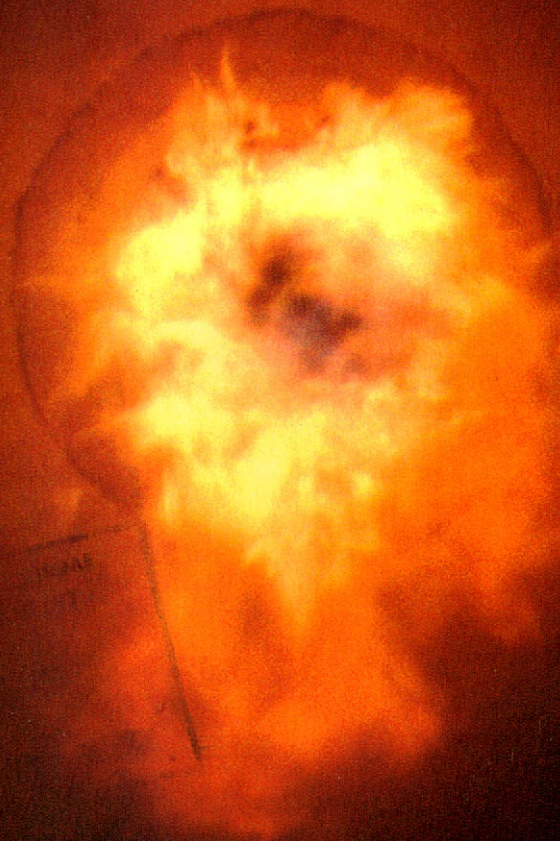




**WORLDWIDE ENERGY
CORPORATION**

1978 Annual Report





**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

HIGHLIGHTS OF 1978

	1978	1977	% Change
FINANCIAL			
Gross Revenue From Operations	\$12,581,700	\$ 8,371,400	+ 50
Income From Operations Before Provision for Income Tax	\$ 1,567,300	\$ 1,857,800	- 16
Per Share	30¢	38¢	- 21
Net Income	\$ 1,567,300	\$ 1,449,800	+ 8
Per Share	30¢	30¢	
TOTAL ASSETS	\$45,678,200	\$19,720,200	+ 132
AVERAGE SHARES OUTSTANDING	5,288,700	4,864,800	+ 9
OPERATING			
Oil and Gas Sales	\$11,267,400	\$ 8,099,200	+ 39
Funds Generated From Operations	\$ 3,783,800	\$ 3,768,200	
Per Share	72¢	77¢	- 6
Production — Net			
Oil (bbls.)	399,100	451,100	- 12
Natural Gas (mcf)	3,874,000	4,094,500	- 5
Sales — Net			
Oil (bbls.)	394,800	449,400	- 12
Natural Gas (mcf)	5,755,300	4,834,800	+ 19
Reserves — Net			
Oil (bbls.)	3,935,500	3,920,200	
Natural Gas (mcf)			
— Owned	44,472,000	42,540,000	+ 5
— Committed*	74,075,000	4,227,000	

* Gas reserves owned by others and committed to pipeline systems.



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**



Dear Shareholder:

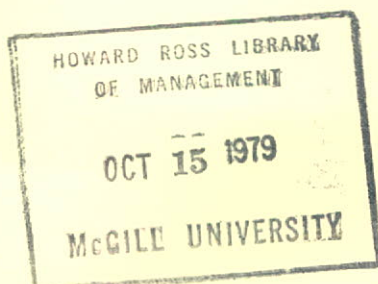
1978 has been a year of major transition for your Company. This has occurred in two areas involving the first significant expansion of our Ft. Kent heavy oil project at a cost of \$3.5 million and the acquisition of the Central States Gas system in South Central Kansas at a cost of \$18 million. We have budgeted over \$10 million for exploration and development for 1979, which is substantially more than our budget for 1978 and will establish a more aggressive exploratory posture.

Primarily as a result of the acquisition of Central States, gross revenues increased 50% to \$12,581,000. This increase will continue throughout 1979, because the acquisition was effective November 1, 1978. Assets increased 132% to \$45,678,000. Net income increased slightly to \$1,567,000, but due to the increased number of shares outstanding mostly as a result of the warrants which were exercised in June of 1978, the earnings remained constant at \$.30 per share.

**\$10 MILLION CAPITAL BUDGET
FOR 1979**

A record budget has been set with increased emphasis on exploration this year. Over 40% of the capital budget is programmed for exploratory drilling and land acquisition for future exploration.

In the U.S., 28 wells are planned, including 12 development and 16 exploratory wells, at an estimated cost of approximately \$4 million. These drilling activities will be in Montana, Texas, Oklahoma, Louisiana, Kentucky and Kansas. Also domestically, the Company plans expenditures of \$1,750,000 to connect 70 additional wells to its recently acquired Central States Gas system. In Canada, a total of 43 wells are planned, of which 35 are development and 8 are



exploratory. The Canadian budget of \$4,800,000 (Cdn.) includes 20 development wells at our Ft. Kent heavy oil project as part of the Phase II expansion which is designed to increase production to 2000 barrels per day by the end of 1979.

The budget, both in the U.S. and Canada, will be funded by internal cash flow plus additional bank borrowing.

HEAVY OIL

Over ten years ago your Company started acquiring oil leases in the Cold Lake area of Northeastern Alberta, Canada. We knew at that time that vast quantities of heavy oil were there, but it was not economic. We also believed that eventually energy and oil prices would improve and that this would become an economic area. Today your Company has a very valuable position in heavy oil.

