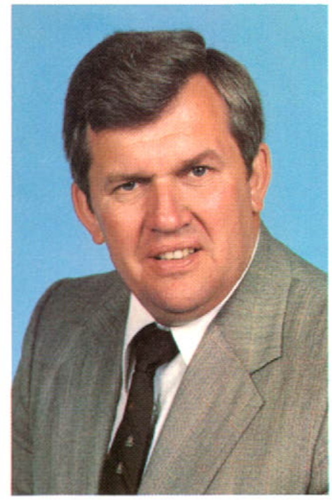
The Canadian component of Drill Systems, based in Calgary, Alberta, continued its primary involvement in steel fabrication and assembly and the manufacture of specialty rigs, drilling tools, dual wall rotary and hammer drill pipe for the construction drilling industry. This operation was expanded during 1980 to include the fabrication of sulphur handling equipment and equipment catering to the mining industry.

## Outlook

Our involvement in North America is well established and growing. Our involvement in the international marketplace, although relatively new, is increasing. Many of the countries around the world having oil and gas resources are wanting to increase their domestic reserves to counter the soaring price of crude oil. We intend to capitalize on these opportunities to expand our international operations and thus increase our geographic diversification.




# Exploration & Production

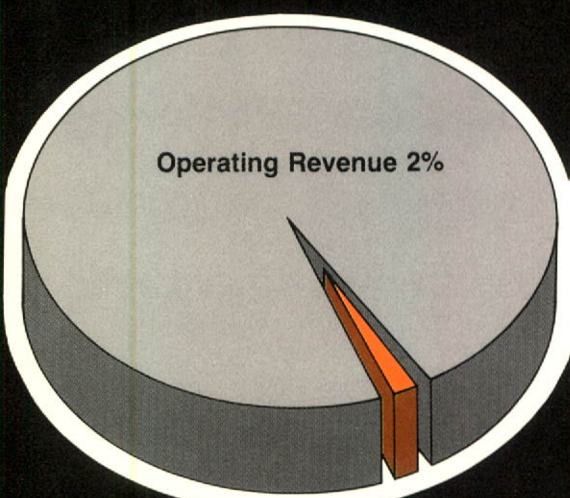


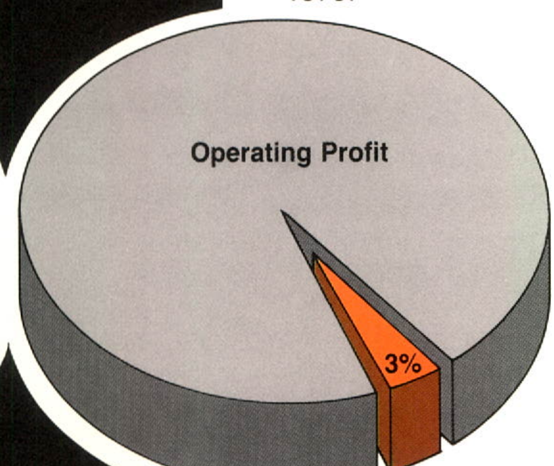
*John G. Pashniak, Vice President, Production*

The Exploration & Production Group is involved in the search for, the production and sale of oil and natural gas in Canada and the United States.

During 1980 the group succeeded in increasing Turbo's hydrocarbon reserves through increasing our land holdings. By year end our net land position had nearly tripled from 1979, which will enable us to increase the proven and probable reserves through future drilling and development.

The majority of the land holdings' increases took place in the United States where our 1980 activity expanded substantially over 1979.




| | 1980 ($000) | 1979 ($000) | % Change |
|---|---|---|---|
| **Revenue** | 7,353 | 4,895 | + 50 |
| **Operating Profit** | 968 | 813 | + 19 |
| **Capital Expenditures** | 22,322 | 7,593 | +194 |
| **Total Assets** | 61,328 | 35,596 | + 72 |
| **Number of Employees** | 32 | 19 | + 68 |
| **Gross Hectares (000's)** | 1 052 | 625 | + 68 |
| **Net Hectares (000's)** | 363 | 140 | +159 |
| **Gross Wells Drilled** | | | |
| **Exploratory** | 45 | 35 | + 29 |
| **Development** | 16 | 28 | − 43 |
| **Proven and Probable Reserves ($10^6m^3$) Equivalent** | 2 996 | 2 803 | + 7 |

**(Conversion — 938 000 $m^3$ of Oil equals $1{\times}10^6m^3$ of Gas)**

### Conversion Equivalents

| | |
|---|---|
| 1 Foot | = 30.5 Centimetres |
| 1 Foot | = .305 Metres |
| 1 Mile | = 1.609 Kilometres |
| 1 Acre | = .405 Hectares |
| 1 Barrel | = .159 Cubic metres |
| 1 Million Cubic feet | = 28 174 Cubic metres |

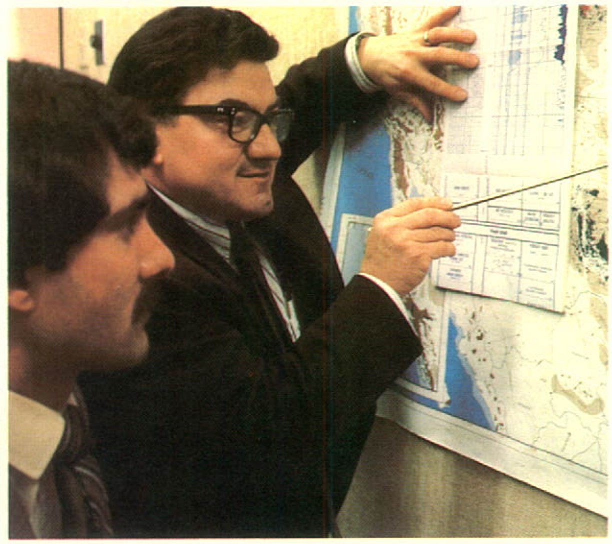
The group established a division office in Denver, Colorado to manage its U.S. activity and be better able to pursue business opportunities that arise. At year end the group had exploration and production operations in 14 states.

In Canada, where the group operates mainly in Alberta and British Columbia, drilling continued to develop reserves on existing land holdings and the Company participated in 41 wells.

### Land

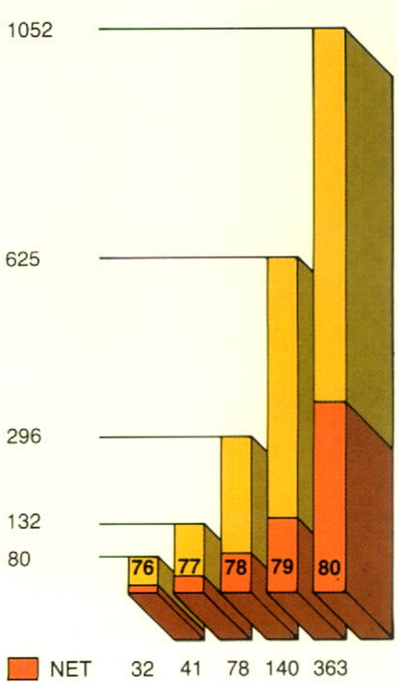
The group's total oil and gas holdings in Canada increased during 1980 by 607 net hectares (ha) to 73 655 net ha. At Leduc-Golden Spike 1 813 gross ha were purchased at an average interest of 53%, while at Carson Creek the Company joined in the acquisition of 2 720 gross ha at an average interest of 20%.

In the United States, the Company's land holdings increased by 222 656 net ha to 289 691 net ha, giving us a large exploration land position in areas expected to be highly active. The major purchase was a 75% working interest in 305 544 ha from Sumatra Oil Inc. in seven states. Major concentrations are in highly prospective areas of Idaho, Montana, South Dakota and Nebraska. Also secured were lands in Ohio-West Virginia, Oklahoma and Texas.

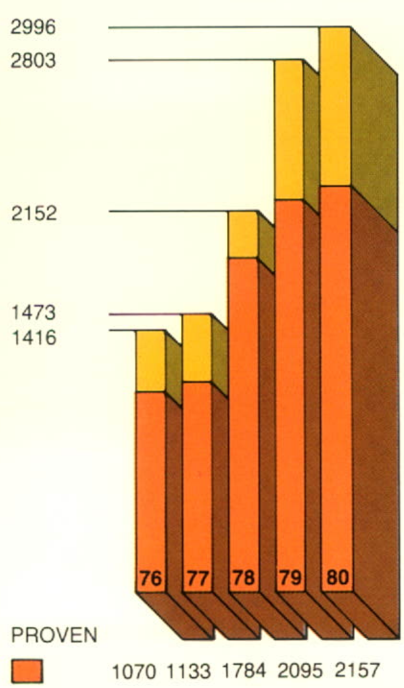


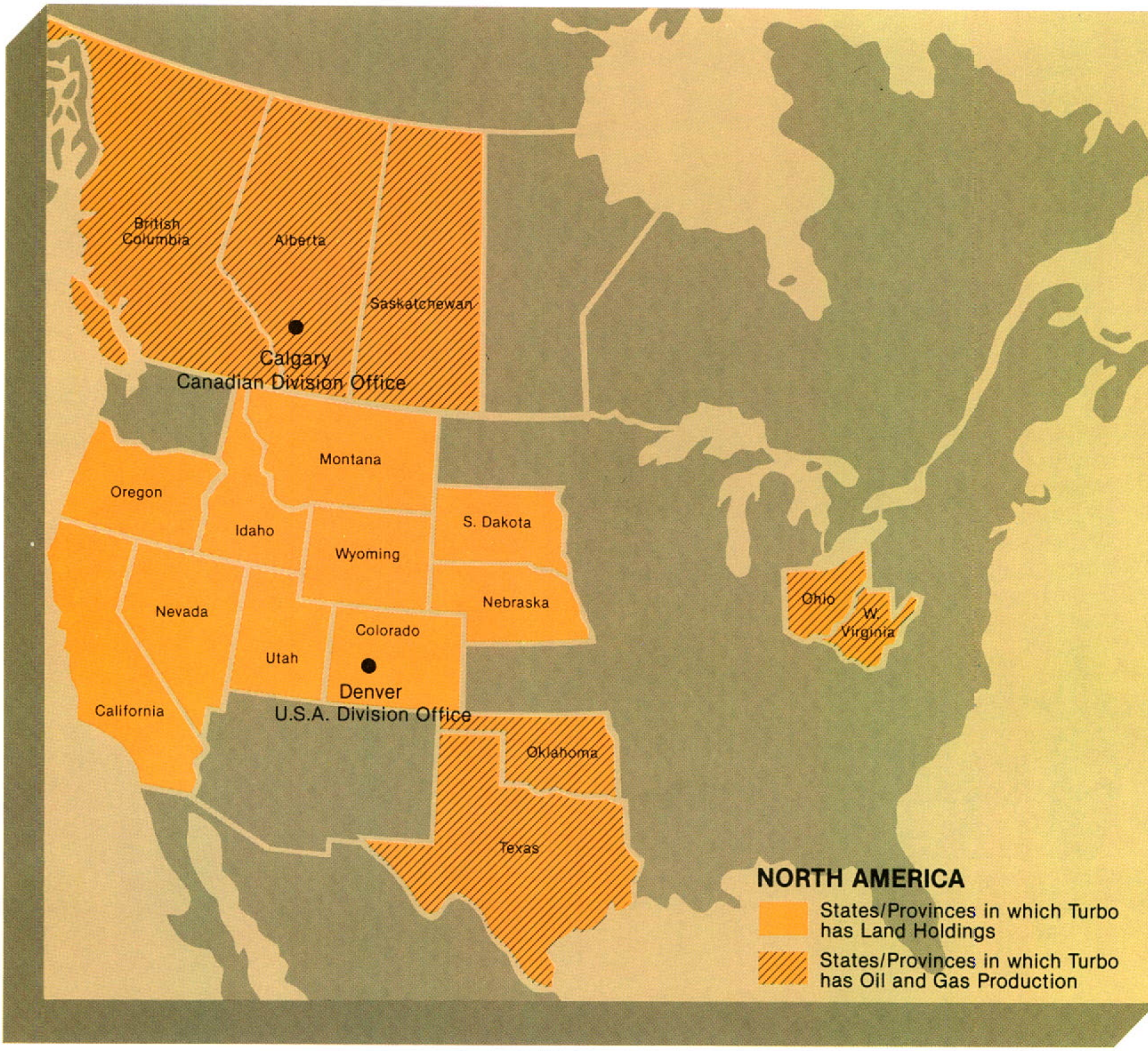
*Reviewing Exploration Strategy*

**Gross & Net Land**
(000's of Hectares)




**Gross Proven & Probable Reserves**
($10^6 m^3$ of Gas)






## Gross Well Drilling Log — 1980

| | GAS | | OIL | | DRY | | DRILLING AT YEAR END | |
|---|---|---|---|---|---|---|---|---|
| | Canada | USA | Canada | USA | Canada | USA | Canada | USA |
| Exploratory | 20 | 3 | 2 | 12 | 7 | 1 | 1 | 3 |
| Development | 7 | 0 | 3 | 0 | 0 | 6 | 1 | 0 |
| Total | 27 | 3 | 5 | 12 | 7 | 7 | 2 | 3 |

## Production & Reserves

Production during 1980 amounted to 54.7 million cubic metres ($10^6m^3$) of gas and 16.5 thousand cubic metres ($10^3m^3$) of oil. Gas production was increased in the U.S.A. by over 100% from 1979 volumes. Turbo's reserves increased slightly in Canada and by approximately 65% in U.S.A. Proven and probable reserves, after deducting production for the year, increased to 3 000 $\times$ $10^6m^3$.

Most of the increase during 1980 came from the Knopcik, Leedale, Michichi areas in Alberta, Sikanni in British Columbia, and Comanche County in Oklahoma. In addition Turbo also holds an interest in 425 $\times$ $10^9m^3$ gas reserves in the Arctic islands through holdings of Bankeno Mines Limited. Turbo's share is estimated at 4.3 $\times$ $10^6m^3$. These reserves are not booked in the reserve figures.

*Pump Jack — Golden Spike, Alberta*

In July, sales commenced at rates up to 85 $\times$ $10^3m^3$/d of natural gas from the Leduc-Golden Spike field in Alberta in which Turbo has an 80% interest. A second well was placed on production in April of this year which has doubled the production rate from the field. Two wells in the Hamilton Lake field in Alberta were placed on production during September at 34 $\times$ $10^3m^3$/d, following completion of the pipeline gathering system.

Installation of compression and dehydration facilities at the Gopher field in British Columbia doubled production to 60 $\times$ $10^3m^3$/d. Production is restricted during the summer due to low nominations.

Negotiations are proceeding with the working interest partners of the Knopcik gas field in northwestern Alberta for installation of a gas plant and related gathering facilities. These are scheduled for completion in late 1981 to begin production on a contract to Pan Alberta at initial rates of 100 $\times$ $10^3m^3$/d increasing to 212 $\times$ $10^3m^3$/d a year later. Turbo, as operator, would own approximately 26% of the facility. Unitization negotiations are progressing for the Wilson Creek-Leedale gas field, and a contract has been signed for the production of up to 531 $\times$ $10^3m^3$/d to commence upon completion of the plant and related facilities in mid-1981. Turbo's estimated share of this production is 57 $\times$ $10^3m^3$/d.

In the United States, gas and oil sales have commenced at gross rates of 45 $\times$ $10^3m^3$/d and 14.31 $m^3$/d respectively from the Ohio-West Virginia area where Turbo has an average 7.5% working interest in 52 wells. Five gas wells in Roger Mills County, Oklahoma, in which we have an approximate 10% average working interest went on production; bringing to 8 the number of producers in the state. Turbo's net production is currently 22 $\times$ $10^3m^3$/d. This is expected to increase in 1981 when the recently tested well in Comanche County goes on production. In Texas a fourth well was placed on production in the Ledrick/Pallalla Field which resulted in an increase of 30 $\times$ $10^3m^3$/d gas bringing production in the field up to 75 $\times$ $10^3m^3$/d. Turbo owns various interests in the field from 10% to 20%.

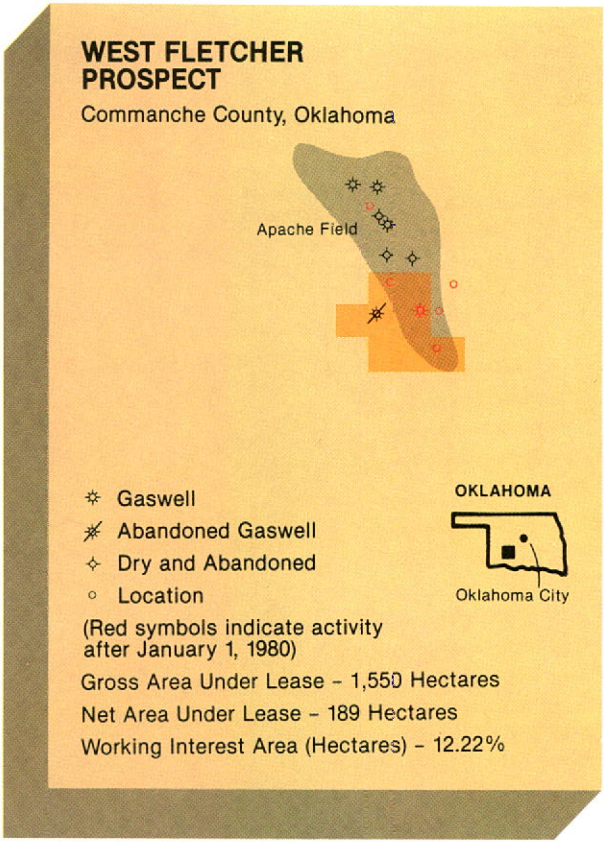
## Exploration

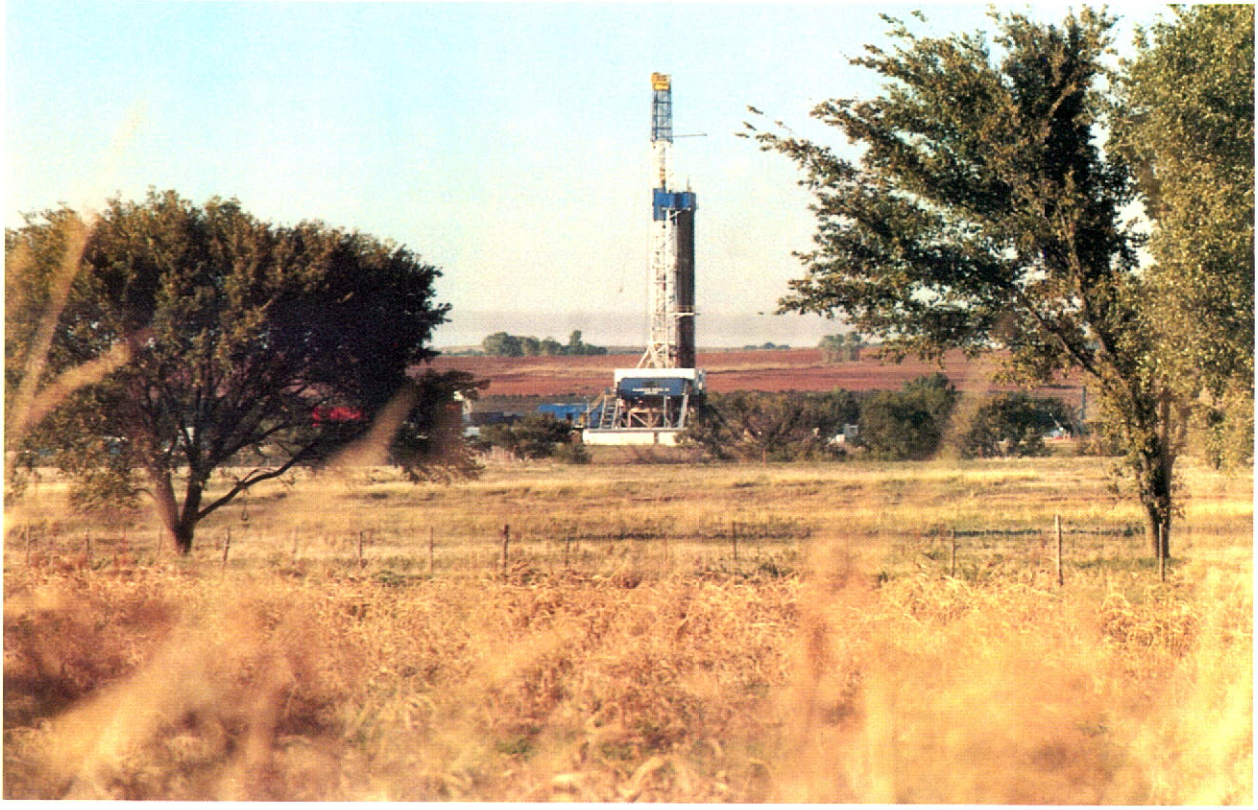
The group's exploration activities during 1980 were concentrated mainly in Alberta in Canada, and Oklahoma in the U.S. Following are the more significant areas in which we have interests.