Ft. Kent

Our most promising area is the Ft. Kent field in which we began active operations in 1974. To date, Ft. Kent with 21 producing wells has produced in excess of 250,000 barrels of oil. This oil now sells for \$10.00 a barrel after trucking costs. Increases of \$1 per bbl. are scheduled for July 1, 1979 and January 1, 1980. Production is currently in the 800 to 900 barrels per day range and is expected to approach 2000 barrels per day by year end as a result of 20 additional producing wells and enlarged production facilities now underway as part of our Phase II expansion.

We have now finalized our agreement with Sun Oil Company Limited and the transaction has been approved by the Foreign Investment Review Agency of

Canada. The agreement with Sun provides for them to acquire a 50% interest in our Ft. Kent heavy oil project by the payment of 70% of the \$3.5 million (Cdn.), which was spent in 1978 on our Phase I expansion and 70% of the next \$5.6 million (Cdn.) Phase II expansion, which is already in progress. Sun will become operator on January 1, 1980, and has the option to proceed into Phase III, a major commercial expansion, at which time they would be obligated to pay 55% of the first \$137 million (Cdn.) spent on this expansion.

Your Company has an outside engineering study that calculated there were 313 million barrels of exploitable oil in place under the Ft. Kent project and that 85 million barrels of oil could be recovered over a 20 year period, producing 13,000 barrels per day. The commercial expansion, which is targeted for 1981-82, will be dependent upon future engineering and economic studies, as well as environmental considerations and definitive regulations by the Provincial and Federal Governments of Canada. However, it is our strong belief that the increase in value of oil and the desire of the Canadian government to become less dependent on foreign oil will work in our favor and the commercial expansion will develop on schedule.

Muriel Lake

Muriel Lake is another field in the Cold Lake area in which we have just completed an agreement with Pacific Petroleum Ltd., (Petro-Canada) of Calgary, Alberta. Pacific had previously drilled seven exploratory wells to confirm the presence of heavy oil under approximately 7,000 acres. They are now committed to proceed with an estimated \$4 million (Cdn.) pilot project to test the viability of producing the heavy oil under these leases. On completion of this pilot

project, Pacific will have earned a 50% interest in the 7,000 acres, and the remaining interest will be owned 41% by Worldwide Energy and 9% by Pan Ocean Oil Ltd.

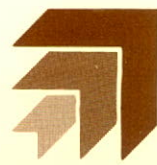
Based on the information available presently from the seven wells drilled by Pacific and wells previously drilled by Worldwide, our engineers calculate that there are approximately 500 million barrels of oil in place. The pilot project is designed to study the economic viability of recovering some portion of the 500 million barrels. It is hoped that this project will be operational before year end.

Bonnyville Field

The old Bonnyville field in the Cold Lake area originally produced about 200,000 barrels of oil in the early 1950's. It is a higher gravity oil, in other words, more mobile than at Muriel Lake or Ft. Kent. At this time we are injecting steam with two small steam generators to determine the feasibility of producing this oil in somewhat the same manner as we have done at Ft. Kent. We are hoping that with the equipment which we have available, we can turn this into a producing oil field. Worldwide owns 100% interest in this project.

CENTRAL STATES GAS COMPANY

Effective November 1, 1978, your Company acquired Central States Gas Company, which was a privately owned Kansas corporation. This acquisition, at a cost of approximately \$18 million, is expected to add significantly to your Company's gross revenue, cash flow and earnings. We are actively adding new reserves and supplies of natural gas to the system. This operation will accelerate the growth of Worldwide, and \$1.75 million has been budgeted for its expansion during 1979 to connect 70 additional



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

wells. By year end this will result in over 300 wells being connected to the system.

Central States, now a division of Worldwide, owns and operates 395 miles of intrastate gas gathering system and related facilities in South Central Kansas. As of December 31, 1978, there were 250 wells connected or being connected to the system with remaining proved developed reserves of 47.8 billion cubic feet. In addition, acreage dedicated to the system under present contracts, but undrilled, has an estimated 37.7 billion cubic feet of proved and probable undeveloped reserves. Gas sales through the system at year end were approximately 24 million cubic feet per day with most of the sales going to Kansas Power & Light Company.

URANIUM AND TUNGSTEN

Our Poison Canyon Mine located outside of Grants, New Mexico, is operated by Reserve Oil & Minerals of Albuquerque. This operation is now nominally profitable. We own a 25% net profits interest, however we do not anticipate any significant contribution to earnings in the foreseeable future from this property.

On a more optimistic note, we have 13,000 acres along the same trend which were farmed out in 1977 to Energy Fuels, Ltd., a private Denver, Colorado company. Under the terms of the agreement, they are to spend \$1 million on exploration, core drilling, etc., to evaluate the property and to earn a 50% interest. They are now approaching the required expenditure of \$1 million and we must soon make a decision whether to continue as 50-50 partners with them or to convert our interest to a 25% net profits interest. A number of core holes have had very encouraging results, however the final information is not in and until this is

completed we have no way of determining whether or not we have sufficient reserves to indicate a commercial mining operation. This is a plus factor to your Company and we will keep you advised.