## Oklahoma

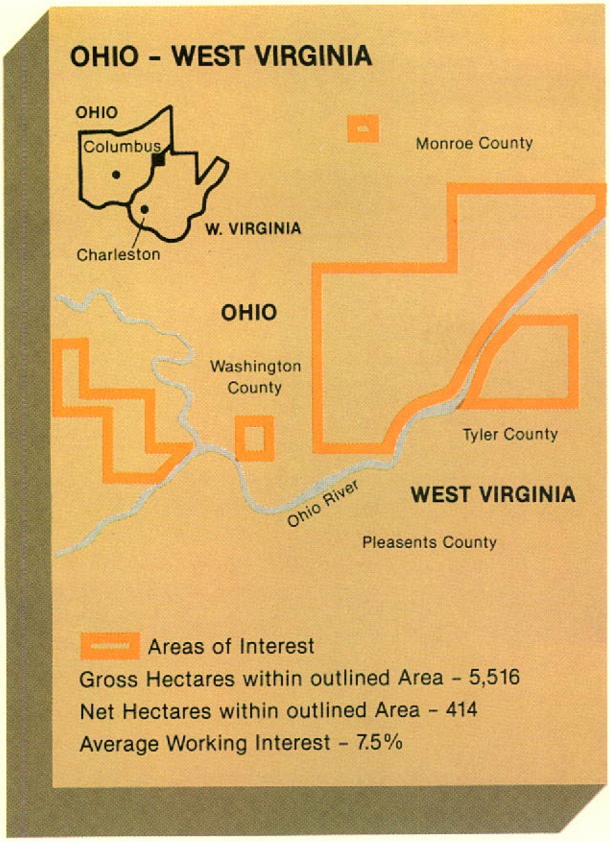
The most exciting play in which Turbo participated in 1980 was the West Fletcher prospect of the Anadarko Basin, located in Comanche County, Oklahoma. The Livingston 1-7 well was drilled to 6 269 metres with excellent results. The well was flow tested at a rate of 105 $10^3m^3/d$ from perforations between 6 046 and 6 065 metres within the Springer sandstone. Additional prospective Springer sands occur uphole over the interval from 5 460 to 5 483 metres. Further flow testing and pressure measurements are planned. Turbo holds 12.21% working interest in Livingston 1-7 and holds 189 ha in 2 331 ha covering the play. The Company also has a mutual interest in adjacent lands.

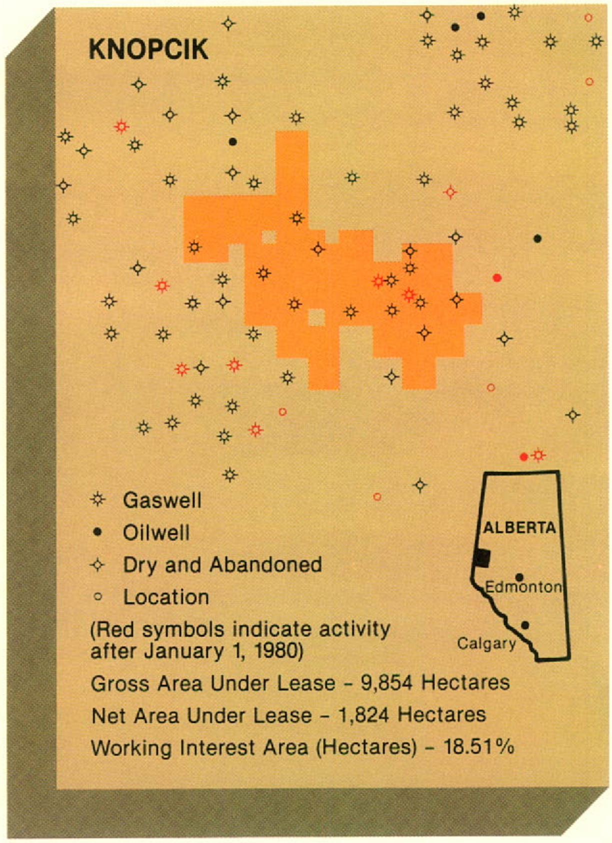
Preliminary evaluations indicate significant potential reserves in the play. Two off setting wells in which Turbo holds 7.91% and 7.31% working interest respectively are currently being drilled to confirm the discovery. Negotiations are in progress with major gas purchasers to market this deep gas which qualifies for de-regulated prices.



*Livingston 1-7 Well — Comanche County, Oklahoma*




## Ohio-West Virginia

Turbo obtained an average 7.5% working interest in 5 463 gross ha and 43 low producing oil and gas wells in this area in 1980. Nine more wells were drilled, all capable of production. Sales began in 1980 at gross rates of 45 $\times$ $10^3 m^3/d$ and 14.31 $m^3/d$ oil. This region presents an opportunity to explore deeper de-regulated zones. There is a deep Oriskanay gas potential throughout this area. The Company plans to drill 10 more shallow wells during 1981 with one and possibly two deep well tests.

## Rocky Mountain Area

In 1980 Turbo acquired a 75% working interest in 305 544 gross ha in the Rocky Mountain area. The lands are located in seven states with concentrations in the Overthrust area of eastern Idaho and in prospective areas of Montana, South Dakota, and Nebraska. Negotiations are complete, and a program has been initiated by a U.S. company to conduct an exploration program involving 177 kilometres of seismic and drilling of two wildcat wells on 30 757 ha in South Dakota.

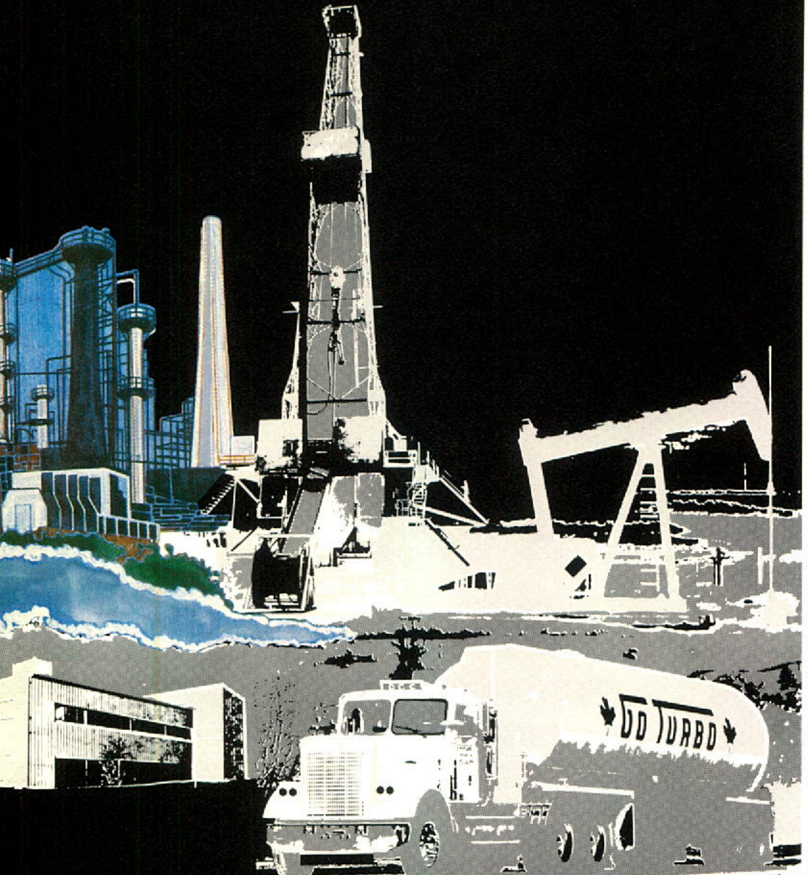
## Knopcik

This play is in the Deep Basin area north and west of Grande Prairie, Alberta.Turbo holds from 2% to 33.3% working interest in over 9 854 gross ha in this area, and acts as operator for the field. During 1980 the Company participated in drilling 2 wells, including Knopcik 13-1, a Nikinassin gas discovery on a farm-in which tested at rates up to 85 $\times$ $10^3 m^3/d$. This was followed by the drilling of a successful option well.

## Outlook

During 1981 and future years, this group should increase their cash flow and profit contribution to the Company. Investments previously made in land should mature into promising developments for the benefit of Shareholders, allowing a good return on dollars invested.

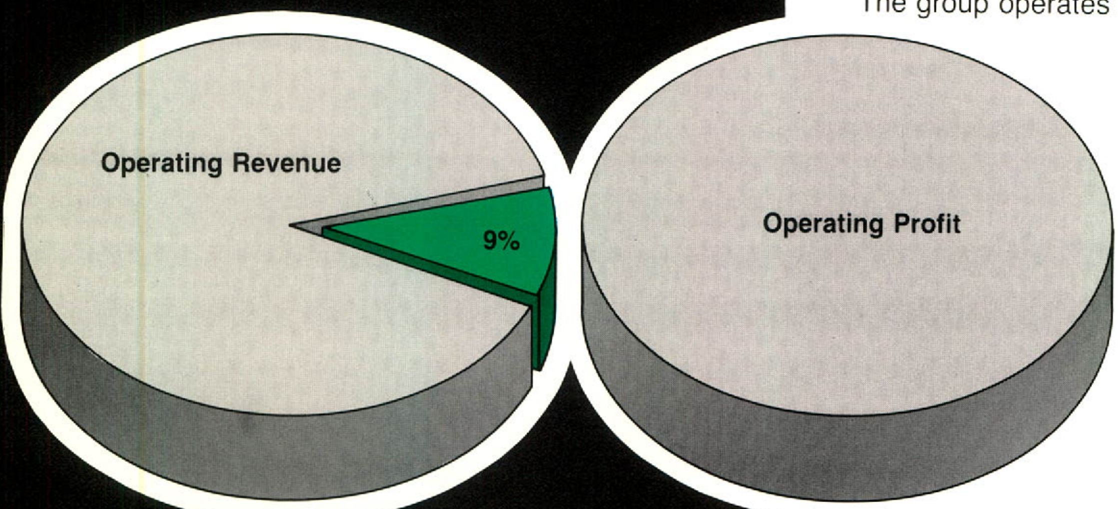
Emphasis will be placed on recent discoveries with special attention to U.S. holdings because of the higher margins and the buoyant market for discovered oil and gas.




# Manufacturing and Refining

*Frank W. King, Senior Vice President, Manufacturing*

The Manufacturing and Refining Group incorporates the operations of two of the original companies, C. C. Snowdon Ltd. and Turbo Oil Ltd., which in 1970 formed the base for the founding of today's Turbo Resources. During the past several years these operations have been expanded and new ones added. Today, the group's activities include the manufacture and sale of plastic containers, custom blended lubricants and other consumable automotive products, high technology oilfield, industrial and specialty chemicals; and the re-cycling of lubricating oil. The group operates its own sales, research and development technical services, quality control, warehouse and distribution system. In addition construction has begun on a new fuels refinery which is scheduled to begin the production of gasoline and diesel fuel by mid-1982.




| | 1980 ($000) | 1979 ($000) | % Change |
|---|---|---|---|
| Revenue | 32,708 | 20,401 | + 60 |
| Operating Profit (Loss) | (590) | 833 | − 171 |
| Capital Expenditures | 13,332 | 1,010 | + 1220 |
| Total Assets | 37,407 | 12,193 | + 207 |
| Number of Employees | 190 | 205 | − 7 |
| Plant Area (Square Metres) | 56 388 | 56 388 | |
| Production Capacity (000's of Litres) | | | |
| Blow-molded plastic Containers | 72 736 | 68 190 | + 7 |
| Filling plastic containers | 95 466 | 95 466 | |
| metal containers | 64 099 | 64 099 | |
| Lube oil blending | 45 460 | 28 641 | + 59 |
| Lube oil refining | 15 911 | 8 182 | + 94 |

### Conversion Equivalents

| | | |
|---|---|---|
| 1 Square foot | = | .093 Square metres |
| 1 Acre | = | .405 Hectares |
| 1 Gallon | = | 4.545 Litres |
| 1 Barrel | = | .159 Cubic metres |

To complement the popular Turbo brand, products are also manufactured by the group under Bramco, Red Ram, Flo-Rite, Chinook, Northland, Sub-Zero, Turflo, and Romac, brand names.

Highlights of the year for the group's operating divisions are outlined on the following pages.

## Blending and Packaging

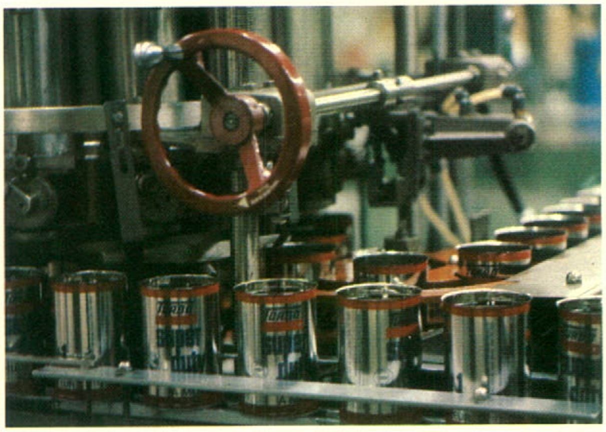
**93 Employees**
**73% of Group's Revenue**

Turbo is the largest Canadian Company offering a fully integrated service of blending products to customer specifications, blow molding plastic containers, filling, labelling and boxing the containers, storing and ultimately distributing the final product in accordance with customer instructions. The product line includes windshield washer fluid, antifreeze, engine oils, transmission oils, gear oils, grease and brake fluid.

The division has two major plants, one in Edmonton, Alberta and the other in Winnipeg, Manitoba, which produce a full range of Turbo and custom brand products, including the high performance Red Ram lubricant formulations distributed across Canada and into the United States. Other plants, operated by the company are located in Calgary, Alberta, Burnaby, British Columbia, and Burlington, Washington and have packaging capability for many of our automotive chemical products.

The Edmonton operation, housed in a 30 480 square metre plant and warehouse opened in 1979, includes three fully automated blending and packaging lines as well as four lines of modern equipment for blow-molding the plastic containers used in both the Edmonton and Winnipeg plants. It also includes silk screen printing facilities for labelling the containers.

Another facility in Edmonton, the company's original and smaller oil chemicals blending plant, was severely damaged by fire in September 1980. No serious interruption in the supply of automotive products was experienced as production was made up by other Turbo plants. Asset loss and business interruption costs were covered by insurance. This plant has been largely rebuilt and is scheduled to be back in full production before the middle of 1981. Overall profitability of the group was temporarily affected as a result of high costs incurred to maintain staff and alternate production. The company also is party to a reciprocal blending and packaging agreement with a major Eastern Canadian lubricants producer. Product obtained under this agreement results in lower freight costs incurred supplying the company's eastern Canadian customers.



*Litre Can Line — Edmonton, Alberta*

This division had a very productive year, with an overall increase in revenue of 66% over 1979. The increasing public acceptance of Turbo's automotive products and the increasing demand by other marketers for custom production through our facilities will see this division continue as a major contributor to the operating revenue of the group.

### Blending and Packaging Revenues

| | 1980 ($000) | 1979 ($000) | % Change |
|---|---|---|---|
| Customer Packaging | 2,967 | 1,746 | + 70 |
| Motor Oils | 13,682 | 6,663 | + 105 |
| Antifreeze | 3,889 | 3,606 | + 8 |
| Windshield Washer | 2,520 | 1,858 | + 36 |
| | $23,058 | $13,873 | + 66 |

## Lubrefining

**44 Employees**
**6% of Group's Revenue**

The group operates one of Canada's largest oil recycling refineries located at Edmonton, Alberta. This plant adjoined the oil blending plant severely damaged by fire in September, and received sufficient damage itself to force a shut-down while repairs were made. The opportunity was taken to expand the capacity of the recycle refinery and when production began again late in 1980 the capacity had increased from 8.2 million litres to 15.9 million litres of finished lubricants.

Manufacturing & Refining

Turbo began recycling used oils early in its history and consequently has enjoyed an advantage over its competitors in Western Canada. This advantage will be strengthened within the next few years with the building of an additional recycling facility within the new

*Pre-treatment Filter Press Equipment — Edmonton, Alberta*

Calgary refinery complex. The new plant will use Turbo's patented continuous 'Lubrefining' process to recycle up to 45.5 million litres of used lubricating oils per year. This process, developed by the division's research and development team, is far superior to any other proven recycling process. Lubrefining involves a pre-treatment step followed by a newly created hydro-treatment and vacuum distillation process to produce an oil comparable or superior in quality to other lubricants.

Environment Canada, a department of the federal government, tested Turbo's finished recycled oil in cars of the Royal Canadian Mounted Police during 1979 and 1980 to evaluate its performance in comparison to virgin motor oil. The test results were positive, and the department has recommended continued use of the rerefined product. As a result, the division has applied to the American Petroleum Institute (A.P.I.) for an S.F. rating which will certify it acceptable for general use as an automotive engine oil.

To date, recycled lubricant oils have been designed for major industrial users. Certification by the A.P.I. will provide Turbo with a much broader market for the sale of its high quality recycled products.

## Chemicals

**63 Employees**
**21% of Group's Revenue**

The development and manufacture of industrial and oilfield chemicals is handled by the group's Turbo Chemical division. Formed in 1978, this division has set the pace for new product development in the Canadian oil and gas service industry during the past two years. Through an intensive research and development program, the division has created six unique well stimulation products which have gained acceptance in both North American and world markets. Several unique new products are currently being tested in the laboratory and in the field.

Turflo, a one-step acidization clay shrinking and stabilizing agent with a phosphoric acid base, was the Company's first commercially successful product developed for use in oilfield stimulation. The product is

*Turbo Chemicals Laboratory — Calgary, Alberta*

environmentally benign, non-fuming and safe for direct skin contact. It is non-corrosive at temperatures up to the 180 degree — 190 degree celsius range. The oil and gas recovery performance of Turflo is unrivalled by any other product.

The Turflo product line was expanded in 1980 with the introduction of a high temperature stable surfactant known as TCH 956 for use in steam stimulated heavy oil recovery. It has had excellent results in commercial applications in the heavy oil fields near Lloydminster and Cold Lake, Alberta. Enhanced recovery techniques are becoming essential to the oil and gas industry as prices rise and easily recovered oil declines. With its lead in producing new well stimulation agents, Turbo Chemicals has expanded its marketing operations to include Mexico, Alaska, South America, the North Sea and other active offshore petroleum producing areas. Turbo Chemicals opened new offices in Denver, Colorado and Houston, Texas and will open an office in Aberdeen, Scotland in 1981.

The other division in the Chemicals group is Bramco Industries. Bramco blends and packages a wide variety of specialty chemicals at plants located in Regina, Saskatchewan; Calgary, Alberta; Burnaby, British Columbia and Burlington, Washington.

Bramco products include boiler water treatment chemicals, janitorial, institutional and household cleaning chemicals, agricultural pesticides, protective coatings, swimming pool and automotive chemicals, and a defoamer chemical used in the pulp and paper industry.

## Calgary Refinery

**28 Employees**

Turbo moved to consolidate its position as a fully integrated resource company in 1980 as approval was given by all necessary regulatory bodies for the construction of a $200 million Turbo refinery. As a result, construction of a 4,770 cubic metres per day facility began in September and now is well under way at its location five kilometres north of the city of Calgary, Alberta.

Scheduled originally for completion by mid-1982, the refinery may come on stream at an earlier date, thanks to the hard work, enthusiasm and expert planning of the project team. The use of the modular construction approach advocated by the team, coupled with prompt delivery of the necessary components and the good construction weather, have all combined to put the project ahead of schedule. Costs are expected to be within budget.

The refinery will occupy 97 hectares of a 259 hectare site and will be a fully integrated unit capable of utilizing Southern Alberta light and medium crude oils, pentanes, heavy and synthetic crude oils. The wide range of feedstocks will ensure maximum long-term supplies and an important degree of processing flexibility. The company has been accepted as a crude oil purchaser by the Alberta Petroleum Marketing Commission, which controls the sale of over 80% of the crude oil produced in Alberta. When completed the refinery will produce leaded regular, unleaded regular and unleaded premium gasoline, various diesel fuels, kerosene, jet fuel, fuel oil, asphalt and propane. The gasoline output initially will exceed the current requirements of Turbo's marketing outlets, and the company will sell or trade any surplus production to other marketers. The need for new refining capacity in Alberta is already acute and the new refinery will provide markets with an assured supply of finished products. The market orbit will include Southern Alberta, South Western Saskatchewan and Eastern British Columbia.

The refinery is the largest grass roots fuel refinery ever built west of Ontario and is the largest grass roots refinery ever built by a Canadian company. We confidentially expect that the refinery will become a major contributor to the company's revenue and operating profit.

*Refinery Construction Site — Calgary, Alberta*

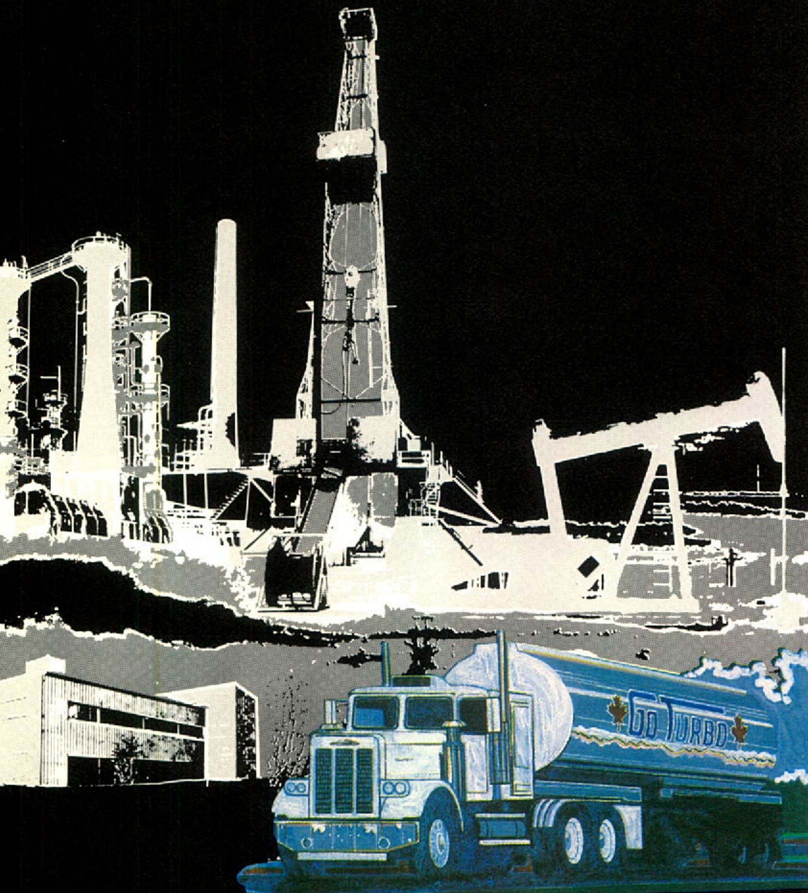
## Outlook

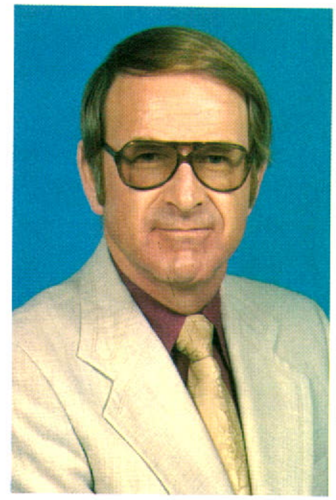
In the Blending and Packaging operations we have made significant management changes in the light of reduced profits in 1980 which recorded a number of non-recurring losses. Repairs have been completed to the recycling plant after the fire in late September which affected production during the last quarter of 1980 and the first quarter of 1981. These activities will continue to expand through increased sales due to the greater acceptance of Turbo products in the market place.

In the Chemical division, during 1980, large amounts were spent for market start-up in the U.S. This year we expect to produce profits particularly in the second-half as we establish market penetration. In Canada, the National Energy Program has reduced well stimulation activity and the Company will change its emphasis to the U.S. market while continuing to do its research and development in Canada.

Our refinery project in Calgary is well underway with completion expected in early 1982.

# Marketing & Transportation



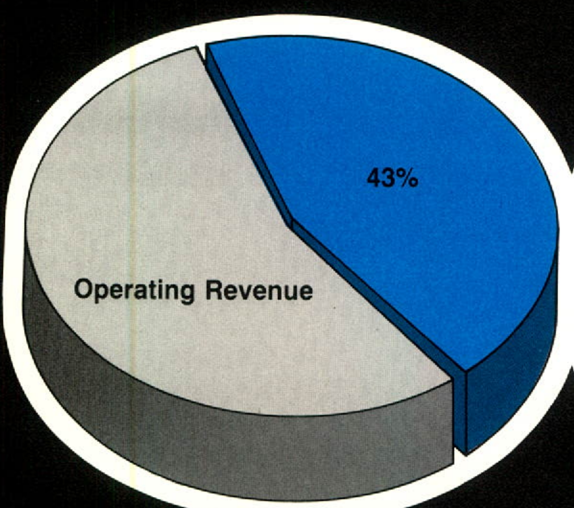



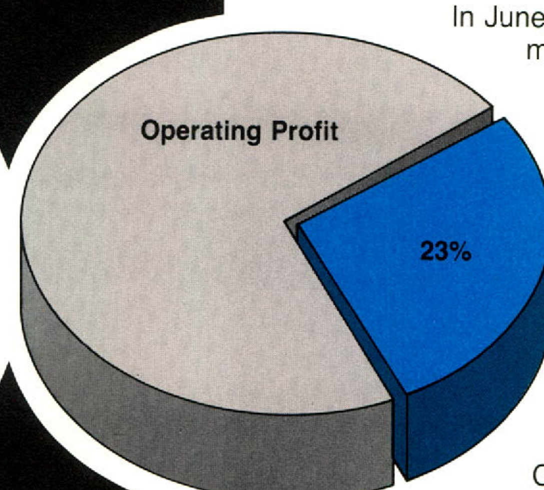
*Bruce P. R. Millar,*
*Vice President,*
*Marketing Operations*

The distribution and sale of motor fuels, lubricants and other consumable automotive products has been a significant part of Turbo's operations since the company's formation. This Group has continued to achieve annual increases in volumes of product higher than the industry average and yearly sets record highs in revenue and operating profit.

## Marketing

**255 Employees**
**99% of Group's Revenue**




In June, the division expanded its marketing operations into Central Canada by acquiring the Ontario marketing division of Spur Oil Ltd. Included in the acquisition were 79 locations, comprising a mix of service stations, bulk agencies, gas bars and car washes which had been Spur or Gas branded outlets throughout Central and Southern Ontario.

Identification on all the acquired Ontario outlets was changed over to Turbo by year end. The "Pumper People" theme introduced to Ontario consumers showing full island service at prices competitive with self-service outlets has been most gratifying. We now have an excellent positioning within the Ontario marketplace, and good potential to expand within this area.

| | 1980 ($000) | 1979 ($000) | % Change |
|---|---|---|---|
| **Revenue** | 139,653 | 108,716 | + 28 |
| **Operating Profit** | 8,377 | 5,397 | + 55 |
| **Capital Expenditures** | 7,362 | 2,324 | +217 |
| **Total Assets** (does not include property and building leases) | 20,404 | 9,453 | +116 |
| **Number of Employees** | 296 | 99 | +199 |
| **Number of Outlets** | 293 | 222 | + 32 |
| **Gasoline & Fuel Sales** (000's litres) | 688 719 | 574 160 | + 20 |
| **Average Sales per outlet** (000's litres) | 2 650 | 2 587 | + 2 |
| **Trucking capacity** (000's litres) | 1 096 | 969 | + 13 |

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**Conversion Equivalent**
4.545 Litres = 1 Imperial Gallon


Former Spur Station — Oshawa, Ontario

During the year, Turbo became involved in a dispute with Gulf Canada Limited over the wording of a long term supply agreement under which Gulf was obligated to provide Turbo with gasoline and diesel fuel until December 31, 1984. An interim agreement with Gulf has been worked out under which Gulf will continue to supply a portion of Turbo's gasoline and diesel fuel requirements until the legal interpretation of the wording in the original contract has been resolved by the courts. We are confident the issue will be resolved in Turbo's favour.

### Freeway Transport

**41 Employees**
**1% of Group's Revenue**

The group has maintained its own transportation division, Freeway Transport, since 1971, for the delivery of products to the group's network of service stations and bulk plants. At year end, Freeway operated 24 highway tractors and 36 highway transport trailers.

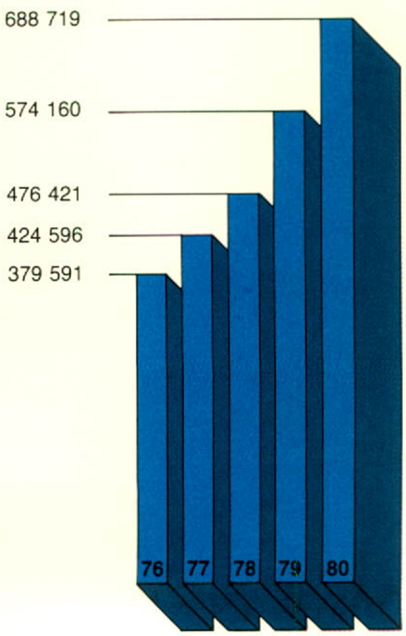
Loading Gasoline — Edmonton, Alberta

Freeway has applied to broaden the public carrier authorities under which it operates in Saskatchewan and Ontario. The added flexibility will allow other opportunities.

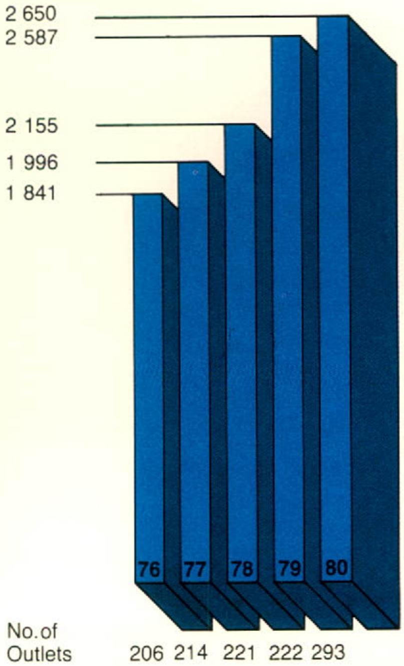
### Outlook

Expansion is being reviewed in light of the new refinery coming on stream and coupled with increased margins in the market place, this year will be an active one.

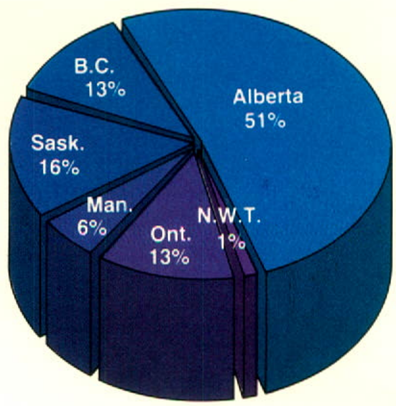
**Gasoline & Fuel Sales**
(000's Litres)

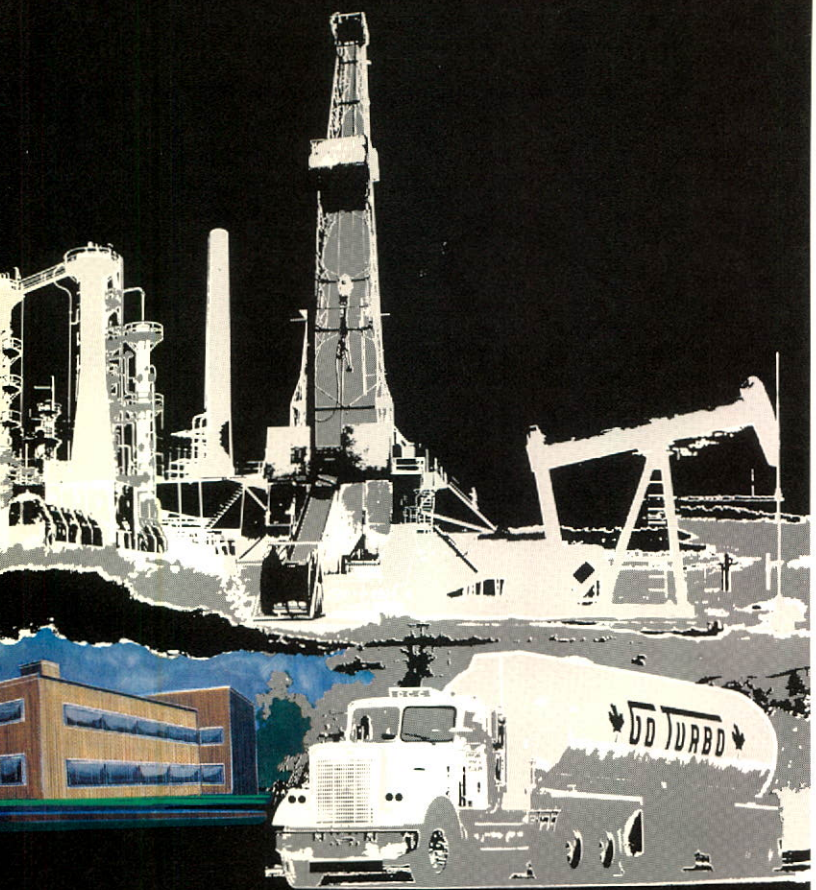



**Annualized Average Sales Per Outlet** (000's Litres)




**1980 Gasoline & Fuel Sales by Regions**

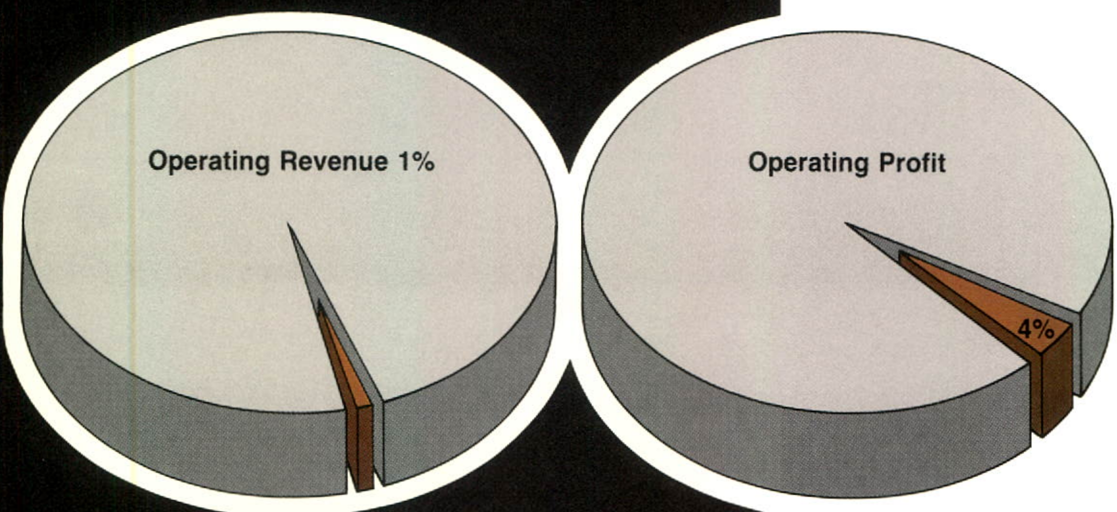





# The Real Estate & Development Group

*Donald P. Dean,*
*Vice President, Real Estate and Development*

The Real Estate & Development Group was formed to consolidate all the real estate holdings and related activities of the company. The group is responsible for the acquisition, planning, design, development, leasing and disposal of all real estate assets for all groups of the company. It also is required to monitor the market value of the holdings and ensure their highest and best use. The Group's chief function, however, is to participate in a significant way in real estate development projects in both Canada and the U.S.

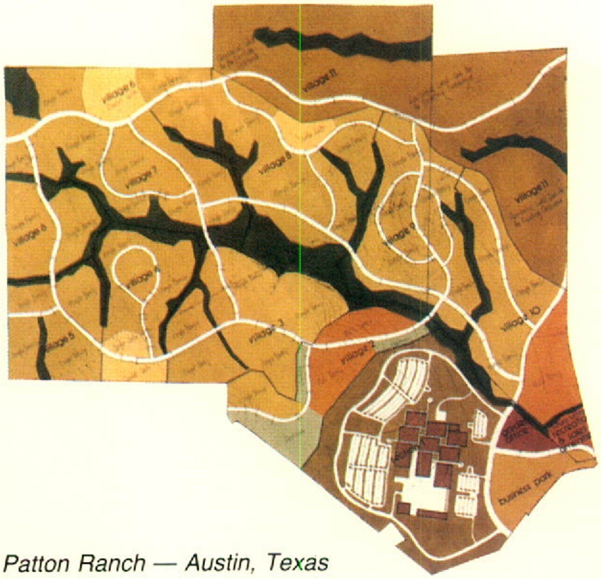



| | 1980 ($000) | 1979 ($000) | % Change |
|---|---|---|---|
| Revenue | 2,897 | 897 | +223 |
| Operating Profit | 1,558 | 615 | +153 |
| Capital Expenditures | 8,472 | 4,889 | + 73 |
| Total Assets | 25,965 | 8,854 | +193 |
| Number of Employees | 8 | 5 | + 60 |
| Company owned service station sites | 82 | 66 | + 24 |
| Company owned major office/operations sites | 20 | 6 | +233 |
| Company owned and co-ventured land (Hectares) | 941 | 314 | +200 |

**Conversion Equivalent:**

1 acre = .405 Hectares
1 mile = 1.609 Kilometers

During the year the group acquired a 25% interest in a limited partnership owning 506 hectares (ha) of land in Austin, Texas. The land will be developed for commercial, residential and light industrial use. A contract has been negotiated with a large international micro-electronics firm to anchor the site, with the purchase of 61 ha for a new semi-conductor manufacturing facility.



*Patton Ranch — Austin, Texas*

The company owns a 32.4 ha industrial site in Nisku Industrial Park, 24 kilometres south of Edmonton, Alberta. Three buildings were constructed on this site during the year and now are occupied by company divisions. A fourth building site remains and it also is scheduled for an industrial building this year.

Also owned by the company is 152 ha of land in the county of Strathcona east of Edmonton, Alberta. This property, since its acquisition, has been re-zoned from agricultural use to industrial use. Work is scheduled to commence in 1981 for the first phase of a high quality industrial subdivision, emphasising warehousing and distribution facilities.

During the year the company sold 112 ha of farm land located northwest of Edmonton, Alberta in which a sand and gravel deposit is located and sold its interest in Northwest Sand & Gravel Ltd.

Previously announced plans to co-develop an office tower in downtown Calgary, Alberta were cancelled during the year, but in January 1981 the company purchased a 3.5 ha site west of the downtown area. The land is adjacent to the Bow River and was acquired for a variety of commercial and residential uses, including the corporate office for the company.

*Bow River Site — Calgary, Alberta*

A garden-office condominium project is being co-ventured with a Texas contractor, in suburban Austin, Texas.

At the close of the year, the company entered into a joint venture agreement to develop a light industrial park in northeast Calgary for use by farm implement dealers and agricultural industry suppliers and service companies.

*Condominium Project — Nanaimo, British Columbia*

Another joint venture also was entered into for the construction of a 106 unit luxury condominium complex at Departure Bay, in the exclusive Celaire District, Nanaimo, British Columbia. Scheduled for completion by early 1982, this MURB project marks the entry of Turbo into Multi-family residential development.

The group manages some 100 smaller real estate sites which are used by other divisions and groups of the company for marketing and manufacturing operations.

## Outlook

No major land purchases are contemplated for 1981 until existing properties have been planned or developed. This group has the potential to contribute excellent profits to the company through their present activities.


# Share Data

## Share Capital

### Common Shares

- Entitled to 1 vote per share, including the exclusive right as a class to elect 25% of the Board of Directors.
- Entitled to a per share dividend 20% greater than that paid on Special shares.
- Listed on the Alberta, Toronto and Montreal Stock Exchanges in Canada and the NASDAQ trading system in the United States.
- Semi annual dividends have been paid since 1975. For years 1979 and 1980 such dividend payments totalled 7.2 cents per year. U.S. shareholders receive the Canadian dividend equivalent in U.S. funds.

### Common Share Warrants

- One warrant plus $7.50 is exchangeable for one common share of Turbo.
- Common share warrants expire on December 1, 1982.
- Listed on the Alberta, Toronto and Montreal Stock Exchanges.