In Northern England we have an interest in a tungsten mine and mill which has now been in operation for several years. Engineering studies last fall indicated that an expansion of the mine and the mill would put it on an economic footing. The expansion has been hampered by a number of things, from severe weather to strikes, and our optimism is cautious. We have a 31.5% interest in this tungsten mine and mill and are not certain as to what the future economics will be. In any event, we do not anticipate any significant contributions to earnings over the near term from this property.

We believe that today the oil and gas industry is economic and this is the area in which we are concentrating. We have taken the position that we will farm out our mining properties to other companies who are more involved with those minerals.

I would like to thank our many loyal shareholders and also express deep appreciation to the employees of the Company who have made Worldwide successful. I believe that we are an asset rich company — people, friends, properties and funds. Based on this, I am predicting record revenues and earnings for the year of 1979.

Yours very truly,

Robert B. Tenison
President

April 11, 1979



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**



Dawn . . . A new area of oil production



**WORLDWIDE ENERGY CORPORATION
and Subsidiaries**



HEAVY OIL

In recent years we have many times been asked why a company of our size is involved in heavy oil in the Cold Lake area. The Company has been involved with a gas pipeline system in the Cold Lake area for many years and has drilled many wells through the area. We were aware of the presence of the massive heavy oil sands and in 1968 and 1969 started acquiring certain oil sands leases. We knew at the time that it was uneconomic to attempt to produce these oil sands, but we also felt that the future would provide more incentives, and economics would prove that these properties would be valuable.

We drilled our first oil well in 1974 in the Ft. Kent area and this is when we started taking a serious approach at attempting to produce the heavy oil. I might add that this oil is thick like a heavy syrup and not mobile in the formation at its existing

Phase I Expansion completed in 1978

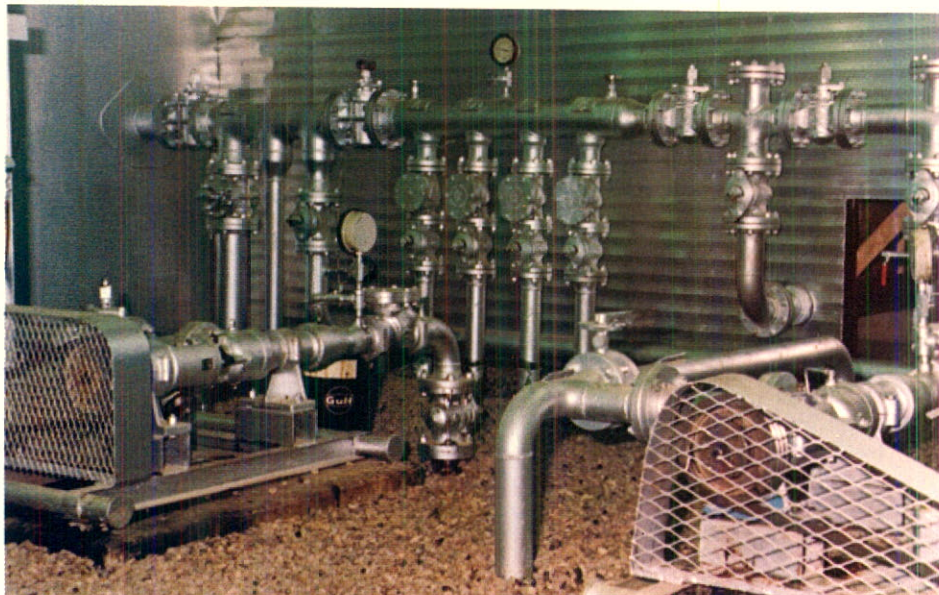


Fuel is natural gas from Company's own wells

Thermo I — Steam Generator for Phase I Expansion. Thermo I's capacity is 1.2 billion BTU's per day.