**Share Volume — Toronto Stock Exchange**

| Description | Trading Volume (000's) 1980 | 1979 | Dollar Volume (000's) 1980 | 1979 |
|---|---|---|---|---|
| Common | 3,107 | 2,876 | 73,413 | 37,898 |
| Common Warrants | 1,057 | 1,370 | 17,822 | 12,545 |
| Special | 604 | 656 | 13,564 | 8,377 |

| | 1980 | 1979 | % Change |
|---|---|---|---|
| **# of Shares o/s** | | | |
| Common | 5,254,707 | 3,641,962 | + 44 |
| Special | 2,009,455 | 2,196,910 | − 9 |
| Common Warrants | 715,276 | 1,217,100 | − 41 |
| **Weighted average** | | | |
| Common | 4,197,351 | 3,582,368 | + 17 |
| Special | 2,078,489 | 2,227,897 | − 7 |
| **# of Stockholders** | | | |
| Common | 6,639 | 5,303 | + 25 |
| Special | 3,802 | 4,094 | − 7 |
| **Total Revenue*** | $51.91 | $41.66 | + 25 |
| **Cash Flow from Operations*** | $ 4.92 | $ 3.99 | + 23 |
| **Net Earnings —** | | | |
| Common | $ 1.88 | $ 1.53 | + 23 |
| Special | $ 1.57 | $ 1.27 | + 23 |
| **Net Fixed Assets*** | $31.47 | $17.06 | + 84 |
| **Long Term Debt*** | $19.06 | $ 7.27 | +162 |
| **Shareholders' Equity*** | $ 9.19 | $ 4.93 | + 86 |

*(Calculated on basis of weighted undiluted average of Common and Special Shares)

### Special Shares

- Entitled to multiple votes based on the number of shares represented and voted at shareholder meetings.
- Convertible share for share into common shares.
- Listed on the Alberta and Toronto Stock Exchanges in Canada.
- Semi annual dividends have been paid since 1975. For years 1979 and 1980 such dividend payments totalled 6 cents per year. U.S. shareholders receive the Canadian dividend equivalent in U.S. funds.

## Trading Information — Toronto Stock Exchange

| Description | Stock Symbol | 1st Quarter 1980 | 1st Quarter 1979 | 2nd Quarter 1980 | 2nd Quarter 1979 | 3rd Quarter 1980 | 3rd Quarter 1979 | 4th Quarter 1980 | 4th Quarter 1979 |
|---|---|---|---|---|---|---|---|---|---|
| Common | TBR | 16.25 to 26.37 | 7.37 to 11.50 | 19.50 to 27.12 | 9.75 to 16.87 | 24.00 to 28.75 | 12.50 to 16.37 | 22.50 to 27.12 | 10.50 to 18.50 |
| Special | TBR A | 16.25 to 26.00 | 8.25 to 11.87 | 19.62 to 27.25 | 10.12 to 11.75 | 23.87 to 28.62 | 12.75 to 16.75 | 22.50 to 27.50 | 10.50 to 19.00 |
| Common Warrants | TBRWT | 10.75 to 20.00 | 3.50 to 7.50 | 14.50 to 20.13 | 6.00 to 10.75 | 19.63 to 21.25 | 9.13 to 10.87 | 16.13 to 20.00 | 5.50 to 12.87 |

### 8¼% Cumulative Redeemable Convertible Second Preferred Shares

- On December 19, 1980, Turbo redeemed all of these outstanding second preferred shares. Shareholders had a right to convert their second preferred shares into common shares at a conversion price of $18.00 per common share. Virtually all the outstanding 8¼% convertible second preferred shares were converted to common shares.

### 8¾% Cumulative Redeemable First Preferred, Series A, Par Value $20.00

- Outstanding at year end – 224,400 shares
- Redeemable on or after October 1, 1982 at a price of $21.25 per share and reducing to $20 per share by 1987.
- Quarterly dividends payable on March 31, June 30, September 31, and December 31 at a rate of $.4375 per share.
- listed on the Alberta and Toronto Stock Exchanges (symbol TBR PR.C) and had a year end market value of $15.75 per share.

### 10½% Cumulative Redeemable Retractable Second Preferred Shares 1980 Series, Par Value $20.00

- Outstanding at year end – 1,245,100 shares.
- Redeemable on or after October 1, 1985 at $20.80 per share and reducing to $20 per share by 1990.
- Retraction — a holder has the option to require Turbo to purchase all or any of their shares on October 1, 1985 and again on October 1, 1990 at par.
- Quarterly dividends payable on January 1, April 1, July 1, and October 1 at a rate of $.525 per share.
- listed on the Alberta, Toronto and Montreal Stock Exchanges (symbol TBR PR.E.) and had a year end market value of $19.75 per share.

### 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.
- In accordance with the terms of the issue 241,116 common shares have been reserved for conversion at $30.25 (Cdn.) per share.

### Investments

### Bankeno Mines Limited

- At year end Turbo both directly and indirectly held approximately 37% of the common shares of Bankeno. On December 23, 1980 Turbo made a cash offer for all of the remaining outstanding shares of Bankeno at $9 (Cdn.) per share, and was successful in purchasing 1,293,941 shares, increasing Turbo's holdings to approximately 69% of Bankeno's outstanding common shares.

  Bankeno's two major interests are:

  1) A 1.57% interest in Panarctic Oils Ltd., a consortium company involving private industry and the Federal Government to explore for hydrocarbons in Canada's Arctic Islands.
  2) An option to acquire a 25% royalty interest in the total net proceeds of production of Arvik Mines Ltd. for a price of $7,500,000. Arvik Mines Ltd. is a wholly owned subsidiary of Cominco Mines Limited, and is currently developing the Polaris zinc-lead mine on Little Cornwallis Island in the Canadian Arctic. Production is expected to commence early in 1982. Bankeno is listed on The Toronto Stock Exchange (symbol BKE) and had a year end market value of $9 per share.

### Queenston Gold Mines Limited

- At year end, Turbo held indirectly 3,380,100 shares representing 47% of the outstanding shares.
- Queenston is a gold exploration company holding substantial mineral interests along the Kirkland Lake-Cadillac-Val D'or gold structure which runs through the Province of Quebec and Ontario.
- Queenston is listed on the Montreal Stock Exchange (symbol QUE) and had a year end market value of $7 per share.

## Board of Directors

*indicates year appointed to the Board

**Roy H. Allen, B.Sc.**
Calgary, Alberta
Senior Vice President, Resource Services
Turbo Resources Limited (*1979)

**Ernest M. Braithwaite, B. Comm. M.B.A.**
Calgary, Alberta
President
EMB Management Consultants Ltd. (*1977)

**Robert G. Brawn, P. Eng.**
Calgary, Alberta
President and Chief Executive Officer
Turbo Resources Limited (*1970)

**Eric Connelly, F.C.A.**
Calgary, Alberta
Self-employed (*1979)

**John W. Killick, B.Sc. Bus. Ad.**
Calgary, Alberta
President
Canamara Corporation (*1970)

**Frank W. King, P. Eng.**
Calgary, Alberta
Senior Vice President, Manufacturing
Turbo Resources Limited (*1977)

**Ronald M. Maxwell, C.A.**
Calgary, Alberta
Senior Vice President, Finance and Administration
Turbo Resources Limited (*1979)

**John F. Moore, Q.C.**
Calgary, Alberta
Partner
Moore Martin (*1972)

**Vance Kenneth Travis**
Calgary, Alberta
Chairman of the Board
Turbo Resources Limited (*1970)

## Corporate Officers

**Roy H. Allen, B. Sc.**
Senior Vice President, Resource Services

**Roland A. Bishop**
Vice President, Machinery and Supply

**Robert G. Brawn, P. Eng.**
President and Chief Executive Officer

**Donald P. Dean, P. Eng.**
Vice President, Real Estate and Development

**Edward A. Earle, C.G.A.**
Vice President, Drilling and Servicing

**Norman R. Gish**
Vice President and Secretary

**Frank W. King, P. Eng.**
Senior Vice President, Manufacturing

**Ronald M. Maxwell, C.A.**
Senior Vice President, Finance and Administration

**Bruce P. R. Millar, B. Comm.**
Vice President, Marketing Operations

**Ian R. Mills, C.A.**
Controller

**Derek J. Moran, A.C.A. (Ireland)**
Treasurer

**John G. Pashniak, P. Eng.**
Vice President, Production

**Vance Kenneth Travis**
Chairman of the Board

**Frederick A. Youck**
Assistant Secretary

### Corporate and Head Office
6th Floor
1035 - 7th Avenue S.W.
Calgary, Alberta
T2P 3E9

### Bankers
Canadian Imperial Bank of Commerce
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Houston National Bank
Houston, Texas

### Counsel
Moore Martin
Calgary, Alberta

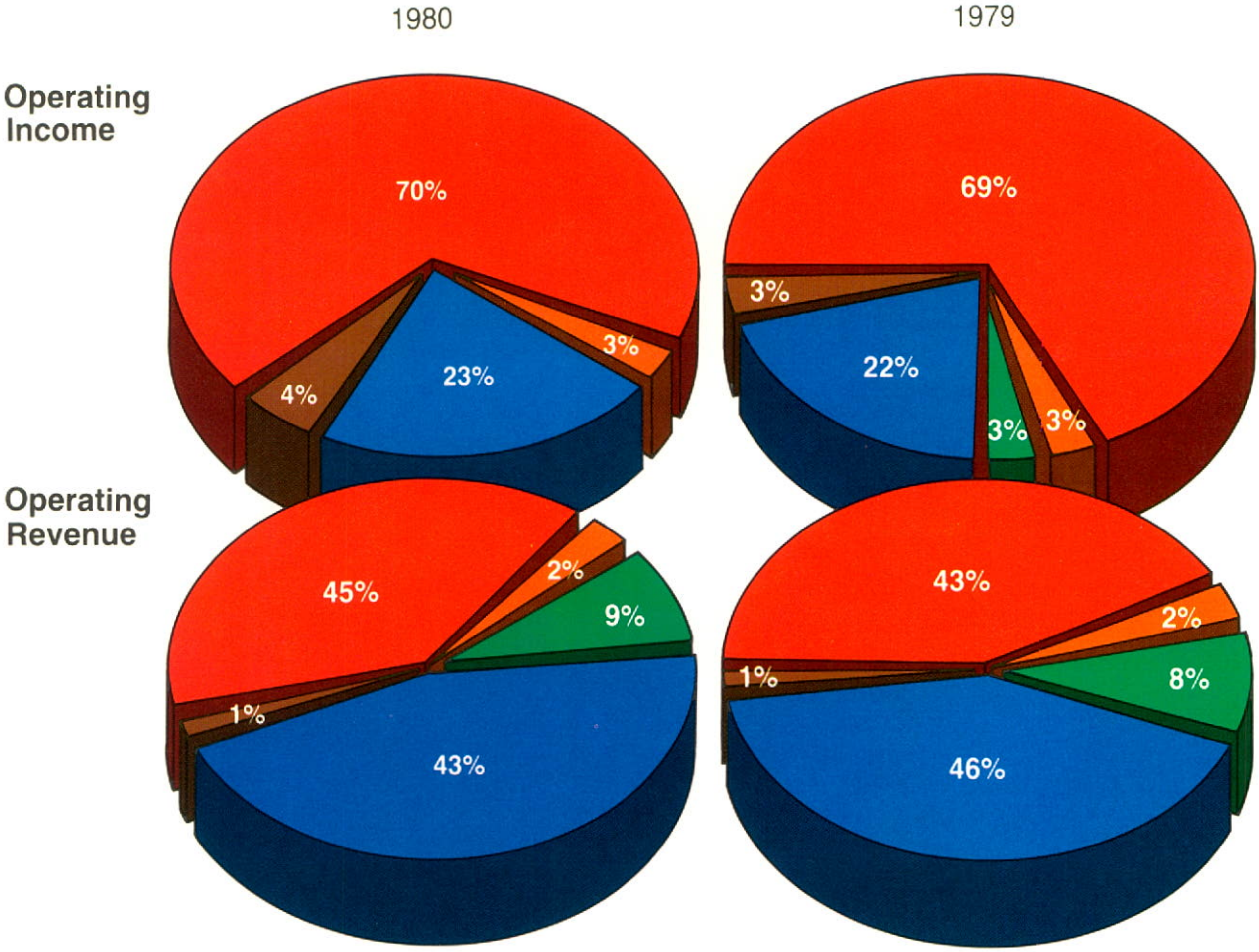
### Auditor
Deloitte Haskins + Sells
Calgary, Alberta

### Transfer Agents and Registrars
The Canada Trust Company
Calgary, Alberta
Montreal, Quebec
Toronto, Ontario
Winnipeg, Manitoba

Chemical Bank
New York, New York

The Orion Bank
London, England


# FINANCIAL SECTION



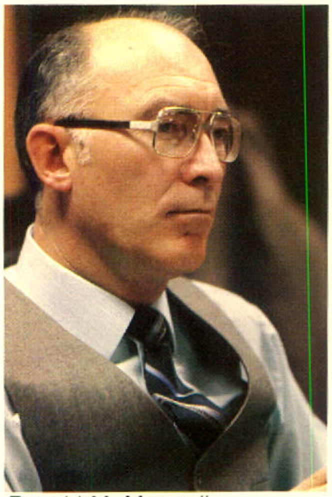

| Operating Group | Segment Operating Income 1980 | 1979 | 1978 | Segment Operating Profit 1980 | 1979 | 1978 |
|---|---|---|---|---|---|---|
| Resource Services.......... | **$145,703** | $103,777 | $ 40,148 | **$ 25,105** | $ 17,278 | $ 7,339 |
| Exploration & Production .... | **7,353** | 4,895 | 7,097 | **968** | 813 | 1,943 |
| Manufacturing & Refining.... | **32,708** | 20,401 | 13,942 | **(590)** | 833 | (121) |
| Marketing.................. | **139,653** | 108,716 | 86,153 | **8,377** | 5,397 | 3,065 |
| Real Estate ................ | **2,897** | 897 | 705 | **1,558** | 615 | 638 |

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The above table shows details of segmented operating income and segmented operating profits for the fiscal years 1980 to 1978 (prior to elimination of intersegment sales and costs):

Resource Services: The expansion of the group's activities within the United States in 1980 and 1979, through the acquisition of a total of 19 oil and gas drilling rigs, has accounted for the growth in this segment. The 1978 figures contain only six months of operations.

Higher rig utilization and general price increases through both 1980 and 1979 have also contributed to Resource Services



*Ronald M. Maxwell, Senior Vice President, Finance and Administration*

Group's increased revenues and operating profits.

Exploration and Production: The 1978 revenues include $3.5 million for the sale of reserves to a TBR Production Program (cost $2.3 million), in which the Company is the general partner. In 1979, a similar sale was not considered significant, so that the proceeds were credited directly to the cost pool. The increase in 1980 revenues is due primarily to higher selling prices for oil and gas.

Manufacturing and Refining: The increase in revenues has been due to the increase in blending and packaging operations and the development of high technology oilfield chemicals in 1978, generating revenue in the following years. However, costs incurred in 1980 greatly exceeded management's expectations, resulting in a trading loss for the year.

Marketing: Substantial increases in gasoline gallonage sold have been the primary cause of this group's increase but increases in average selling price per gallon and shifting demand towards higher priced fuels have also been contributing factors. During 1980, 77 outlets were acquired in Ontario, which contributed to the increased volume.

Real Estate: 1979 marked the establishment of real estate as a business segment within the Company. During 1980 the business consolidated its position through investment in various development projects in Canada and the United States, largely through joint venture participation.

### Unallocated Expenses:

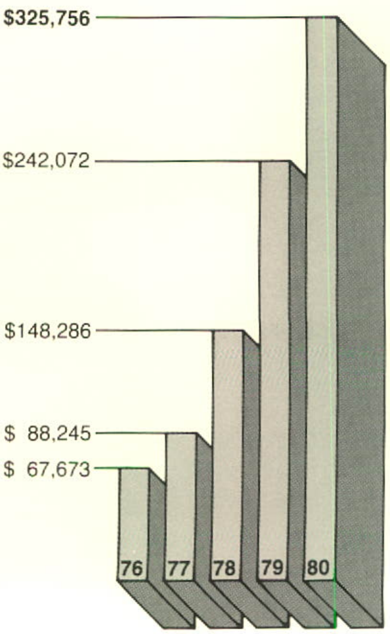
The increase in interest expense reflects the large amount of debt added in 1980 and the global increase in lending rates during this time. Furthermore, the expansion in most operating groups has required greater average operating loans during these years, adding to the interest cost.

The effective rate of income tax for 1980 has decreased substantially from the rates in 1979 and 1978. Investment tax credits applicable to capital investment in Canada and reorganization of non-Canadian debt and investment structure which resulted in an increase in income of a foreign subsidiary operating in a low tax environment have contributed to this decrease.

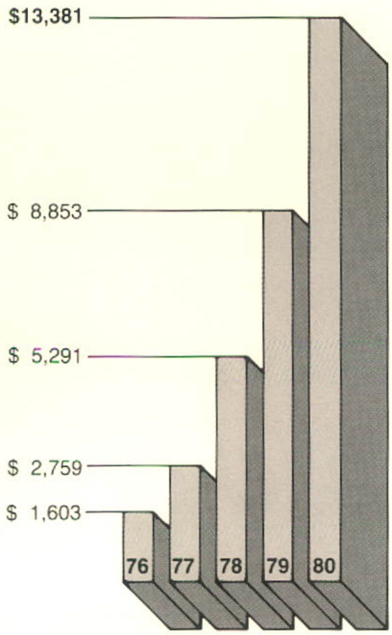
### Net Earnings

There has been an increase in net earnings over this three year period, 51% 1980 over

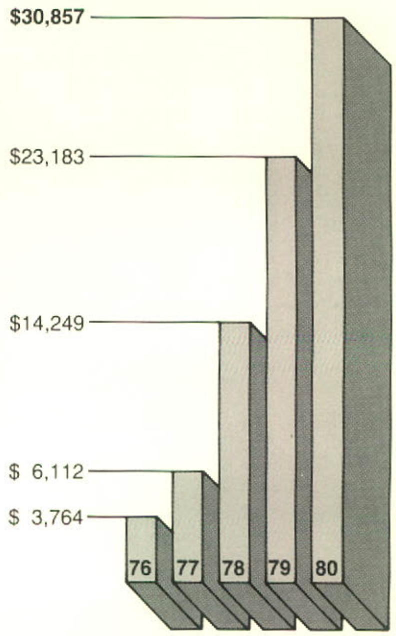
**Total Revenues**
(in thousands of dollars)




**Net Income**
(in thousands of dollars)




**Cash Flow From Operations** (in thousands of dollars)



1979, 67% 1979 over 1978. This is reflected in basic earnings per common share which has improved from $1.06 in 1978 to $1.88 in 1980.

**Liquidity and Capital Resources:**
The Company's working capital increased by $2 million from $2.2 million at December 31, 1979 to $4.2 million at the end of 1980. Operations generated $31 million of the total new funds obtained during the year. $23.9 million was raised through the issue of 1,250,000 10½% Cumulative Redeemable Retractable Second Preferred Shares. The increase in long-term debt from $42.5 million to $119.6 million in 1980 accounted for the majority of other new funds raised. Included in this increase is the issue of 25,000 12½% Partially Convertible Debentures which raised $29.2 million. The ratio of long-term debt to total equity, at December 31, 1980, was 1.37 to 1, as compared to 0.87 to 1 at the end of 1979. Such a leverage ratio is considered conservative when compared to ratios normally found in similar resource companies. Capital expenditures for 1980 totalled $116 million, an increase of 157% over 1979.

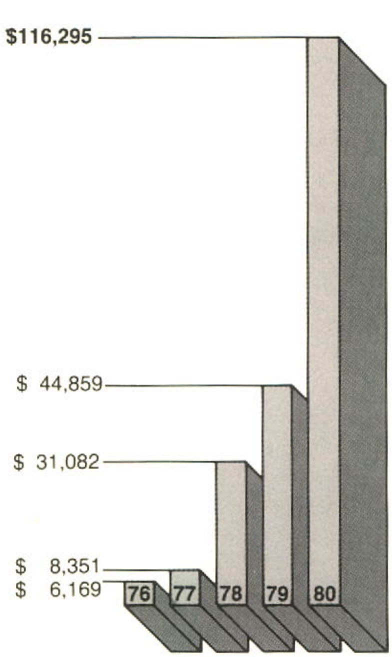
Cash flow is generated substantially by two business segments of the Company, Resource Services and Marketing. To supplement this cash flow when such needs arise, short-term operating lines of credit have been negotiated with several banks. At December 31, 1980 these lines totalled in excess of $45 million. It is expected during 1981 to utilize these credit lines to a maximum of $40 million and to a minimum of $15 million at particular periods in the year.

The major capital expenditure during 1981 will be the construction of the Calgary Refinery. In line with the Company's policy of obtaining project financing whenever possible, bank financing for the refinery has been obtained for up to $140 million plus operating lines of credit secured by a first charge on the refinery. As further sources of finance, early in 1981, $25 million unsecured floating notes were placed privately. The Company also maintains unused long-term lines with various banks, amounting to $55 million at December 31, 1980.

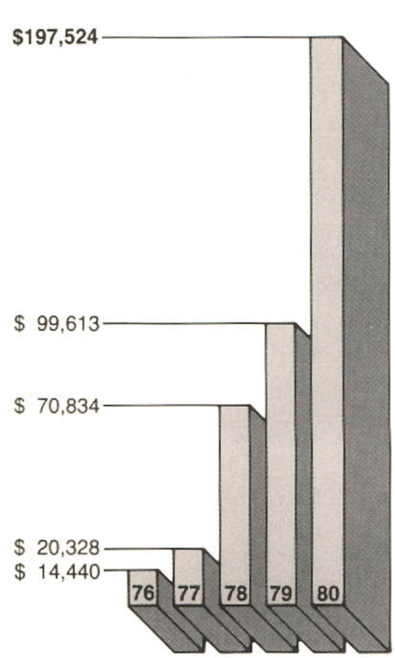
In summation, for 1981, the Company has sufficient working capital, a good debt to equity ratio, available bank borrowings and substantial unused share capital to permit flexibility to finance expenditures and acquisitions, for cash and/or shares whenever such opportunities may arise.

**Inflation**
Inflation, to some degree, has affected all the Company's business segments. In the two primary areas of operation, Canada and the United States, inflation has averaged over

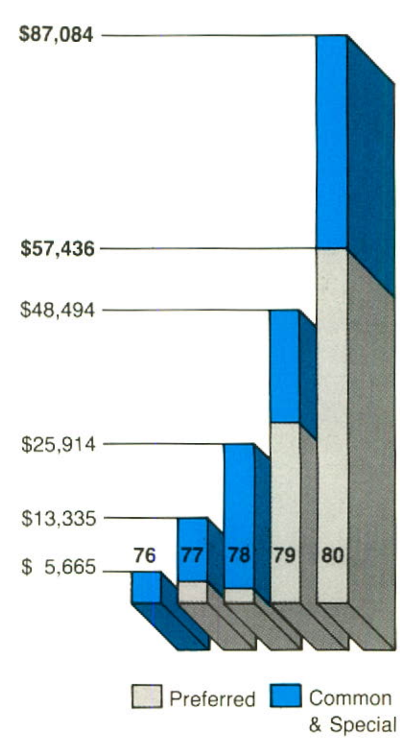
## Capital Expenditures
(in thousands of dollars)




## Net Fixed Assets
(in thousands of dollars)




## Shareholders' Equity
(in thousands of dollars)



10% the past three years. The Company has been able generally to pass on all cost increases incurred in this period to customers thereby preserving profit margins.

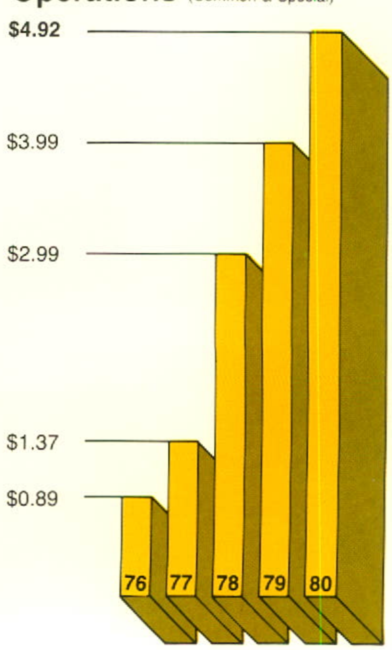
The rapid expansion of the Company's activities during this same period has meant that a large portion of the Company's present assets are recent acquisitions. Consequently, the total asset cost as stated in the financial statements reflects more closely replacement cost than established companies of the same size.

**Government Policies and Regulations**

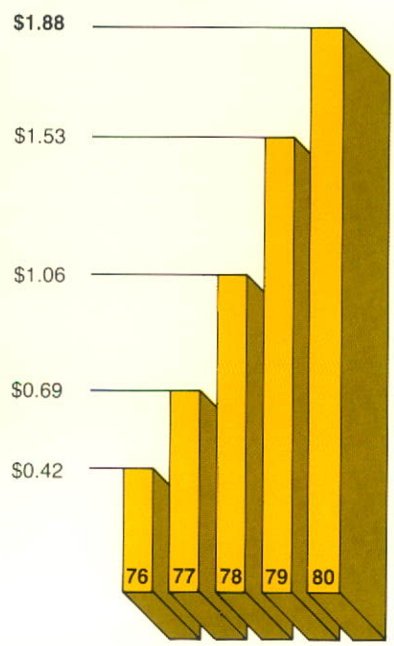
The Government of Canada's proposed budget and the National Energy Program introduced in October, 1980, contained several comprehensive and complex measures designed to encourage Canadian ownership of the petroleum industry, by giving competitive advantages to Canadian entities. Other measures introduced included changes in crude oil and natural gas pricing and taxation. The entire petroleum industry in Canada will be effected by the implementation of these measures.

The Company's diversified and international operations will lessen the negative impact of these measures, as compared to other companies which rely solely on production revenue. The main business segment directly affected is Exploration and Production. However, this segment accounts for 2% of total income and 3% of income from operations. Indirectly, it is expected that these regulations will cause a significant downturn in the market conditions for the Resource Services business segment in Canada, but that this will not materially affect the results of the company as equipment can be moved into the buoyant market in the United States.

**Cash Flow from Operations** (Common & Special)

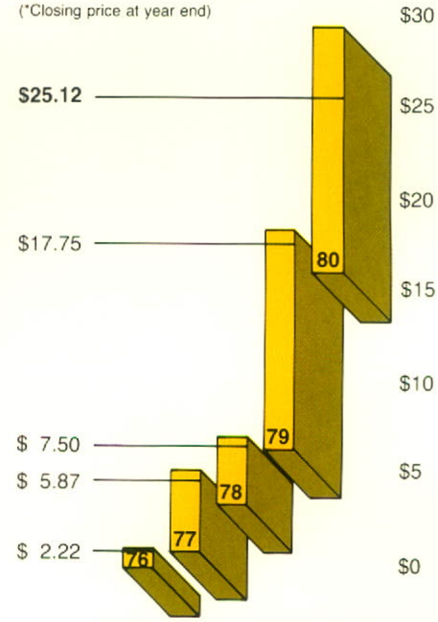



**Earnings per Common Share**




**Trading Range Common Share**

(*Closing price at year end)



TURBO RESOURCES LIMITED

# Consolidated Balance Sheets

as at December 31, 1980 and 1979
(in thousands of Canadian dollars)

| ASSETS | 1980 | 1979 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and short-term deposits | $ 2,373 | $ 2,083 |
| Accounts receivable | 65,032 | 38,940 |
| Notes receivable — TBR Gas & Oil Production Fund | 200 | 875 |
| Inventories (Note 3) | 32,609 | 13,434 |
| Other | 1,800 | 1,526 |
| Total current assets | 102,014 | 56,858 |
| INVESTMENTS (Note 4) | 18,135 | 4,223 |
| PROPERTY, PLANT AND EQUIPMENT (Note 5) | 151,710 | 73,281 |
| PETROLEUM AND NATURAL GAS PROPERTIES (Note 6) (Under the full cost method of accounting) | 45,814 | 26,332 |
| OTHER ASSETS (Note 7) | 13,326 | 6,455 |
| TOTAL ASSETS | $330,999 | $167,149 |

Approved by the Board

Robert K. Brown Director

Director

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | 1980 | 1979 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Bank indebtedness (Note 8) | $ 29,784 | $ 11,116 |
| Accounts payable | 45,289 | 35,992 |
| Accrued charges | 13,253 | 1,536 |
| Advances on contracts in progress | 5,348 | 1,101 |
| Current portion of long-term debt (Note 8) | 4,144 | 4,893 |
| Total current liabilities | 97,818 | 54,638 |
| LONG-TERM DEBT (Note 8) | 119,633 | 42,455 |
| DEFERRED INCOME TAXES | 25,066 | 20,126 |
| MINORITY INTEREST | 1,398 | 1,436 |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| SHAREHOLDERS' EQUITY: | | |
| Share Capital (Note 9): | | |
| Issued and fully paid: | | |
| First preferred shares, series A | 4,488 | 4,712 |
| Second preferred shares, 1979 convertible series | — | 14,990 |
| Second preferred shares, 1980 retractable series | 24,902 | — |
| Common shares | 28,046 | 9,621 |
| Special shares | 1,628 | 1,712 |
| Contributed surplus | 1,109 | 648 |
| Retained Earnings | 26,911 | 16,811 |
| Total shareholders' equity | 87,084 | 48,494 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $330,999 | $167,149 |

TURBO RESOURCES LIMITED

# Consolidated Statements of Income

For the Years Ended December 31, 1980, 1979, 1978
(in thousands of Canadian dollars except per share data)

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| INCOME: | | | |
| Sales and other income | $322,128 | $238,170 | $147,134 |
| Gain on sale of property, plant and equipment | 3,423 | 2,065 | 117 |
| Gain on sale of investments | 27 | 1,146 | — |
| Share of after-tax income of affiliated companies | 178 | 691 | 1,035 |
| Total income | 325,756 | 242,072 | 148,286 |
| COST AND EXPENSES: | | | |
| Cost of sales | 236,884 | 178,826 | 116,333 |
| Indirect costs including general and administrative | 42,925 | 28,297 | 15,618 |
| Interest on debt: | | | |
| Short-term | 2,685 | 1,864 | 907 |
| Long-term | 8,888 | 5,811 | 1,921 |
| Depreciation, depletion & amortization (Note 5) | 15,076 | 10,381 | 4,620 |
| Total costs and expenses | 306,458 | 225,179 | 139,399 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTEREST | 19,298 | 16,893 | 8,887 |
| PROVISION FOR INCOME TAXES (Note 10): | | | |
| Current | (152) | 15 | 109 |
| Deferred | 5,720 | 7,669 | 3,435 |
| Net provision for income taxes | 5,568 | 7,684 | 3,544 |
| INCOME BEFORE MINORITY INTEREST | 13,730 | 9,209 | 5,343 |
| MINORITY INTEREST | 349 | 356 | 52 |
| NET INCOME FOR THE YEAR | $ 13,381 | $ 8,853 | $ 5,291 |
| EARNINGS PER SHARE (Note 11): | | | |
| Basic: | | | |
| Common | $ 1.88 | $ 1.53 | $ 1.06 |
| Special | $ 1.57 | $ 1.27 | $ 0.89 |
| Fully Diluted: | | | |
| Common | $ 1.73 | $ 1.31 | $ 1.04 |
| Special | $ 1.44 | $ 1.09 | $ 0.86 |

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, 1980, 1979, 1978
(in thousands of Canadian dollars)

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| WORKING CAPITAL PROVIDED: | | | |
| Net income for the year | $ 13,381 | $ 8,853 | $ 5,291 |
| Add (deduct) items not affecting working capital: | | | |
| Depreciation, depletion and amortization | 15,076 | 10,381 | 4,620 |
| Deferred income taxes | 5,720 | 7,669 | 3,435 |
| Share of after-tax income of affiliated companies | (178) | (691) | (1,035) |
| Gain on sale of property, plant and equipment | (3,423) | (2,065) | (117) |
| Gain on sale of reserves to TBR Production Program | — | — | (1,130) |
| Proceeds from sale of reserves to TBR Production Program | — | — | 3,500 |
| Other | 281 | (964) | (315) |
| Total working capital from operations | 30,857 | 23,183 | 14,249 |
| Proceeds from long-term debt | 103,755 | 49,304 | 28,680 |
| Issue of second preferred shares, less costs of issue | 23,928 | 14,172 | — |
| Issue of common and special shares | 4,007 | 436 | 8,455 |
| Proceeds from sale of property, plant and equipment | 7,981 | 6,839 | 1,939 |
| Proceeds from sale of petroleum and natural gas properties | — | 1,198 | — |
| Other | 292 | 1,953 | — |
| Total working capital provided | 170,820 | 97,085 | 53,323 |
| WORKING CAPITAL APPLIED: | | | |
| Additions to property, plant and equipment | 95,329 | 37,325 | 16,234 |
| Repayment or reclassification of long-term debt | 26,577 | 50,588 | 5,757 |
| Additions to petroleum and natural gas properties | 20,966 | 7,534 | 14,848 |
| Additions to investments | 13,059 | 741 | 728 |
| Additions to other assets | 7,179 | 4,033 | 215 |
| Dividends declared (including dividends of $349,000 paid by a consolidated subsidiary in 1980 & 1979) | 2,470 | 1,166 | 711 |
| Acquisition of subsidiairies (Note 2) | 2,278 | 342 | 6,848 |
| Other | 986 | 453 | 96 |
| Total working capital applied | 168,844 | 102,182 | 45,437 |
| INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR | 1,976 | (5,097) | 7,886 |
| WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR | 2,220 | 7,317 | (569) |
| WORKING CAPITAL AT END OF THE YEAR | $ 4,196 | $ 2,220 | $ 7,317 |

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, 1980, 1979, 1978
(in thousands of Canadian dollars)

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| CHANGE IN COMPONENTS OF WORKING CAPITAL: | | | |
| INCREASE (DECREASE) IN CURRENT ASSETS: | | | |
| Cash and short-term deposits | $ 290 | $ 1,319 | $ (345) |
| Accounts receivable | 26,092 | 12,454 | 20,236 |
| Notes receivable — TBR Gas & Oil Production Fund | (675) | (5,918) | 2,626 |
| Inventories | 19,175 | 3,197 | 7,057 |
| Other | 274 | 639 | 675 |
| Net increase in current assets | 45,156 | 11,691 | 30,249 |
| INCREASE (DECREASE) IN CURRENT LIABILITIES: | | | |
| Bank indebtedness | 18,668 | 3,940 | 6,626 |
| Accounts payable and accrued charges | 21,014 | 16,287 | 7,384 |
| Advances on contracts in progress | 4,247 | (1,019) | 2,120 |
| Current portion of long-term debt | (749) | (2,420) | 6,233 |
| Net increase in current liabilities | 43,180 | 16,788 | 22,363 |
| INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR | $ 1,976 | $ (5,097) | $ 7,886 |

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

# Consolidated Statements of Changes in Common and Special Share Capital

FOR THE YEARS ENDED DECEMBER 31, 1980, 1979, 1978
(in thousands of Canadian dollars)

| | 1980 | | 1979 | | 1978 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| **Common Shares (Note 9)** | | | | | | |
| Balance January 1 (in 1978 after conversion of 4,460,200 old common into special and common shares) | 3,641,962 | $ 9,621 | 3,516,118 | $ 9,373 | 2,230,100 | $ 1,719 |
| Exercise of: | | | | | | |
| Stock options | 39,602 | 164 | 17,735 | 43 | 12,000 | 35 |
| Warrants | 501,824 | 3,015 | 31,485 | 189 | 350 | 2 |
| Conversions from: | | | | | | |
| Special shares | 203,080 | 160 | 45,177 | 35 | 9,701 | 8 |
| Preferred shares | 829,247 | 14,926 | 111 | 2 | — | — |
| Acquisitions of subsidiaries (Note 2) | 10,000 | 250 | — | — | 1,351,784 | 8,110 |
| Shares held by subsidiaries: | | | | | | |
| January 1 | 56,481 | 522 | 87,817 | 501 | — | — |
| December 31 | (27,489) | (612) | (56,481) | (522) | (87,817) | (501) |
| Balance December 31 | 5,254,707 | $28,046 | 3,641,962 | $ 9,621 | 3,516,118 | $ 9,373 |
| **Special shares (Note 9)** | | | | | | |
| Balance January 1 (in 1978 after conversion of 4,460,200 old common into special and common shares) | 2,196,910 | $ 1,712 | 2,223,384 | $ 1,697 | 2,230,100 | $ 1,719 |
| Exercise of stock options | 12,375 | 53 | 12,938 | 24 | 12,000 | 35 |
| Conversion into common | (203,080) | (160) | (45,177) | (35) | (9,701) | (8) |
| Shares held by subsidiaries: | | | | | | |
| January 1 | 3,250 | 23 | 9,015 | 49 | — | — |
| December 31 | — | — | (3,250) | (23) | (9,015) | (49) |
| Balance December 31 | 2,009,455 | $ 1,628 | 2,196,910 | $ 1,712 | 2,223,384 | $ 1,697 |

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, 1980, 1979, 1978
(in thousands of Canadian dollars)

| | 1980 | | 1979 | | 1978 | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| **First preferred shares (Note 9)** | | | | | | |
| **Series A** | | | | | | |
| Balance January 1 | 235,600 | $ 4,712 | 245,100 | $ 4,902 | 250,000 | $ 5,000 |
| Redeemed and cancelled during the year | (11,200) | (224) | (9,500) | (190) | (4,900) | (98) |
| Balance December 31 | 224,400 | $ 4,488 | 235,600 | $ 4,712 | 245,100 | $ 4,902 |
| **Second preferred shares (Note 9)** | | | | | | |
| **1979 convertible series** | | | | | | |
| Balance January 1 | 749,500 | $ 14,990 | — | $ — | | |
| Issued during the year | — | — | 750,000 | 15,000 | | |
| Converted to common shares | (746,323) | (14,926) | (100) | (2) | | |
| Redeemed and cancelled | (3,577) | (72) | — | — | | |
| Shares held by subsidiary: | | | | | | |
| January 1 | 400 | 8 | — | — | | |
| December 31 | — | — | (400) | (8) | | |
| Balance December 31 | — | $ — | 749,500 | $14,990 | | |
| **1980 retractable series** | | | | | | |
| Balance January 1 | — | $ — | | | | |
| Issued during the year | 1,250,000 | 25,000 | | | | |
| Redeemed and cancelled during the year | (4,900) | (98) | | | | |
| Balance December 31 | 1,245,100 | $ 24,902 | | | | |

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, 1980, 1979, 1978
(in thousands of Canadian dollars)

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| **Retained Earnings** | | | |
| Balance January 1 | $ 16,811 | $ 9,477 | $ 4,897 |
| Add: | | | |
| Net income for the year | 13,381 | 8,853 | 5,291 |
| | 30,192 | 18,330 | 10,188 |
| Deduct: | | | |
| Dividends declared: | | | |
| First preferred shares, series A | 403 | 423 | 439 |
| Second preferred shares: | | | |
| 1979 convertible series | 1,046 | — | — |
| 1980 retractable series | 257 | — | — |
| Common shares | 292 | 260 | 115 |
| Special shares | 123 | 134 | 68 |
| Old common shares | — | — | 89 |
| Cost of the issue of second preferred shares, net of deferred taxes of $523,000 (1979 - $389,000) | 549 | 439 | — |
| Capital tax paid by a foreign subsidiary on the issue of additional capital to Challenger | 611 | 263 | — |
| | 3,281 | 1,519 | 711 |
| Balance December 31 | $ 26,911 | $16,811 | $ 9,477 |
| **Contributed Surplus** | | | |
| Balance January 1 | $ 648 | $ 465 | $ — |
| Net excess of proceeds over cost of common shares and warrants acquired by subsidiaries, and subsequently sold (net of deferred taxes of $142,000 (1979 - $34,000, 1978 - $360,000)) | 445 | 183 | 463 |
| Discount on redemption of preferred shares | 16 | — | 2 |
| Balance December 31 | $ 1,109 | $ 648 | $ 465 |

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

# 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, 1980 and 1979 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, 1980. 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.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and 1979 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, 1980, in accordance with generally accepted accounting principles in Canada (see Note 1(h)) applied on a consistent basis.

Calgary, Alberta, Canada
March 17, 1981

Deloitte Haskins & Sells
Auditors

# Notes to the Consolidated Financial Statements

AS AT DECEMBER 31, 1980 AND 1979 AND FOR THE THREE YEARS ENDED DECEMBER 31, 1980
(all tabular amounts in thousands of Canadian dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada which differ from generally accepted accounting principles in the United States and from the accounting rules of the United States Securities and Exchange Commission. The effects of such differences on the consolidated financial statements are outlined below in Note 1(h).

(a) Principles of consolidation

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

(b) Valuation of inventories

Inventories are valued at the lower of cost, applied on a "first-in, first-out" basis, or market value, determined on the basis of replacement cost or net realizable value.

(c) Valuation of 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.

(d) 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 equipment - on both the straight-line and diminishing-balance bases.

In all cases, the methods used are designed to amortize the cost of these assets over their estimated useful lives. Gains or losses on disposition are included in the consolidated statements of income.

Real estate properties are categorized as either inventory or property, plant and equipment dependent upon the nature of the project.

(e) Valuation of petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties wherein all costs relative to the exploration for and development of petroleum and natural gas and related reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, lease rentals on undeveloped properties, costs of drilling both 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 cases of significant dispositions, when gains or losses are recognized and included in the consolidated statements of income. Provision for depletion of the net costs is computed on the basis of a North American cost centre using the composite unit-of-production method based on proved developed reserves as determined by the Company's technical staff and reviewed by independent consulting engineers.

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

(f) Foreign currency translation

For the purpose of consolidation, the Company has translated the accounts of its foreign subsidiaries into Canadian dollars as follows:

Current assets, excluding inventories and prepaid expenses, and current liabilities - at the rate of exchange prevailing at the year-end.

All other assets and liabilities — at exchange rates prevailing at the time of acquisition or incurrence.