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

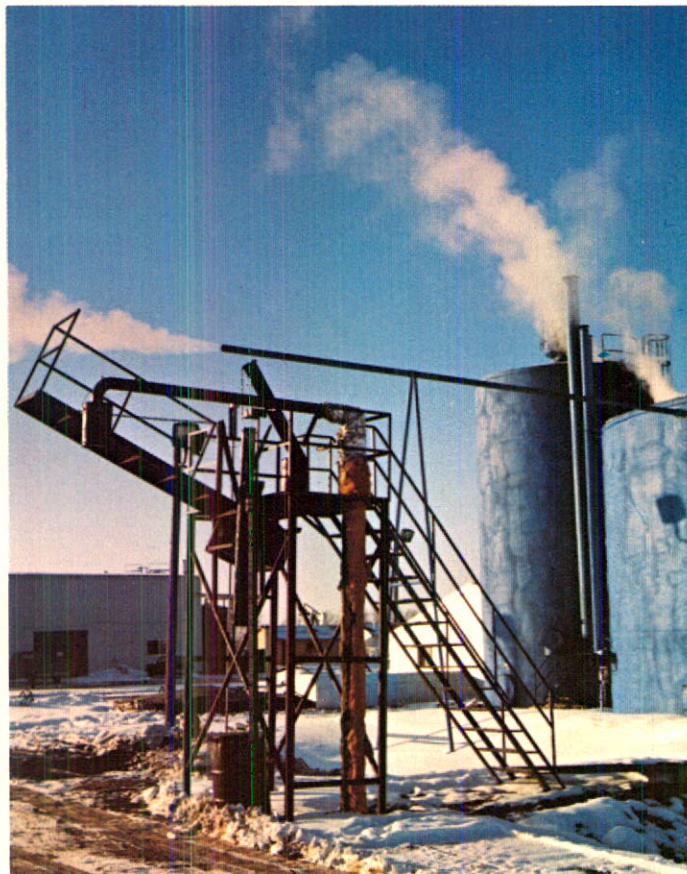


Valves and transfer pumps for movement of production in tankage facilities

temperature. Our experimental project at Ft. Kent established that we could warm this oil by injecting steam down the well and pushing it into the formation with the oil, which makes the oil more mobile, like cream. This then permits conventional pumping of the oil until the well cools down. When this occurs, we inject another treatment of steam into the formation. This is a continuing cycle and it is the reason that these projects are designated a "huff and puff" steam project. These projects are not unique to the Cold Lake area and much of the engineering that we are utilizing has been perfected in heavy oil areas in Venezuela and in California.



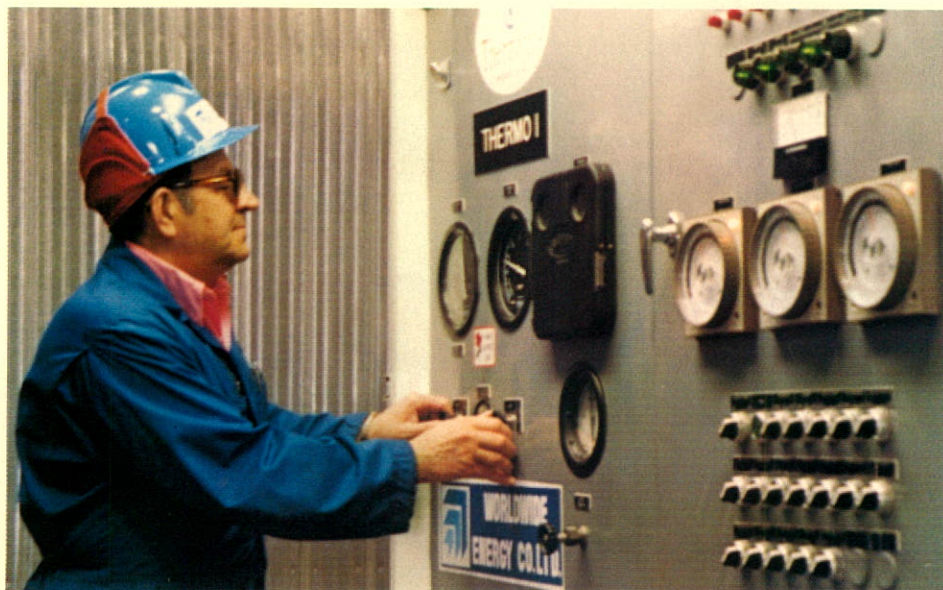
People — they make it work



Insulated production tanks and facilities for loading tank trucks



**WORLDWIDE ENERGY CORPORATION
and Subsidiaries**



People —



Berth for Thermo II, 1979 Phase II Expansion

It appears that the Canadian governments are vitally interested in seeing these oil deposits produced to reduce Canadian dependence on imported oil and all indications are that the projects, particularly in a commercial expansion, will receive approximate world oil prices. In recent years we have had a dramatic increase in the price of oil and we believe that a commercial expansion of our Ft. Kent project, as well as continued experimenting in other areas will prove to be a very valuable asset to your Company.

Briefly, let me go through the process as it occurs. First, we have two water wells approximately 300 feet deep that have the ability to supply up to 8000 barrels of water per day. We are fortunate in having this supply of underground water, as many of the projects in the area are faced with the necessity to acquire their water supply from local lakes and this is not always environmentally acceptable. The water is pumped into our boilers, which are fired with a supply of natural gas from our own wells. (I might add that the area has many fine shallow gas wells, which are approximately 900 ft. in depth, whereas the heavy oil sands are closer to 1100 ft. deep.) The steam from the boiler is injected down into the heavy oil zone at a pressure of approximately 1400 lbs. per square inch and a temperature of 550° to 600°F. Normally this injection is continued until approximately 20,000 barrels of water have been converted into steam and injected into the producing heavy oil zone. The wells are then shut in and soak



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

for 10 to 14 days while the steam is cooling down in the formation and warming up the oil. Then the wells are placed on production using conventional pumping units and the production taken into tanks. This production involves not only heavy oil, but the water created by the injection of steam. In general, it will take approximately 30 days to steam

a well and warm it up and then it will produce for approximately 3 months before the well cools off and requires another injection of steam. The oil and water combination which is produced, goes into a series of insulated tanks and is separated until we have a marketable oil. Finally, the oil is pumped into insulated tank trucks at a temperature of 150° and trucked 100 miles south to Lloydminster. The water

which has been produced is reinjected in a deeper zone for disposal. We are enthusiastic over our operations and have established that we can operate even during inclement cold weather and the operation continues 365 days a year, 7 days a week, 24 hours a day.



365 days a year, 7 days a week, 24 hours a day

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1978

Commission File No. 0-6607

WORLDWIDE ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

84-0624727

(I.R.S. Employer Identification No.)

1700 Broadway, 1600 Tower Bldg.
Denver, Colorado

(Address of principal executive offices)

80290

(Zip Code)

303-861-8615

(Registrant's telephone number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class

None

Name of each exchange
on which registered

None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock — 20¢ par value

(Title of Class)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days.