Income and expenses, excluding depreciation, depletion and amortization — at the average rate prevailing 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.

(g) 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.

(h) The accounting policies described above differ from accounting policies in the United States as follows:

(1) United States accounting policies require long-term monetary assets and liabilities to be translated at exchange rates prevailing at the balance sheet date. Had long-term debt been translated at current rates as required by the United States Financial Accounting Standards Board Statement No. 8, there would not have been a material effect on earnings as reported for the years ended December 31, 1979 and 1978. However, for the year ended December 31, 1980, long-term debt would have increased $1,935,000 if it were translated at current rates.

(2) The United States Securities and Exchange Commission (S.E.C.) has required oil and gas producing companies to use a standard form of full cost accounting or a standard form of successful efforts accounting in financial reporting. The full cost accounting required by the S.E.C. would require the following changes:

(i) Amortization of oil and gas properties, including production equipment, would be provided on a unit-of-production method on a country-by-country basis rather than on the basis of a North American cost centre.

(ii) Workover costs would be expensed as incurred rather than being capitalized and amortized on a unit-of-production basis.

(iii) Certain dispositions of oil and gas reserves, which would be considered significant under Canadian accounting policies, are not classified as such under the rules of the S.E.C. and hence would have been credited directly to the cost pool rather than recognized as an income item.

(3) United States accounting policies state that an acquiring company should not record deferred income taxes recorded by an acquired company before its acquisition. Had deferred income taxes not been recorded when the company acquired a business, deferred income taxes payable would have been reduced by $4,690,000 in both 1980 and 1979. Also, as a result of the above, depreciation for 1980, 1979 and 1978 would have been reduced by $625,000, $625,000 and $313,000 respectively, due to the assignment of negative purchase discrepancy.

If the Company's consolidated financial statements had been presented on the basis of the above rules and had the effects of accounting changes made in 1978 for the year ended December 31, 1977 been reflected in the period in which they were made, the consolidated income statements and consolidated balance sheets of the Company would have been as follows:

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| Net income as reported | **$ 13,381** | $ 8,853 | $ 5,291 |
| Adjustments, net of applicable income taxes for: | | | |
| Accounting changes | **—** | — | 131 |
| Full cost accounting | **(394)** | (123) | (672) |
| Long-term debt translation | **(967)** | — | — |
| Deferred tax accounting under APB Opinion No. 16 | **625** | 625 | 313 |
| Net income, as adjusted | **$ 12,645** | $ 9,355 | $ 5,063 |

| Balance Sheet (as adjusted) | 1980 | 1979 |
|---|---|---|
| Property, Plant and Equipment | **$148,583** | $ 69,529 |
| Petroleum and Natural Gas Properties | **$ 44,537** | $ 24,742 |
| Total Assets | **$325,474** | $161,807 |
| Long-Term Debt | **$121,568** | $ 42,455 |
| Deferred Income Taxes | **$ 18,199** | $ 14,641 |
| Retained Earnings | **$ 26,318** | $ 16,954 |
| Total Liabilities and Shareholders' Equity | **$325,474** | $161,807 |

Earnings per share have been calculated in accordance with Canadian practice as outlined in Note 11. Had United States accounting practice been followed, earnings per share would have been as follows:

| (in Canadian dollars) | | 1980 | 1979 | 1978 |
|---|---|---|---|---|
| As reported: | | | | |
| Basic earnings per share | Common | **$ 1.88** | $ 1.53 | $ 1.06 |
| | Special | **$ 1.57** | $ 1.27 | $ 0.89 |
| Fully diluted earnings per share | Common | **$ 1.73** | $ 1.31 | $ 1.04 |
| | Special | **$ 1.44** | $ 1.09 | $ 0.86 |

Under U.S. accounting practice and after giving effect to accounting changes and adjustments noted above:

| | | 1980 | 1979 | 1978 |
|---|---|---|---|---|
| Basic earnings per share | Common | **$ 1.62** | $ 1.55 | $ 1.02 |
| | Special | **$ 1.35** | $ 1.29 | $ 0.85 |
| Fully diluted earnings per share | Common | **$ 1.61** | $ 1.52 | $ 1.01 |
| | Special | **$ 1.34** | $ 1.27 | $ 0.84 |

## 2. ACQUISITION OF SUBSIDIARIES:

During 1978, Turbo increased its investment in Challenger from 34% to a voting interest of 92.35% (98.27% equity interest) primarily by means of a share exchange. As a result of the share exchange, Turbo issued 1,310,117 common shares valued at $6.00 per share and 1,248,935 warrants to purchase common shares. Of the shares and warrants issued, 249,750 common shares and 249,750 warrants were issued to wholly-owned subsidiaries in exchange for Challenger Class A Special Shares held by them. In addition to the shares issued, Turbo paid cash of $1,049,000. Also during 1978, Turbo acquired all the outstanding shares of Bishop Machinery and Supply Co. Ltd. and Pine Well Servicing Company (1977) Ltd. for 205,167 common shares valued at $1,394,000 and cash of $1,143,000.

The cost of these acquisitions was $14,153,000, which exceeded the net assets acquired by $180,000. The net assets acquired consist of working capital of $3,100,000, total non-current assets of $30,509,000, total non-current liabilities of $18,026,000 and minority interest of $1,610,000.

During 1979 the Company increased its investment in Challenger from 92.35% voting interest (98.27% equity interest) to 93.72% voting interest (99.93% equity interest) by acquisition of shares for cash. In addition, on December 31, 1979, the Company acquired a 94.7% interest in Coast Copper Company, Limited for cash. The cost of these acquisitions was $2,468,000, which exceeded the net assets acquired by $570,000, of which $223,000 was allocated to drilling rigs. The net assets acquired consist of current assets of $1,903,000, minority interest of $235,000 and long-term debt of $240,000.

During 1980, Turbo acquired all of the outstanding shares of three companies for cash of $4,871,000 and 10,000 common shares valued at $25.00 each. The net assets acquired consisted of working capital of $3,079,000, non-current investments of $940,000, and property, plant and equipment of $1,102,000.

Also during 1980, the Company increased its investment in Leaside Resources, Inc., and Coast Copper Company, Limited to 100% and in Challenger to 94.18%, voting interest (100% equity interest). These acquisitions were for cash totalling $236,000. The cost exceeded the asset acquired (minority interest of $107,000) by $129,000 of which $55,000 was allocated to petroleum and natural gas properties. When the Company obtained 100% control of Coast Copper Company, Limited it became virtually certain that the Company would be able to utilize tax benefits of approximately $3,100,000 in Coast Copper. As a result, costs of $358,000 paid in excess of net assets acquired have been assigned to deferred income taxes. Future benefits received in excess of $358,000 will be recognized in the consolidated statements of income in the period of realization.

All of the above acquisitions have been accounted for using the purchase method; results of operations have been included in the consolidated statements of income from the dates of acquisition.

## 3. INVENTORIES:

| | 1980 | 1979 |
|---|---|---|
| Land and property under development held for resale | $ 2,111 | $ 156 |
| Raw materials, drums and pallets | 4,586 | 2,337 |
| Manufacturing inventories | 4,535 | 2,591 |
| Finished products | 17,969 | 5,304 |
| Drilling material and supplies | 3,408 | 3,046 |
| | $32,609 | $13,434 |

## 4. INVESTMENTS:

| | % Ownership | December 31 Market Value 1980 | 1979 | Carrying Value 1980 | 1979 |
|---|---|---|---|---|---|
| Affiliated companies: | | | | | |
| Bankeno Mines Limited: | | | | | |
| Shares | 37% | $13,605 | $4,171 | $ 5,984 | $1,812 |
| Queenston Gold Mines Limited: | | | | | |
| Shares | 47% | $23,238 | $6,042 | 785 | 604 |
| Convertible note receivable | | | | 170 | 194 |
| Advances | | | | (9) | 62 |
| Universal H.S. Drillers (Pty.) Ltd.: | | | | | |
| Shares | 50% | not quoted | | 326 | 175 |
| Advances | | | | 1,671 | 746 |
| H.S.B. Ltda.: | | | | | |
| Shares | 50% | not quoted | | 36 | 36 |
| Advances | | | | 752 | 140 |
| Investment in real estate joint ventures | | not quoted | | 4,914 | — |
| TBR Gas & Oil Production Fund #4 | 50% | not quoted | | 207 | 260 |
| Other — quoted | | $ 2,777 | $ — | 2,834 | — |
| — not quoted | | | | 465 | 194 |
| | | | | $18,135 | $4,223 |

The convertible note receivable of Queenston Gold Mines Limited is repayable in seven annual installments of $24,255 each plus interest at a rate of 6% per annum. However, the Company has the option, at each repayment date, to convert the principal portion due into shares at the rate of 15 cents per share.

Market values are based on published quotations. Because of the significant interests which these holdings represent, such values may be greater or less than those which might be realized if the shares were offered for sale.

## 5. PROPERTY, PLANT AND EQUIPMENT:

| | **1980** | 1979 | Depreciation Rates |
|---|---|---|---|
| Land | **$ 7,099** | $ 3,489 | — |
| Buildings and leasehold improvements | **15,453** | 7,568 | 2½ - 20% |
| Drilling and service rigs and related equipment | **108,221** | 54,639 | Daily rates and 10 - 20% |
| Storage tanks and other equipment | **19,104** | 10,719 | 3 - 30% |
| Transportation equipment | **5,086** | 4,402 | 20 - 30% |
| Petroleum and natural gas production equipment | **5,731** | 3,391 | See note 1(d) |
| | **160,694** | 84,208 | |
| Less accumulated depreciation | **23,719** | 12,689 | |
| | **136,975** | 71,519 | |
| Assets in the development stage | **14,735** | 1,762 | |
| Net property, plant and equipment | **$151,710** | $73,281 | |

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 3300 operating days instead of over 2250 operating days. If the change had not been made, income before taxes and minority interest would have been reduced by $1,922,000 to $17,376,000 and net income would have been reduced by $1,191,000 to $12,190,000. Also, if the change had not been made, basic earnings per share would have been $1.68 per common and $1.40 per special share and fully diluted earnings per share would have been $1.56 per common and $1.30 per special share.

Interest charges and general and administrative costs specifically identifiable with a project during the construction period are capitalized. For the year ended December 31, 1980, $723,000 of interest charges were capitalized from $12,296,000 total interest costs incurred during the year (none capitalizable prior to 1980).

## 6. PETROLEUM AND NATURAL GAS PROPERTIES:

Petroleum and natural gas properties are carried at cost of $49,881,000 at December 31, 1980 (1979 - $28,859,000), less accumulated depletion of $4,067,000 (1979 - $2,527,000). Capitalized technical and administrative overhead amounted to $771,000, $251,000 and $281,000 for the years ended December 31, 1980, 1979 and 1978 respectively.

A summary of petroleum and natural gas activities, prepared in accordance with the rules prescribed by the United States Securities and Exchange Commission follows:

The aggregate capitalized costs relating to oil and gas producing activities as at December 31, 1980 and the aggregate amounts of the related accumulated depreciation, depletion and amortization are set forth below:

| | Properties with Proved reserves costs | Properties without Proved reserves costs | Allowances (1) |
|---|---|---|---|
| **1980** | | | |
| Canada | $ 25,983 | $ 10,455 | $ 2,522 |
| United States | 10,615 | 8,181 | 2,519 |
| Total | $ 36,598 | $ 18,636 | $ 5,041 |
| **1979** | | | |
| Canada | $ 22,073 | $ 4,410 | $ 1,849 |
| United States | 2,464 | 3,303 | 696 |
| Total | $ 24,537 | $ 7,713 | $ 2,545 |

(1) "Allowances" consist of accumulated depreciation, depletion, and amortization related to oil and gas producing activities.

The costs incurred by the Company (whether capitalized or charged to expenses at the time incurred) during each of the three years ending December 31, 1980 are set forth in the following table:

| | Property Acquisitions (1) | Exploration | Development and other | Production (2) | Allowances (3) |
|---|---|---|---|---|---|
| Year ended December 31, 1980 | | | | | |
| Canada | $ 1,715 | $3,603 | $5,539 | $1,857 | $ 673 |
| United States | 7,912 | 4,030 | 1,026 | 626 | 1,823 |
| Year ended December 31, 1979 | | | | | |
| Canada | 385 | 1,225 | 2,070 | 1,657 | 678 |
| United States | 1,413 | 1,119 | 435 | 216 | 534 |
| Year ended December 31, 1978 | | | | | |
| Canada | 11,816 | $3,007 | 1,119 | 1,184 | 571 |
| United States | 305 | 1,490 | 406 | 35 | 162 |

(1) Property acquisition costs included amounts for the purchase of proved reserves in the United States of $5,219,000 in 1980 and, in Canada, $8,306,000 in 1978.

(2) Production (lifting) costs do not include depletion, depreciation or amortization of capitalized acquisition, exploration and production costs or income taxes.

(3) "Allowances" consist of the provisions made in the relevant years for depreciation, depletion and amortization related to oil and gas producing activities.

The following table sets forth the Company's net revenues from oil and gas production during each of the three years ended December 31, 1980:

| | Year Ended December 31 | | |
|---|---|---|---|
| | **1980** | 1979 | 1978 |
| Canada | **$2,354** | $1,366 | $ 901 |
| United States | **1,781** | 541 | 410 |
| Total | **$4,135** | $1,907 | $1,311 |

## 7. OTHER ASSETS:

| | 1980 | 1979 |
|---|---|---|
| Deposits | $ 5,045 | $ 110 |
| Note receivable — TBR Gas & Oil Production Fund | 1,150 | 1,350 |
| Unallocated excess of cost of investment in subsidiaries over net assets acquired, less amortization | 1,156 | 1,035 |
| Loans to directors, officers and employees substantially for the purchase of shares and warrants | 1,726 | 993 |
| Other | 4,249 | 2,967 |
| | $ 13,326 | $ 6,455 |

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.

The unallocated excess of cost of investment in subsidiaries over net assets acquired at the dates of acquisition is carried at cost of $1,437,000 (1979 - $1,259,000) less accumulated amortization of $281,000 (1979 - $224,000). The amortization period is twenty-five years.

## 8. LONG-TERM DEBT:

| | 1980 | 1979 |
|---|---|---|
| Bank indebtedness represented by an income debenture, bearing interest at 52% of the sum of bank prime rate (18¼% at December 31, 1980) and 1½%, plus ⅜%, repayable semi-annually in amounts ranging from 5% to 15% of initial principal with final payment due March 31, 1985 | $ 14,280 | $16,150 |
| Term bank loans for U.S. $30 million, bearing interest at an average rate of 11.8%. Payment of principal is to be made in full in July, 1985 with interest being paid semi-annually | 34,527 | 23,946 |
| U.S. $25 million partially convertible debentures due 1990. The debentures may be converted, after March 31, 1981, to the extent of U.S. $250 per U.S. $1,000 debenture at a rate of Cdn. $30.25 per common share. The debentures bear interest at a rate of 12½% with interest being paid semi-annually | 29,175 | — |
| Term bank loans (including $5 million drawn down subsequent to December 31, 1980, relating to short term obligations in respect of refinery construction), bearing interest currently at bank prime rate plus ½%, principal repayable semi-annually, commencing four years after initial draw down, in amounts ranging from 4% to 18%, with final payment due April 1, 1994 | 15,000 | — |
| Term bank loans bearing interest at bank prime rate plus ¼% payable monthly; principal repayable annually in amounts ranging from 10% to 15% with final payment due December 31, 1990 | 15,000 | — |
| Term bank loans bearing interest currently at bank prime rate plus ¼% payable monthly, due June 30, 1983 | 6,537 | — |
| Other | 9,258 | 7,252 |
| Total long-term debt | 123,777 | 47,348 |
| Less current portion | 4,144 | 4,893 |
| Net long-term debt | $119,633 | $42,455 |

Principal repayments are due as follows:

| | |
|---|---|
| 1981 | $ 4,144 |
| 1982 | $ 3,546 |
| 1983 | $10,322 |
| 1984 | $ 5,266 |
| 1985 | $39,965 |
| Thereafter | $60,534 |

Bank borrowings are collateralized by:

(i) General assignments of substantially all Canadian accounts receivable and finished product and raw material inventories;

(ii) Fixed charges on certain real estate, with a carrying value of approximately $6.5 million;

(iii) Fixed and floating charge over refinery assets, with a carrying value of approximately $15 million;

(iv) Hypothecation of certain of the Company's investments, with a carrying value of approximately $6.5 million.

Under its most significant debt covenant, the Company may not incur indebtedness secured on existing assets without securing equally its existing unsecured debt, except that the company may issue private debt instruments secured by existing assets to a maximum of $100 million.

## 9. SHARE CAPITAL:

(a) At January 1, 1978, the authorized share capital of the Company consisted of:

1,000,000 first preferred shares having a par value of $20 each, issuable in series;

10,000,000 common shares without nominal or par value, maximum aggregate consideration of $6,250,000.

Since January 1, 1978 the 10,000,000 authorized common shares have been altered and restructured to create:

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, carrying a per share dividend 20% greater than that paid on special shares, maximum aggregate consideration $500,000,000.

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 rights to distribution.

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

At December 31, 1980, the authorized share capital was as follows:

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, carrying a per-share dividend 20% greater than 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.

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

(b) Redeemable Preferred Shares.

(i) In 1977, the Company issued 250,000 8¾% cumulative redeemable first preferred shares, series A, due 1987, with a par value of $20 each. Turbo has the right to redeem all or any part of the first preferred shares series A after October 1, 1982 at $21.25, reducing to $20.00 by 1987.

(ii) In 1979, Turbo issued 750,000 8¼% cumulative redeemable second preferred shares, 1979 convertible series, with a par value of $20 each.

On December 19, 1980, Turbo redeemed the second preferred shares, 1979 convertible series, at a price of $21.00 per share plus accrued dividends. Each shareholder of the 1979 convertible series had the right to convert his second preferred shares, 1979 convertible series, into common shares prior to December 19, 1980 at a conversion price of $18.00 per common share. As a result, 829,247 common shares were issued and $75,000 paid for shares redeemed.

(iii) On August 26, 1980, Turbo issued 1,250,000 10½% cumulative redeemable retractable second preferred shares, 1980 series. A holder of the 1980 retractable series shares has the option of requiring the Company to purchase all or any of his second preferred shares, 1980 retractable series, on October 1, 1985 and October 1, 1990 at a price equal to $20 per share plus any accrued and unpaid dividends. The 1980 retractable series are redeemable by the Company any time after October 1, 1985 at a price of $20.80 per share reducing by $0.16 per annum to $20.00 per share in 1990, plus, in each case, any accrued and unpaid dividends.

(c) Stock Options

In 1972 the shareholders approved a stock option plan for officers and employees of the Company. During 1980, the Board of Directors increased the number of common shares registered under the plan by 200,000 shares. At December 31, 1980 15,687 special shares and 216,801 common shares were reserved for purchase by officers and employees under the plan. Details of outstanding stock options are as follows:

| | Stock Options | |
|---|---|---|
| | Common | Special |
| Balance January 1, 1978 (after conversion of 88,000 old common) | 44,000 | 44,000 |
| Granted to replace options of Challenger shares held by officers and employees of that company | 33,138 | — |
| Granted during 1978 | 6,250 | 6,250 |
| | 83,388 | 50,250 |
| Exercised during 1978 (at prices ranging from $2.00 to $3.83) | (12,000) | (12,000) |
| Balance December 31, 1978 | 71,388 | 38,250 |
| Exercised during 1979 (at prices ranging from $1.35 to $6.30) | (17,735) | (12,938) |
| Balance December 31, 1979 | 53,653 | 25,312 |
| Granted during the year | 55,500 | — |
| Exercised during 1980 (at prices ranging from $2.00 to $6.30) | (39,602) | (12,375) |
| Lapsed during 1980 | (4,114) | (3,000) |
| Balance December 31, 1980 | 65,437 | 9,937 |

Stock options are outstanding at prices ranging from $2.00 to $23.50 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, 1980 there are stock options exercisable for 4,500 common and 4,500 special shares.

Options expire as follows:

| | Common | Special |
|---|---|---|
| 1982 | 9,937 | 9,937 |
| 1985 | 55,500 | — |
| | 65,437 | 9,937 |

(d) Warrants

As discussed in Note 2, 1,248,935 warrants for the purchase of common shares were issued during 1978 in exchange for Challenger Class A Special Shares. These warrants are exercisable at $7.50 per share to December 1, 1982. Of the 249,750 warrants issued to subsidiaries at the time of the Challenger acquisition, 249,385 were subsequently sold to employees and officers at prices ranging from $1.40 to $2.00 per warrant. The following provides details of warrant transactions for the two years ended December 31, 1980:

| | |
|---|---|
| Balance outstanding December 31, 1978 | 1,248,585 |
| Exercised during 1979 | (31,485) |
| Balance outstanding December 31, 1979 | 1,217,100 |
| Exercised during 1980 | (501,824) |
| Balance outstanding December 31, 1980 | 715,276 |

(e) Common shares reserved for conversion of debentures

On November 13, 1980, the Company issued U.S. $25,000,000 12-½% 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 a price of Can. $30.25 per common share (with a fixed exchange rate of U.S. $1.00 = Cdn. $1.1670). In accordance with the terms of the issue 241,116 common shares have been reserved for conversion.

## 10. INCOME TAXES:

The following is an analysis of the components of the provision for taxes on income:

| | Year ended December 31 | | |
|---|---|---|---|
| | **1980** | 1979 | 1978 |
| Current: | | | |
| Federal | **$ (144)** | $ 112 | $ 167 |
| Provincial | **(260)** | (97) | (58) |
| Foreign | **252** | — | — |
| Deferred | **5,720** | 7,669 | 3,435 |
| | **$ 5,568** | $7,684 | $3,544 |

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

| | **1980** | 1979 | 1978 |
|---|---|---|---|
| Statutory Rate | **49%** | 47% | 47% |
| Increases (Decreases) resulting from: | | | |
| Non-deductibility of crown royalties | **2** | 2 | 3 |
| Non-deductibility of debenture interest expense | **3** | 4 | — |
| Non-taxable portion of capital gains | **(3)** | (5) | (1) |
| Foreign tax rate difference | **(12)** | 1 | 3 |
| Rate Adjustments: | | | |
| Investment tax credits | **(6)** | (1) | (3) |
| Resource allowance | **(2)** | (2) | (2) |
| Earned depletion | — | (2) | (2) |
| Other | **(2)** | 2 | (5) |
| | **29%** | 46% | 40% |

Consolidated deferred tax expense results from timing differences in the recognition of revenue and expense items for tax and financial statement purposes. The related consolidated tax effect of these differences is as follows:

| | **1980** | 1979 | 1978 |
|---|---|---|---|
| Excess of capital cost allowance for income tax purposes over depreciation for accounting purposes | **$ (788)** | $ 1,799 | $ 2,037 |
| Excess of exploration and development costs deductible for income tax purposes over depletion for accounting purposes | **7,898** | 5,669 | 1,398 |
| Tax losses available to reduce future taxable incomes recorded as there is reasonable assurance of utilization | **(1,045)** | — | — |
| Other | **(345)** | 201 | — |
| | **$ 5,720** | $ 7,669 | $ 3,435 |

## 11. EARNINGS PER SHARE:

Due to the unique characteristics of the Company's share capital (Note 9), earnings per share in the consolidated financial statements can be calculated on varying assumptions. The method of calculation described below is considered most representative of the interest of shareholders of special shares and common shares in the retained earnings of the Company on an ongoing basis.

(a) Basic earnings per share

Basic earnings per share have been calculated for each of the special shares and the common shares based on the monthly weighted average number of shares of each class outstanding during the year and on the assumption that 100% of earnings had been distributed as dividends in the year earned, after providing for preferred share and subsidiary special share dividends.

(b) Fully diluted earnings per share

As the probability of conversion of special to common shares is uncertain, no effect has been recognized for such potential future conversions in calculating fully diluted earnings per share. Convertible debentures, options and warrants outstanding at December 31, 1980 have been included in the calculation of fully diluted earnings per share based on the monthly weighted average number of special and common shares relating thereto as though they had been exercised at the later of the beginning of the year or the date of issue. Earnings have been adjusted for the income (net of tax) which would have been earned on the proceeds, assuming an appropriate interest rate of 14⅜% for 1980.

(c) Conversion of special to common shares

On the assumption that all outstanding special shares were converted to common shares, basic earnings per share calculated as in (a) above would be $1.77 (1979 - $1.43; 1978 - $0.98) and fully diluted earnings per share calculated as in (b) above would be $1.65 (1979 - $1.24; 1978 - $0.96).

## 12. LEASE OBLIGATIONS:

The Company has operating lease obligations expiring from 1981 to 1990, covering retail gasoline outlets, equipment, and office space under which it is committed to make the following minimum rental payments:

| | |
|---|---|
| 1981 | $2,991 |
| 1982 | $2,637 |
| 1983 | $1,999 |
| 1984 | $ 967 |
| 1985 | $ 623 |
| Thereafter | $2,160 |

## 13. COMMITMENTS AND CONTINGENCIES:

The Company has issued a Statement of Claim in the Court of Queen's Bench of Alberta, seeking damages and specific performance by Gulf Canada Limited ("Gulf"), under a long-term gasoline supply agreement due to expire December 31, 1984. An action by Gulf, initiated in Ontario, which sought to declare the right to terminate the contract on the grounds that price negotiations had failed and breach of an exclusive supply clause, has been stayed pending the outcome of the Alberta action. Gulf has filed a counterclaim to the Company's action in Alberta. The Company and Gulf have entered into an interim supply agreement, whereby Gulf agreed to continue to supply Turbo until the lawsuit is determined or the termination date of the original supply agreement is reached, whichever occurs first. The ultimate outcome of these actions cannot be determined at this time.

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 the tax law is uncertain. The Company has estimated the tax liability prudently based on tax legislation currently in force; however, the actual liability may prove to be greater or less than that provided. Any adjustments, if necessary, will be made when the ultimate liability is known.

Contracts have been signed for the development of an industrial site and for the commencement of construction of a refinery. Costs yet to be incurred under these contracts total $43,448,000 at December 31, 1980. Additional contracts for completion of the refinery are to be signed in 1981. Long-term financing has been arranged for this project.

## 14. REMUNERATION OF DIRECTORS AND OFFICERS:

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

| | **1980** | 1979 |
|---|---|---|
| Directors' fees | **$ 24** | $ 23 |
| Officers | **1,295** | 717 |
| | **$1,319** | $740 |

In 1980, the Company had nine directors and thirteen officers, five of whom served in both capacities during the year. In 1979, the Company had nine directors and seven officers, five of whom served in both capacities during the year.

## 15. SUBSEQUENT EVENTS:

On December 23, 1980, Turbo made a cash offer of $9.00 per share for each of the remaining shares of Bankeno Mines Limited not held by the Company. The offer expired on February 6, 1981, resulting in Turbo increasing its investment in Bankeno Mines Limited from 34% to 69.4% by obtaining 1,315,000 shares of Bankeno. The offer was financed by bank borrowings.

On January 7, 1981, the Company entered into an agreement to acquire 8 acres of land in Calgary, Alberta for $9,838,000. Under the terms of the agreement $1,000,000 was paid upon closing, $1,000,000 is due on January 7, 1982; $7,000,000 is due on January 7, 1983; and the balance due January 7, 1984.

On March 11, 1981, the Company closed a Floating Rate Notes issue dated 1991, for Cdn $25 million. The issue is unsecured at an interest rate of ⅜% below bank prime rate.

## 16. CLASSIFICATIONS:

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

## 17. 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 the acquisition of, exploration for, development and production of crude oil and natural gas reserves;

Manufacturing and Refining includes oil recycling, refining and the manufacturing, blending and packaging of lubricants, anti-freeze, windshield washer fluid, and other automotive specialties as well as the development of industrial and specialty chemicals;

Gasoline Marketing includes the distribution, wholesale and retail 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 revenues, operating profit, total assets and capital expenditures by business segment and revenues, operating profit and total assets by geographic area for fiscal 1980, 1979 and 1978.

### By Business Segment — 1980

| | Resource Services | Exploration and Production | Manufacturing and Refining |
|---|---|---|---|
| INCOME: | | | |
| Sales to customers outside the enterprise | $143,058 | $ 7,062 | $30,390 |
| Inter-segment sales | 228 | — | 2,244 |
| Total sales | 143,286 | 7,062 | 32,634 |
| Other income | 2,417 | 291 | 74 |
| TOTAL INCOME | 145,703 | 7,353 | 32,708 |
| DIRECT COSTS | 92,330 | 2,804 | 22,523 |
| INDIRECT COSTS | 17,300 | 1,799 | 10,260 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 10,968 | 1,782 | 515 |
| | 120,598 | 6,385 | 33,298 |
| SEGMENT OPERATING PROFIT (LOSS) | $ 25,105 | $ 968 | $ (590) |
| UNALLOCATED EXPENSES: | | | |
| Interest expense | | | |
| Minority interest | | | |
| Provision for income taxes | | | |
| NET INCOME FOR THE YEAR | | | |
| TOTAL ASSETS AT DECEMBER 31, 1980 | $162,315 | $61,328 | $ 37,407 |
| CAPITAL EXPENDITURES DURING 1980 | $ 61,541 | $22,322 | $13,332 |

| Marketing and Transportation | Real Estate Operations | Operating Total | Corporate and Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| $139,382 | $ 1,537 | $321,429 | $ 699 | $ — | $322,128 |
| 209 | 670 | 3,351 | 26 | (3,377) | — |
| 139,591 | 2,207 | 324,780 | 725 | (3,377) | 322,128 |
| 62 | 690 | 3,534 | 262 | (168) | 3,628 |
| 139,653 | 2,897 | 328,314 | 987 | (3,545) | 325,756 |
| 121,059 | 620 | 239,336 | — | (2,452) | 236,884 |
| 8,949 | 634 | 38,942 | 5,264 | (1,281) | 42,925 |
| 1,268 | 85 | 14,618 | 458 | — | 15,076 |
| 131,276 | 1,339 | 292,896 | 5,722 | (3,733) | 294,885 |
| $ 8,377 | $ 1,558 | $ 35,418 | $(4,735) | $ 188 | 30,871 |
| | | | | | 11,573 |
| | | | | | 349 |
| | | | | | 5,568 |
| | | | | | $ 13,381 |
| $ 20,404 | $25,965 | $ 307,419 | $23,580 | | $330,999 |
| $ 7,362 | $ 8,472 | $ 113,029 | $ 3,266 | | $116,295 |

**By Business Segment — 1979**

| INCOME: | Resource Services | Exploration and Production | Manufacturing and Refining |
|---|---|---|---|
| Sales to customers outside the enterprise | $103,777 | $ 4,895 | $19,173 |
| Inter-segment sales | — | — | 1,228 |
| Total sales | 103,777 | 4,895 | 20,401 |
| Other income | — | — | — |
| TOTAL INCOME | 103,777 | 4,895 | 20,401 |
| DIRECT COSTS | 67,890 | 2,219 | 12,482 |
| INDIRECT COSTS | 10,667 | 719 | 6,779 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 7,942 | 1,144 | 307 |
| | 86,499 | 4,082 | 19,568 |
| SEGMENT OPERATING PROFIT (LOSS) | $ 17,278 | $ 813 | $ 833 |
| UNALLOCATED EXPENSES: | | | |
| Interest expense | | | |
| Minority interest | | | |
| Provision for income taxes | | | |
| NET INCOME FOR THE YEAR | | | |
| TOTAL ASSETS AT DECEMBER 31, 1979 | $ 87,224 | $35,596 | $ 12,193 |
| CAPITAL EXPENDITURES DURING 1979 | $ 28,790 | $ 7,593 | $ 1,010 |

**By Business Segment — 1978**

| INCOME: | Resource Services (6 months) | Exploration and Production | Manufacturing and Refining |
|---|---|---|---|
| Sales to customers outside the enterprise | $39,541 | $ 7,072 | $12,987 |
| Inter-segment sales | 607 | 25 | 955 |
| Total sales | 40,148 | 7,097 | 13,942 |
| Other income | — | — | — |
| TOTAL INCOME | 40,148 | 7,097 | 13,942 |
| DIRECT COSTS | 26,796 | 3,418 | 10,751 |
| INDIRECT COSTS | 3,864 | 433 | 3,058 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 2,149 | 1,303 | 254 |
| | 32,809 | 5,154 | 14,063 |
| SEGMENT OPERATING PROFIT (LOSS) | $ 7,339 | $ 1,943 | $ (121) |
| UNALLOCATED EXPENSES: | | | |
| Interest expense | | | |
| Minority interest | | | |
| Provision for income taxes | | | |
| NET INCOME FOR THE YEAR | | | |
| TOTAL ASSETS AT DECEMBER 31, 1978 | $60,016 | $27,180 | $ 7,866 |
| CAPITAL EXPENDITURES DURING 1978 | $10,180 | $17,897 | $ 1,306 |

| Marketing and Transportation | Real Estate Operations | Operating Total | Corporate and Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| $108,579 | $ 344 | $236,768 | $ 1,402 | $ — | $238,170 |
| 137 | 553 | 1,918 | 22 | (1,940) | — |
| 108,716 | 897 | 238,686 | 1,424 | (1,940) | 238,170 |
| — | — | — | 3,902 | — | 3,902 |
| 108,716 | 897 | 238,686 | 5,326 | (1,940) | 242,072 |
| 97,420 | 26 | 180,037 | — | (1,211) | 178,826 |
| 5,074 | 211 | 23,450 | 5,566 | (719) | 28,297 |
| 825 | 45 | 10,263 | 118 | — | 10,381 |
| 103,319 | 282 | 213,750 | 5,684 | (1,930) | 217,504 |
| $ 5,397 | $ 615 | $ 24,936 | $ (358) | $ (10) | 24,568 |
| | | | | | 7,675 |
| | | | | | 356 |
| | | | | | 7,684 |
| | | | | | $ 8,853 |
| $ 9,453 | $8,854 | $153,320 | $13,829 | | $167,149 |
| $ 2,324 | $ 4,889 | $ 44,606 | $ 253 | | $ 44,859 |

| Marketing and Transportation | Real Estate Operations | Operating Total | Corporate and Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| $86,153 | $ 230 | $145,983 | $ 1,151 | $ — | $147,134 |
| — | 475 | 2,062 | 57 | (2,119) | — |
| 86,153 | 705 | 148,045 | 1,208 | (2,119) | 147,134 |
| — | — | — | 1,152 | — | 1,152 |
| 86,153 | 705 | 148,045 | 2,360 | (2,119) | 148,286 |
| 76,839 | 10 | 117,814 | 6 | (1,487) | 116,333 |
| 5,455 | — | 12,810 | 3,280 | (472) | 15,618 |
| 794 | 57 | 4,557 | 63 | — | 4,620 |
| 83,088 | 67 | 135,181 | 3,349 | (1,959) | 136,571 |
| $ 3,065 | $ 638 | $ 12,864 | $ (989) | $ (160) | 11,715 |
| | | | | | 2,828 |
| | | | | | 52 |
| | | | | | 3,544 |
| | | | | | $ 5,291 |
| $ 7,376 | $3,921 | $106,359 | $15,703 | | $122,062 |
| $ 1,211 | $ 443 | $ 31,037 | $ 45 | | $ 31,082 |

| By Geographic Area — 1980 | Canada | U.S.A. | Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| INCOME: | | | | | |
| Sales to customers outside the enterprise | $266,976 | $ 42,900 | $12,252 | $ — | $322,128 |
| Transfers between geographic segments | 1,924 | — | — | (1,924) | — |
| Total sales | 268,900 | 42,900 | 12,252 | (1,924) | 322,128 |
| Other income | 2,563 | 1,827 | (49) | (713) | 3,628 |
| Total income | 271,463 | 44,727 | 12,203 | (2,637) | 325,756 |
| DIRECT COSTS | 206,301 | 25,130 | 7,377 | (1,924) | 236,884 |
| INDIRECT COSTS | 34,209 | 6,752 | 1,964 | — | 42,925 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 7,407 | 6,752 | 917 | — | 15,076 |
| | 247,917 | 38,634 | 10,258 | (1,924) | 294,885 |
| SEGMENT OPERATING PROFIT | $ 23,546 | $ 6,093 | $ 1,945 | $ (713) | 30,871 |
| UNALLOCATED EXPENSES: | | | | | |
| Interest expense | | | | | 11,573 |
| Minority interest | | | | | 349 |
| Provision for income taxes | | | | | 5,568 |
| NET INCOME FOR THE YEAR | | | | | $ 13,381 |
| TOTAL ASSETS AT DECEMBER 31, 1980 | $210,760 | $112,918 | $ 9,941 | $(2,620) | $330,999 |

| By Geographic Area — 1979 | Canada | U.S.A. | Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| INCOME: | | | | | |
| Sales to customers outside the enterprise | $215,197 | $ 10,599 | $12,374 | $ — | $238,170 |
| Transfers between geographic segments | 1,117 | — | — | (1,117) | — |
| Total sales | 216,314 | 10,599 | 12,374 | (1,117) | 238,170 |
| Other income | 3,902 | — | 487 | (487) | 3,902 |
| Total income | 220,216 | 10,599 | 12,861 | (1,604) | 242,072 |
| DIRECT COSTS | 166,753 | 6,081 | 7,109 | (1,117) | 178,826 |
| INDIRECT COSTS | 23,841 | 2,040 | 2,416 | — | 28,297 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 7,543 | 1,394 | 1,444 | — | 10,381 |
| | 198,137 | 9,515 | 10,969 | (1,117) | 217,504 |
| SEGMENT OPERATING PROFIT | $ 22,079 | $ 1,084 | $ 1,892 | $ (487) | 24,568 |
| UNALLOCATED EXPENSES: | | | | | |
| Interest expense | | | | | 7,675 |
| Minority interest | | | | | 356 |
| Provision for income taxes | | | | | 7,684 |
| NET INCOME FOR THE YEAR | | | | | $ 8,853 |
| TOTAL ASSETS AT DECEMBER 31, 1979 | $125,418 | $ 32,476 | $11,456 | $(2,201) | $167,149 |

**By Geographic Area — 1978**

| | Canada | U.S.A. | Other | Consolidation Eliminations | Total |
|---|---|---|---|---|---|
| INCOME: | | | | | |
| Sales to customers outside the enterprise | $138,042 | $ 3,982 | $ 5,110 | $ — | $147,134 |
| Transfers between geographic segments | — | — | — | — | — |
| Total sales | 138,042 | 3,982 | 5,110 | — | 147,134 |
| Other income | 1,152 | — | — | — | 1,152 |
| Total income | 139,194 | 3,982 | 5,110 | — | 148,286 |
| DIRECT COSTS | 111,287 | 2,586 | 2,460 | — | 116,333 |
| INDIRECT COSTS | 13,607 | 315 | 1,696 | — | 15,618 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | 3,683 | 312 | 625 | — | 4,620 |
| | 128,577 | 3,213 | 4,781 | — | 136,571 |
| SEGMENT OPERATING PROFIT | $ 10,617 | $ 769 | $ 329 | $ — | 11,715 |
| UNALLOCATED EXPENSES: | | | | | |
| Interest expense | | | | | 2,828 |
| Minority interest | | | | | 52 |
| Provision for income taxes | | | | | 3,544 |
| NET INCOME FOR THE YEAR | | | | | $ 5,291 |
| TOTAL ASSETS AT DECEMBER 31, 1978 | $108,114 | $ 7,642 | $ 9,718 | $(3,412) | $122,062 |

(unaudited)

## (a) SUMMARY OF RRA POLICIES

Accounting policies used in the preparation of the RRA presentation are shown below. The estimate of proved reserves and related valuations were developed in accordance with rules of the United States Securities and Exchange Commission by the Company's own petroleum engineers.

**Recognition of Assets and Earnings Under RRA**

Under RRA, an asset is recognized and earnings are recorded when proved reserves are added through exploration and development activities. A dollar valuation (the "RRA valuation") of proved reserves is developed as follows:

(1) Estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced based on year-end economic conditions;

(2) The estimated future production of proved reserves is priced on the basis of year-end prices except that future prices of gas are increased for fixed and determinable escalation provisions in contracts;

(3) The resulting future gross revenue streams are reduced by estimated future costs to develop and to produce the proved reserves, based on year-end cost estimates;

(4) The resulting future net revenue streams are reduced to present value amounts by applying a 10 percent factor.

As acknowledged by the S.E.C., this valuation does not necessarily yield the best estimate of the fair market value of the company's oil and gas properties because it does not take into account:

— the likelihood of future discoveries of oil and gas in excess of proved reserves;

— anticipated future prices of oil and gas and related development and production costs; and

— a discount factor that bears a closer relationship to present interest rates.

In the opinion of management, the estimated fair market value of the Company's oil and gas properties is substantially in excess of the RRA valuation of its proved reserves.

Subsequent revisions to the RRA valuation of proved reserves are included in RRA earnings as they occur and are calculated as follows:

(1) "Additions" represents proved reserves added from drilling exploratory and development wells.

(2) "Changes in prices" represents the approximate effect of changes in prices and lifting costs from one period to the next.

(3) "Accretion of discount" was calculated by applying 10 percent of the opening present value of estimated future net revenues from proved reserves.

(4) "Other" includes the net effect of all changes affecting the RRA valuation not otherwise reported.