Yes (X)

No ()

There were 5,585,564 common shares outstanding at December 31, 1978

PART I

Item 1. Description of Business

(a) General Development of Business

Worldwide Energy Corporation (formerly WECO Development Corporation) is a Delaware corporation with principal and executive offices at 1600 Tower Building, 1700 Broadway, Denver, Colorado, 80290, telephone (303) 861-8615. Registrant (also referred to as the Company) means Worldwide Energy Corporation and its consolidated subsidiaries. The Company was organized in December 1971 for the purpose of assuming all of the operations previously carried on by its former parent, Worldwide Energy Company Ltd., an Alberta corporation.

On November 1, 1978, the Company acquired Central States Gas Company, a privately owned Kansas corporation. Central States Gas owns and operates 395 miles of intrastate gas gathering system and related facilities in South Central Kansas. As of December 31, 1978 there were 250 wells connected or being connected to the system. Keplinger and Associates, Inc. estimate gross gas reserves of 93,495,000 mcf dedicated to this system at December 31, 1978.

	<u>Gas Reserves</u> <u>(MCF)</u>
Proved Producing	47,760,000
Proved Undeveloped	21,255,000
Probable Behind Pipe	8,000,000
Probable Undeveloped	16,480,000
Total Reserves Dedicated	<u>93,495,000</u>

Dedicated reserves reported by the Company under the caption, "Description of Business" (c) (1) include only proved reserves.

During 1978, 89% of the gas gathered in this system was sold to Kansas Power & Light Company and 10% to Getty Oil Company. Total sales in November-December 1978 averaged 23,921 mcf per day. On January 24, 1979 Central States Gas Company was dissolved and all of its assets and liabilities transferred to its parent; operations are now conducted as a division of the Registrant.

In Canada, the Company entered into an agreement with Sun Oil Company Limited for the development of its Fort Kent heavy oil project located in the Cold Lake area of northeastern Alberta, Canada. Under the terms of the agreement, Sun Oil is acquiring a 50% interest in the 4,960 acre heavy oil project by paying 70% of capital costs of Phase I and Phase II expansions, estimated to cost \$9,100,000 (Cdn \$). After Phase II, Sun may elect to proceed with a Phase III commercial expansion, currently planned to commence in 1981. Sun will pay 55% of the first \$137 million of capital costs

beyond Phase II and 50% of all costs thereafter. The agreement received the approval of the Foreign Investment Review Agency of Canada on March 22, 1979.

During 1978 the Company commenced and completed Phase I which entailed drilling 15 wells, the installation of a 50 MMBTU/hour steam generator, and production facilities to handle the anticipated production of 1000 barrels of oil per day. The six wells that were in the original pilot have been connected to the new facilities with the original pilot steam generation and production facilities no longer being employed. The new facilities started operation during September 1978 and by year end each new well had received a steam cycle. Production is presently averaging 850 barrels of oil per day.

Phase II, which is designed to double the presently existing production and processing facilities, is being installed and start up is scheduled for September 1, 1979.

In-Situ Research and Engineering Ltd. (an outside consultant) in a report dated February 1978 gave the project exploitable oil in place of 313,000,000 bbls. and recoverable reserves of 85,000,000 bbls. The Company, however, is reporting only the proved developed reserves that are contained in the pilot and the Phase I expansion. Ultimate recoverable reserves assigned to this portion of the project are 1,400,000 bbls.

Under the Company's agreement with Pacific Petroleum Ltd. for the development of its Muriel Lake heavy oil prospect in the Cold Lake area of Alberta, Pacific has elected to proceed with a \$4 million (Cdn.\$) pilot project. The results of the pilot project will determine whether Pacific, Worldwide, and another partner will enter into a full-scale commercial expansion at Muriel Lake.

(b) Segment Information

Worldwide is now engaged in two principal lines of business — (1) exploration and production of crude oil and natural gas, which includes drilling arrangements, and (2) gas gathering and transmission. Real estate operations previously conducted through Citrus County Land Bureau, Inc. were disposed of through a spin-off on December 31, 1975 and the results of these operations in 1975 and prior years are treated as discontinued operations on the Registrant's statement of income. The following table sets forth for the years indicated the gross income, operating profit and identifiable assets attributable to segments of continuing oil and gas operations and discontinued real estate operations. There are no significant intersegment sales or transfers.

(000's Omitted)

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Revenues					
Continuing Operations					
Oil & gas production	\$ 7,745	\$ 7,924	\$ 6,899	\$ 5,317	\$ 4,395
Drilling arrangements	858	—	443	29	51
Gas gathering & transmission	3,530	175	209	190	236
Other	449	272	40	380	149
Total Revenue	<u>\$12,582</u>	<u>\$ 8,371</u>	<u>\$ 7,591</u>	<u>\$ 5,916</u>	<u>\$ 4,831</u>
Discontinued operations — real estate	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 1,239</u>	<u>\$ 2,692</u>
Operating Profit (Loss)					
Continuing Operations					
Oil & gas production	\$ 3,166	\$ 3,519	\$ 2,787	\$ 2,059	\$ 1,615
Drilling arrangements	185	—	55	8	51
Gas gathering & transmission	301	31	39	41	46
Other	471	193	(16)	253	101
Total	<u>\$ 4,123</u>	<u>\$ 3,743</u>	<u>\$ 2,865</u>	<u>\$ 2,361</u>	<u>\$ 1,813</u>
Discontinued operations — real estate	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ (125)</u>	<u>\$ 972</u>

See also Note 11 of Notes to Consolidated Financial Statements.