**Exploration and Development Costs**

The cost of acquiring unproved properties and drilling exploratory wells are deferred until the properties are evaluated and determined to be either productive or non-productive, at which time they are charged to expense. Other exploration costs are charged to expense as incurred. Cost of acquiring unproved properties aggregating $18,636,000 have been deferred at December 31, 1980, ($7,713,000 at December 31, 1979). The excess of acquisition costs over the present value of proved reserves purchased of $3,278,000 have also been deferred at December 31, 1980 (none at December 31, 1979).

Estimated future costs to develop proved reserves are deducted in the RRA valuation of proved reserves. Subsequent revisions to estimated future development costs are included in revisions to reserves proved in prior years. Other development costs are charged to expense when related proved reserves are recognized.

### Purchase and Sale of Proved Reserves

Differences, when not significant, between the consideration paid or received and the RRA valuation of proved reserves purchased or sold have been included in the RRA operating results in the periods that the transactions occurred.

### Production and Funds Flow

Under RRA, because earnings are recognized when proved reserves are discovered and as the RRA valuation of proved reserves changes, no earnings are reported when oil and gas are produced. Consequently, RRA earnings may differ substantially from funds generated or required by current exploration, development, and producing operations.

### Income Taxes

The provision for income taxes has been calculated using the tax liability method, whereby the year-end statutory rate is applied to the difference between the RRA valuation of proved reserves and the tax basis of oil and gas properties at year-end.

## (b) RRA PRESENTATION

The RRA presentation consists of the following tables:

**Table 1** — Summary of changes in net quantity of estimated proved oil and gas reserves for the years ended December 31, 1980, 1979 and 1978.

**Table 2** — Estimates of future net revenues from estimated production of proved oil and gas reserves.

**Table 3** — Summary of oil and gas producing activities on the basis of RRA for the two years ended December 31, 1980.

**Table 4** — Summary of changes in the present value of estimated future net revenues from proved oil and gas reserves for the two years ended December 31, 1980.

## Summary of Changes in Net Quantity of Estimated Proved Oil and Gas Reserves

For the years ended December 31, 1980, 1979 and 1978

**TABLE 1** Oil (barrels)

| | Canada | United States | Total |
|---|---|---|---|
| At January 1, 1978 | 555,696 | 25,146 | 580,842 |
| Changes in 1978 attributable to: | | | |
| Revisions of estimates | (35,600) | — | (35,600) |
| Extensions, discoveries and other additions | 105,100 | 74,100 | 179,200 |
| Production | (80,196) | (7,046) | (87,242) |
| Sale of minerals in place | (162,000) | — | (162,000) |
| Total changes in 1978 | (172,696) | 67,054 | (105,642) |
| At December 31, 1978 | 383,000 | 92,200 | 475,200 |
| Changes in 1979 attributable to: | | | |
| Revisions of estimates | 80,010 | — | 80,010 |
| Extensions, discoveries and other additions | 51,100 | 25,420 | 76,520 |
| Production | (79,910) | (11,520) | (91,430) |
| Sales of minerals in place | (12,600) | — | (12,600) |
| Total changes in 1979 | 38,600 | 13,900 | 52,500 |
| At December 31, 1979 | 421,600 | 106,100 | 527,700 |
| Changes in 1980 attributable to: | | | |
| Revisions of estimates | 132,300 | (48,800) | 83,500 |
| Extensions, discoveries and other additions | 13,800 | 45,700 | 59,500 |
| Production | (81,500) | (11,000) | (92,500) |
| Sales of minerals in place | — | — | — |
| Total changes in 1980 | 64,600 | (14,100) | 50,500 |
| At December 31, 1980 | 486,200 | 92,000 | 578,200 |

**TABLE 1** Natural Gas (mmcf)

| | Canada | United States | Total |
|---|---|---|---|
| At January 1, 1978 | 21,181 | 1,470 | 22,651 |
| Changes in 1978 attributable to: | | | |
| Revisions of estimates | (352) | 431 | 79 |
| Extensions, discoveries and other additions | 18,744 | 566 | 19,310 |
| Production | (944) | (167) | (1,111) |
| Sale of minerals in place | (2,269) | — | (2,269) |
| Total changes in 1978 | 15,179 | 830 | 16,009 |
| At December 31, 1978 | 36,360 | 2,300 | 38,660 |
| Changes in 1979 attributable to: | | | |
| Revisions of estimates | (335) | 781 | 446 |
| Extensions, discoveries and other additions | 6,880 | 275 | 7,155 |
| Production | (1,405) | (276) | (1,681) |
| Sales of minerals in place | (520) | — | (520) |
| Total changes in 1979 | 4,620 | 780 | 5,400 |
| At December 31, 1979 | 40,980 | 3,080 | 44,060 |
| Changes in 1980 attributable to: | | | |
| Revisions of estimates | (5,599) | 80 | (5,519) |
| Extensions, discoveries and other additions | 4,492 | 1,397 | 5,889 |
| Production | (863) | (537) | (1,400) |
| Sales of minerals in place | (210) | — | (210) |
| Total changes in 1980 | (2,180) | 940 | (1,240) |
| At December 31, 1980 | 38,800 | 4,020 | 42,820 |

## Estimates of Future Net Revenues From Estimated Production of Proved Oil and Gas Reserves

(in thousands of Canadian dollars)

**TABLE 2**

| | Canada | United States | Total |
|---|---|---|---|
| **Proved** | | | |
| 1981 | $ 75 | $ 1,890 | $ 1,965 |
| 1982 | 7,823 | 1,712 | 9,535 |
| 1983 | 7,018 | 1,491 | 8,509 |
| Remaining years | 54,226 | 11,126 | 65,352 |
| Total | $69,142 | $16,219 | $85,361 |
| **Proved Developed** | | | |
| 1981 | $ 3,018 | $ 1,890 | $ 4,908 |
| 1982 | 3,186 | 1,712 | 4,898 |
| 1983 | 2,701 | 1,491 | 4,192 |
| Remaining years | 18,307 | 11,126 | 29,433 |
| Total | $27,212 | $16,219 | $43,431 |

(1) Estimated future net revenues are undiscounted and are calculated assuming continuation of current prices of oil and gas, royalties, lifting costs (excluding depreciation) and deducting all future capital expenditures.

(2) Expected revenues from United States sources have been translated to Canadian dollars at exchange rates as at December 31, 1980.

## Summary of Oil and Gas Producing Activities On the Basis of RRA

Year ended December 31, 1980
(stated in thousands of Canadian dollars)

**TABLE 3**

| | Canada | U.S.A. | Total |
|---|---|---|---|
| ADDITIONS AND REVISIONS TO ESTIMATED PROVED OIL AND GAS RESERVES: | | | |
| Additions | $ 2,845 | $ 5,110 | $ 7,955 |
| Revisions to reserves proved in prior years: | | | |
| Changes in prices of oil and gas | 11,150 | 4,530 | 15,680 |
| Other | (10,298) | (6,426) | (16,724) |
| Accretion of discount | 2,880 | 477 | 3,357 |
| Total additions to proved reserves | 6,577 | 3,691 | 10,268 |
| Related Exploration and Development Costs | 2,128 | 3 | 2,131 |
| RRA INCOME BEFORE INCOME TAXES | 4,449 | 3,688 | 8,137 |
| PROVISION FOR INCOME TAXES | 2,153 | 1,844 | 3,997 |
| INCOME *FROM OIL AND GAS PRODUCING* ACTIVITIES ON THE BASIS OF RRA | $ 2,296 | $ 1,844 | $ 4,140 |
| INCOME BEFORE INCOME TAXES FROM OIL AND GAS PRODUCING ACTIVITIES UNDER CANADIAN GENERALLY ACCEPTED ACCOUNTING POLICIES | $ 596 | $ 372 | $ 968 |
| INCOME (LOSS) BEFORE INCOME TAXES FROM OIL AND GAS PRODUCING ACTIVITIES UNDER UNITED STATES GENERALLY ACCEPTED ACCOUNTING POLICIES | $ 665 | $ (505) | $ 160 |

## Summary of Oil and Gas Producing Activities On the Basis of RRA

Year ended December 31, 1979
(stated in thousands of Canadian dollars)

**TABLE 3**

| | Canada | U.S.A. | Total |
|---|---|---|---|
| ADDITIONS AND REVISIONS TO ESTIMATED PROVED OIL AND GAS RESERVES: | | | |
| Additions | $ 4,551 | $ 1,322 | $ 5,873 |
| Revisions to reserves proved in prior years: | | | |
| Changes in prices of oil and gas | 2,168 | 191 | 2,359 |
| Other | (276) | (642) | (918) |
| Accretion of discount | 2,245 | 386 | 2,631 |
| Total additions to proved reserves | 8,688 | 1,257 | 9,945 |
| Related Exploration and Development Costs | 3,615 | 241 | 3,856 |
| RRA INCOME BEFORE INCOME TAXES | 5,073 | 1,016 | 6,089 |
| PROVISION FOR INCOME TAXES | 2,384 | 488 | 2,872 |
| INCOME FROM OIL AND GAS PRODUCING ACTIVITIES ON THE BASIS OF RRA | $ 2,689 | $ 528 | $ 3,217 |
| INCOME BEFORE INCOME TAXES FROM OIL AND GAS PRODUCING ACTIVITIES UNDER CANADIAN GENERALLY ACCEPTED ACCOUNTING POLICIES | $ 664 | $ 149 | $ 813 |
| INCOME (LOSS) BEFORE INCOME TAXES FROM OIL AND GAS PRODUCING ACTIVITIES UNDER UNITED STATES GENERALLY ACCEPTED ACCOUNTING POLICIES | $ 756 | $ (179) | $ 577 |

## Summary of Changes in the Present Value of Estimated Future Net Revenue from Proved Oil and Gas Reserves

For the years ended December 31, 1980 and 1979
(stated in thousands of Canadian dollars)

**TABLE 4**

| | Canada | U.S.A. | Total |
|---|---|---|---|
| BALANCE DECEMBER 31, 1978 | $22,446 | $ 3,862 | $26,308 |
| Revision to reserves proved in prior years | 4,137 | (65) | 4,072 |
| | 26,583 | 3,797 | 30,380 |
| Additions | 4,551 | 1,322 | 5,873 |
| Purchases of proved reserves | — | — | — |
| Projected development costs incurred | 277 | 194 | 471 |
| | 31,411 | 5,313 | 36,724 |
| Production net of production costs | 1,366 | 541 | 1,907 |
| Sale of reserves | 1,250 | — | 1,250 |
| | 2,616 | 541 | 3,157 |
| BALANCE DECEMBER 31, 1979 | 28,795 | 4,772 | 33,567 |
| Revision to reserves proved in prior years | 3,732 | (1,419) | 2,313 |
| | 32,527 | 3,353 | 35,880 |
| Additions | 2,845 | 5,110 | 7,955 |
| Purchases of proved reserves | — | 1,941 | 1,941 |
| Projected developed costs incurred | 3,504 | 1,026 | 4,530 |
| | 38,876 | 11,430 | 50,306 |
| Production net of production costs | 2,354 | 1,781 | 4,135 |
| Sale of reserves | — | — | — |
| | 2,354 | 1,781 | 4,135 |
| BALANCE DECEMBER 31, 1980 | $36,522 | $ 9,649 | $46,171 |

TURBO RESOURCES LIMITED

# Ten Year Summary

In thousands of dollars unless otherwise indicated

| | **Dec 31 1980** | Dec 31 1979 | Dec 31 1978 |
|---|---|---|---|
| **FINANCIAL** | | | |
| Total Income | **325,756** | 242,072 | 148,286 |
| Income Before Taxes | | 16,537 | 8,835 |
| Net Earnings | **13,381** | 8,853 | 5,291 |
| Per Common Share — Basic (1) | **$1.88** | $1.53 | $1.06 |
| — Fully Diluted (1) | **$1.73** | $1.31 | $1.04 |
| Per Special Share — Basic (1) | **$1.57** | $1.27 | $0.89 |
| — Fully Diluted (1) | **$1.44** | $1.09 | $0.86 |
| Working Capital From Operations | **30,857** | 23,183 | 14,249 |
| Per Common Share (2) | **$4.92** | $3.99 | $2.99 |
| Net Fixed Assets | **197,524** | 99,613 | 70,834 |
| Long Term Debt | **119,633** | 42,455 | 43,499 |
| Common Shareholders Equity | **57,694** | 28,792 | 21,012 |
| Per Share (2) | **$7.94** | $4.96 | $3.66 |
| **CAPITAL EXPENDITURES** (Net Prior to 1975) | | | |
| Petroleum and Natural Gas Properties | **20,966** | 7,534 | 14,848 |
| Property, Plant and Equipment | **95,329** | 37,325 | 16,234 |
| Total | **116,295** | 44,859 | 31,082 |
| **RETURN ON INVESTMENT** | | | |
| Net Assets (3) | **17%** | 16% | 15% |
| Total Shareholders' Equity | **25%** | 29% | 31% |
| Common Shareholders' Equity (4) | **41%** | 35% | 40% |
| **SHARE DATA** | | | |
| Closing Share Price — Toronto Stock Exchange | | | |
| Common Shares (5) | **$25.12** | $17.75 | $7.50 |
| Common Warrants | **$18.50** | $12.00 | $3.70 |
| Special Shares | **$24.75** | $18.00 | $8.25 |
| Series A, 8¾% Preferred | **$16.25** | $18.25 | $20.00 |
| 1980 Series, 10½% Preferred | **$19.75** | — | — |
| **OPERATIONAL** | | | |
| Gasoline Marketing | | | |
| Number of Outlets | **293** | 222 | 221 |
| Sales in Thousands of Litres | **688 719** | 574 159 | 476 421 |
| Average Litres Per Outlet (In Thousands of Litres) | **2 650** | 2 587 | 2 155 |
| Resource Services | | | |
| Number of Oil & Gas Rigs | **39** | 27 | 22 |
| Number of Well Servicing Rigs | **47** | 24 | 22 |
| Number of Mineral and Other Rigs | **103** | 81 | 56 |
| Exploration and Production | | | |
| Gross Hectares | **1 051 981** | 624 841 | 295 836 |
| Net Hectares | **363 346** | 140 083 | 78 107 |
| Reserves — $10^6 m^3$ Equivalent (6) | | | |
| Proven | **2 157** | 2 095 | 1 784 |
| Probable | **839** | 708 | 368 |
| Total | **2 996** | 2 803 | 2 152 |
| Present Value of Proven Oil and Gas Reserves, after Deduction for Royalties, Discounted at 10% | **$87,010** | $64,771 | $38,250 |
| **EMPLOYEES** | **2,750** | 1,649 | 1,366 |

(1) 1977 and prior years restated to show effect of reorganization of share capital in 1978.
(2) Assumes that all Special Shares are converted to Common Shares.
(3) Net earnings plus interest expense net of taxes divided by average total assets less average current liabilities (except current maturities), average minority interest and average deferred taxes.

| Dec 31 1977 | Dec 31 1976 | Dec 31 1975 | Dec 31 1974 | Dec 31 1973 | Dec 31 1972 (10 months) | Feb 29 1972 |
|---|---|---|---|---|---|---|
| 88,245 | 67,673 | 48,539 | 30,212 | 19,417 | 11,242 | 8,341 |
| 4,041 | 2,677 | 2,009 | 1,372 | 755 | 331 | 274 |
| 2,759 | 1,603 | 1,114 | 732 | 366 | 297 | 274 |
| $0.69 | $0.42 | $0.29 | $0.19 | $0.10 | $0.08 | $0.08 |
| $0.66 | $0.40 | $0.27 | $0.18 | $0.09 | $0.07 | $0.07 |
| $0.58 | $0.35 | $0.24 | $0.16 | $0.08 | $0.07 | $0.07 |
| $0.55 | $0.33 | $0.23 | $0.15 | $0.07 | $0.06 | $0.06 |
| 6,112 | 3,764 | 3,392 | 1,670 | 1,020 | 481 | 392 |
| $1.37 | $0.89 | $0.81 | $0.40 | $0.24 | $0.12 | $0.10 |
| 20,328 | 14,440 | 9,325 | 7,171 | 5,222 | 3,905 | 2,018 |
| 7,240 | 5,645 | 3,361 | 2,991 | 2,503 | 1,918 | 795 |
| 8,335 | 5,665 | 3,887 | 2,856 | 2,207 | 2,127 | 1,233 |
| $1.87 | $1.34 | $0.93 | $0.69 | $0.53 | $0.51 | $0.32 |
| | | | | | | |
| 6,083 | 3,207 | 1,381 | 811 | 328 | 765 | 73 |
| 2,268 | 2,962 | 2,360 | 1,642 | 1,457 | 1,109 | 1,330 |
| 8,351 | 6,169 | 3,741 | 2,453 | 1,785 | 1,874 | 1,403 |
| | | | | | | |
| 20% | 20% | 19% | 15% | 10% | 13% | 23% |
| 39% | 41% | 39% | 33% | 20% | 19% | 28% |
| 45% | 41% | 39% | 33% | 20% | 19% | 28% |
| | | | | | | |
| $5.87 | $2.22 | $1.30 | $0.77 | $0.75 | $1.60 | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| $18.75 | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| | | | | | | |
| 214 | 206 | 214 | 186 | 172 | 144 | 104 |
| 424 596 | 379 591 | 309 128 | 244 120 | 177 294 | 104 558 | 82 737 |
| 1 982 | 1 841 | 1 446 | 1 314 | 1 032 | 727 | 796 |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| — | — | — | — | — | — | — |
| 132 661 | 79 639 | 61 898 | 50 021 | 24 473 | 31 144 | 9 065 |
| 41 082 | 32 133 | 22 782 | 14 488 | 7 689 | 5 548 | 2 331 |
| 1 133 | 1 076 | 595 | 850 | 198 | — | — |
| 340 | 340 | 396 | 368 | — | — | — |
| 1 473 | 1 416 | 991 | 1 218 | 198 | — | — |
| $22,707 | $23,300 | $10,012 | $6,200 | $1,390 | — | — |
| 273 | 238 | 183 | 153 | 122 | 134 | 125 |

(4) Net earnings, less preferred share dividends divided by opening common shareholders' equity adjusted for common shares issued during the year.

(5) Figures prior to 1978 refer to the single class of common shares outstanding.

(6) Conversion — 938 000$m^3$ of oil equals 1 × $10^6 m^3$ of gas.


BRAMCO
TURBO
TURBO

# Turbo Group of Companies and Operating Divisions

### Subsidiary Companies

Bankeno Mines Limited
*Becker Alaska Limited
*Becker Drills Inc.
Bishop Machinery & Supply Co. Ltd.
Bramco Industries Limited
British American Chemical Company Limited
*Challenger Drilling Inc.
Challenger International Services Ltd.
■Challenger Limited
Coast Copper Company, Limited
*Commerce Investments Nine Inc.
Freeway Petroleum Transport Ltd.
Freeway Transport Ltd.
Heath & Sherwood Drilling Limited
■H & S Panama S.A.
*Leaside Resources, Inc.
Les Forages Becker (Quebec) Inc.
Monashee Investments Ltd.
■Turbo International B.V.
*Turbo Resources, Inc.
■Turbo (U.K.) Limited
Viscount Financial Services Ltd.

### Affiliated Companies

■HSB Sondajes Ltda.
Queenston Gold Mines Limited
■Universal H.S. Drillers (Proprietary) Limited

### Operations are also conducted under the names of

Bramco Industries
Bishop Construction Equipment
▲Bishop Oilfield Supply
*Challenger Deepwell Servicing
Challenger Drilling
Challenger Rentals
Challenger Well Servicing
▲Drill Systems
Heath & Sherwood Drilling
Petroleum Marketers (Red Ram)
Pine Well Servicing
▲Turbo Chemicals
Turbo Properties
Turbo Refineries

* U.S. Operations
■ International Operations
▲ Canadian and U.S. Operations

# Duplicate Material

Some shareholders of Turbo Resources Limited receive more than one copy of the Company's Annual Report, dividend cheques and other information mailed to shareholders.

Special effort is made by The Canada Trust Company, the Company's Transfer Agent and Registrar, to eliminate such duplications; however, if all shares are not registered identically for each class of shares, then multiple copies will be received.

# Form 10-K

Copies of the Company's Form 10-K Annual Report to the United States Securities and Exchange Commission are available to shareholders without charge, upon written request.

# French and Spanish Translation

Texte du Rapport Annuel Disponible en Français Sur Demande.

Texto del Reporte Anual Disponible en Español a Solicitud.

# Requests for Information and Assistance

Shareholders requiring information on shares, account consolidation, copies of the Form 10-K or the annual report text translation in french and spanish may do so by contacting Frederick A. Youck at the Company's Corporate office,
6th floor, 1035 -7th Avenue S.W., Calgary, Alberta T2P 3E9. Telephone (403) 262-8110

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CALGARY

Turbo supports and encourages the work
of the Calgary Olympic Development Association
in its bid to host
the 1988 Olympic Winter Games

TURBO

**TURBO RESOURCES LIMITED**

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