Identifiable Assets*

Continuing Operations					
Oil & gas production	\$25,794	\$18,998	\$16,628	\$14,239	\$13,868
Gas gathering & transmission	19,410	242	229	211	277
Other	474	480	469	449	419
Total Assets	<u>\$45,678</u>	<u>\$19,720</u>	<u>\$17,326</u>	<u>\$14,899</u>	<u>\$14,564</u>
Discontinued operations — real estate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 4,322</u>

*Primarily property, plant and equipment.

The increase in gas gathering and transmission activities is due to the acquisition of Central States Gas Company on November 1, 1978. See comments under caption "General Development of Business" for additional information concerning this acquisition.

(c) (1) Description of Business

Oil and Gas Production

Worldwide Energy Corporation engages in the exploration and development of oil and gas reserves and the production and sale of crude oil and natural gas in the United States and Canada. Crude oil and natural gas are produced and marketed in the provinces of Alberta and Saskatchewan and in the states of Colorado, Kansas, Kentucky, Louisiana, Montana, Nebraska, New Mexico, Oklahoma, and Texas.

The Registrant's principal products, crude oil and natural gas, accounted for 60% of the Registrant's gross revenue from continuing operations in 1978 and in excess of 90% in the years 1974 to 1977. Addi-

tional information on revenue from principal products is furnished under the caption, "Segment Information".

The Company does not own any patents, trademarks, licenses, or franchises except for various oil and gas and mineral leases.

Oil and gas production is not considered to be of a seasonal nature.

Customers of the Registrant who individually account for more than 10% of the Registrant's consolidated revenues from production are Imperial Oil Limited in Canada, and Exxon Company U.S.A., and Sun Oil Company in the United States. Although the loss of any one of these customers would have an adverse effect on the Registrant's operations, management

is of the opinion that because of the high demand for oil and natural gas in the United States and Canada the possibility of a loss of market is highly unlikely. Except for contractual business and joint venture obligations, the Registrant has no relationship with any of its principal customers.

The Company and its subsidiaries are a minor factor in the petroleum and natural gas industry as regards their exploration, development and production activities. The Company encounters substantial competition from the major oil and gas companies and other independent oil operators in the United States and Canada in acquiring prospects or leases for the purpose of its exploration, development and producing operations. It competes with many other companies having far greater financial and other resources.

Gas Gathering and Transmission

The Registrant owns 395 miles of intrastate gas gathering system in Kansas which facilities are used for the gathering and purchase of gas for resale. Gas is purchased from many individual producers in the area and sold to two major customers, Kansas Power and Light Company (KP&L) and Getty Oil Company (Getty). Substantially all purchases are made under long-term contracts with remaining terms of five years to twenty years. Sales to KP&L and Getty are also under long-term contracts; the KP&L contract expires in 1990 but continues from year to year thereafter unless terminated and the Getty contract expires in 1986 and is renewable for a further term of 10 years. Although the loss of either of these customers would have an adverse effect on the Registrant's operations, management is of the opinion that because of the high demand for natural gas within the State of Kansas and elsewhere the loss of market is unlikely. Except for these contracts the Registrant has no relationship with these principal customers.

Gas reserves subject to these and other contracts committed to company pipelines as well as those under contract in Canada are shown in the table below:

United States		Canada	
Total Proved Reserves	Proved Developed Reserves Producing	Total Proved Reserves	Proved Developed Reserves Producing

Dedicated

Reserves —

December 31,

1978 (Mmcf) .. 72,642 51,387 1,433 1,433

See also comments on dedicated reserves under the caption, "General Development of Business" Item I(a).

The Registrant does not own any patents trademarks, licenses, or franchises except for the gas

supply and sale contracts referred to in the preceding paragraph.

The gathering, purchase and resale of natural gas is not considered to be of a seasonal nature.

The Company and its subsidiaries are a minor factor in the natural gas industry as regards their activities in gathering, purchase and resale of natural gas. It encounters substantial competition from major oil and gas companies and competes with many companies having far greater financial and other resources. The Natural Gas Policy Act of 1978 imposes maximum prices with respect to first sales of intrastate gas purchased in the United States by the Registrant thereby reducing any competitive advantage that could be obtained by pricing. However management believes the location and characteristics of its system are compatible with reserves in the area of operation and that it will be able to continue to compete favorably with other larger interstate purchasers who operate high pressure systems in the area.

(c) (2) Description of Business — General

The Company is not engaged in research. However, the Company operates an experimental project in Canada using steam injection to assist in the recovery of heavy oil from shallow formations. The Company's net capital expenditure on the Fort Kent thermal project was approximately \$1,830,000 in 1978 and \$791,000 in 1977. The 1978 expenditure reflects recoveries from Sun Oil Company Limited pursuant to the joint venture agreement. This transaction is discussed more fully under the caption, "General Development of Business" in item 1(a) above.

For comments on principal customers of the Registrant see the preceding section (c) (1).

The production of oil and natural gas is subject to regulation by the appropriate state regulatory authorities in the United States and by the provinces in Canada in which Worldwide has its producing oil and gas properties. In general, these regulatory authorities are empowered to make and enforce regulations to prevent waste of oil and gas, preserve the natural environment and to fix allowable production of oil and gas within the limits of maximum efficient rates of production and reasonable market demand for oil and gas. Certain of the Company's activities are also subject to environmental controls, but such controls have not materially affected capital expenditures, earnings, or the Company's competitive position.

As at December 31, 1978, the Company had 114 employees, including officers.

(d) Foreign and Domestic Operations

Information concerning the Registrant's foreign and domestic operations are tabulated below:

(000's Omitted)

	<u>1978</u>	<u>1977</u>
Sales to Unaffiliated Customers		
— Canada	\$ 2,853	\$ 3,425
— United States	<u>\$ 9,273</u>	<u>\$ 4,675</u>
Operating Profit		
— Canada	\$ 1,554	\$ 2,022
— United States	<u>\$ 2,098</u>	<u>\$ 1,528</u>
Identifiable Assets		
— Canada	\$13,813	\$ 8,873
— United States	<u>\$31,697</u>	<u>\$10,671</u>
— United Kingdom	<u>\$ 168</u>	<u>\$ 176</u>

There were no export sales or sales or transfers between geographic areas during the years included in the table above. The results of operation of mineral properties in the United Kingdom are insignificant and are included in domestic operations. Management does not feel there are any special risks outside of usual business risks entailed in its foreign operations.

For additional information pertaining to the business of the Company see Item 3. Properties.

Item 2. Summary of Operations

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

The consolidated statements of income and retained earnings for Worldwide Energy Corporation and its subsidiaries (Company) for each year in the five year period ended December 31, 1978, have been examined by Coopers & Lybrand, independent certified public accountants, whose report with respect thereto appears elsewhere in this Form 10-K. These statements should be read in conjunction with the consolidated financial statements of the Company and related notes thereto included elsewhere herein.

	Years Ended December 31 (Note A)				
	1978	1977	1976	1975	1974
REVENUES					
Oil and gas production	\$ 7,744,439	\$7,924,623	\$6,898,391	\$5,316,817	\$4,365,558
Gas gathering and transmission	3,522,944	174,555	209,189	189,909	235,503
Drilling arrangements and lease sales	858,415	—	443,443	29,200	51,000
Gain on sale of note receivable (Note D)	—	—	—	294,450	—
Interest and other income	455,876	272,260	39,862	85,676	178,981
	<u>12,581,674</u>	<u>8,371,438</u>	<u>7,590,885</u>	<u>5,916,052</u>	<u>4,831,042</u>
EXPENSES					
Operations expenses	3,099,247	2,905,771	2,864,189	2,267,271	2,031,743
Gas purchases	2,863,676	117,002	143,555	124,911	139,433
Drilling arrangements and lease costs	673,038	—	388,210	21,177	18,871
General and administrative	1,684,348	1,415,533	1,027,104	787,392	620,408
Depreciation and depletion	1,917,480	1,545,476	1,305,297	1,116,987	800,057
Interest	875,575	469,346	404,426	448,717	590,338
Exploration permits relinquished	—	—	24,733	24,751	27,283
Foreign exchange conversion	(95,025)	60,504	—	—	—
	<u>11,018,339</u>	<u>6,513,632</u>	<u>6,157,514</u>	<u>4,791,206</u>	<u>4,228,133</u>
Income from Continuing Operations					
Before Provision for Income Taxes	\$1,563,335	\$1,857,806	\$1,433,371	\$1,124,846	\$ 602,909
Provision for Income Taxes (Note C)	(4,000)	408,000	295,700	104,500	192,000
Income from Continuing Operations	<u>1,567,335</u>	<u>1,449,806</u>	<u>1,137,671</u>	<u>1,020,346</u>	<u>410,909</u>
Income from Discontinued Operations					
(Note A)	—	—	—	372,767	638,837
NET INCOME	<u>1,567,335</u>	<u>1,449,806</u>	<u>1,137,671</u>	<u>1,393,113</u>	<u>1,049,746</u>
RETAINED EARNINGS —					
BEGINNING OF YEAR	4,634,939	3,185,133	2,047,462	4,848,851	3,799,105
Dividend (Note A)	—	—	—	(4,194,502)	—
RETAINED EARNINGS —					
END OF YEAR	<u>\$ 6,202,274</u>	<u>\$4,634,939</u>	<u>\$3,185,133</u>	<u>\$2,047,462</u>	<u>\$4,848,851</u>
PER SHARE DATA (NOTE F)					
Income					
—From Continuing Operations	\$.30	\$.30	\$.24	\$.21	\$.09
—From Discontinued Operations	—	—	—	.08	.13
Net Income	<u>\$.30</u>	<u>\$.30</u>	<u>\$.24</u>	<u>\$.29</u>	<u>\$.22</u>
Dividend (Note A)	—	—	—	\$.87	—
Weighted Average Shares Outstanding	<u>5,288,700</u>	<u>4,864,787</u>	<u>4,812,689</u>	<u>4,820,390</u>	<u>4,827,916</u>

The accompanying notes are a part of the consolidated statement of income and retained earnings.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Numerical note references are to notes to consolidated financial statements)

A. Discontinued operations

The real estate assets and liabilities of Citrus County Land Bureau, Inc. (Citrus), a subsidiary of the Company through December 31, 1975, were spun-off to the shareholders of the Company as of December 31, 1975, and accordingly the real estate operations have been reflected as discontinued operations in the accompanying consolidated statements of income. Information relative to discontinued operations is as follows:

	<u>Year Ended December 31</u>	
	<u>1975</u>	<u>1974</u>
Revenues	\$1,238,855	\$2,691,839
Income (loss) Before Provision for Income Taxes	\$ (124,633)	\$ 971,837
Provision (Credit) for Income Taxes	(497,400)	333,000
Income from Discontinued Operations	<u>\$ 372,767</u>	<u>\$ 638,837</u>

The real estate assets and liabilities (including the unpaid balance (\$450,000) of 6¾% subordinated convertible debentures) remaining in Citrus at December 31, 1975 and distributed as a dividend on December 31, 1975 were as follows:

Assets	\$7,213,780
Liabilities	3,019,278
	<u>\$4,194,502</u>

B. Significant Accounting Policies

For information concerning significant accounting policies followed by the Company see Note 1 of Notes to Consolidated Financial Statements.

C. Provision For Income Tax

Income tax expenses for the years ended December 31, are as follows:

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Canadian income taxes					
Current	\$ 69,000	\$ 55,000	\$ —	\$ —	\$ —
Deferred	299,000	676,000	573,200	310,950	—
Current tax recovery — Alberta royalty tax credit	(365,000)	(341,000)	(277,500)	(206,450)	—
Total Canada	<u>3,000</u>	<u>390,000</u>	<u>295,700</u>	<u>104,500</u>	<u>—</u>
United States Federal income taxes					
Current	(7,000)	18,000	—	—	90,000
Deferred	—	—	—	—	(17,000)
Charge equivalent to utilization of operating loss carryforward	—	—	—	—	119,000
Total United States	<u>(7,000)</u>	<u>18,000</u>	<u>—</u>	<u>—</u>	<u>192,000</u>
Total	<u>\$ (4,000)</u>	<u>\$408,000</u>	<u>\$295,700</u>	<u>\$104,500</u>	<u>\$192,000</u>

The tax effect of real estate operations is included in discontinued operations. No provision for state and local income taxes is required.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(C) Provision For Income Taxes — (Continued)

A reconciliation between the Company's provision for income taxes computed at the statutory United States Federal income tax rate (48%) on income before income taxes and the provision for income taxes as reported is set forth below.

	For the Years Ended December 31				
	1978	1977	1976	1975	1974
PROVISION FOR INCOME TAXES					
COMPUTED AT 48%	\$ 750,000	\$ 892,000	\$ 688,000	\$ 540,000	\$ 289,000
INCREASES (DECREASES) IN					
PROVISION RESULTING FROM:					
Excess of depreciation and depletion charged					
for financial reporting purposes over					
amounts charged for tax purposes	233,000	150,000	—	—	—
United States oil and gas exploration and					
development costs which are capitalized					
for financial reporting purposes but					
deducted for United States income					
tax reporting purposes	(484,000)	(291,000)	(140,000)	—	(170,000)
Benefit from the utilization of a deduction					
for tax purposes arising from the sale of a					
note receivable with a tax basis in excess					
of book basis (Note D)	(75,000)	(191,000)	—	(277,000)	—
Effect of Canadian operations including add					
back of royalties, rentals and similar payments					
deducted for financial reporting purposes					
which are not deductible for Canadian					
income tax reporting purposes, net of					
Canadian resource abatement, depletion					
and Alberta royalty tax credits	(354,000)	(194,000)	(252,300)	(158,500)	—
United States tax preference items	(7,000)	18,000	—	—	90,000
Other	(67,000)	24,000	—	—	(17,000)
TOTAL TAX	<u>\$ (4,000)</u>	<u>\$ 408,000</u>	<u>\$ 295,700</u>	<u>\$ 104,500</u>	<u>\$ 192,000</u>
EFFECTIVE RATE	<u>Nil</u>	<u>22%</u>	<u>21%</u>	<u>9%</u>	<u>32%</u>

The provision for deferred income taxes results from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The nature of these differences and the tax effect of each were as follows:

	For the Years Ended December 31				
	1978	1977	1976	1975	1974
Gain for United States tax reporting					
purposes on a sale of equipment not					
recognized for financial reporting					
purposes	\$ —	\$ —	\$ —	\$ —	\$ (17,000)
Canadian oil and gas property					
exploration and development					
expenditures utilized to reduce					
Canadian income taxes payable	299,000	676,000	573,200	310,950	—
	<u>\$ 299,000</u>	<u>\$ 676,000</u>	<u>\$ 573,200</u>	<u>\$ 310,950</u>	<u>\$ (17,000)</u>

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

D. Gain On Sale Of Note Receivable

In connection with the acquisition of PetroDynamics, Inc. in 1973, the Company acquired a promissory note payable out of production from foreign oil and gas properties. In February of 1975 the Company sold the note for \$1,165,000 and such sale resulted in a book profit of \$294,450 and a tax loss of \$1,760,000.

E. Summary of Quarterly Earnings (Unaudited)

	1978			
	4th Qtr.*	3rd Qtr.	2nd Qtr.	1st Qtr.
Revenue	\$6,210,574	\$2,026,298	\$2,191,382	\$2,153,420
Operating Expenses	5,558,880	1,758,818	1,931,885	1,768,756
	651,694	267,480	259,497	384,664
Provision for Income Tax	5,000	(8,000)	(51,000)	50,000
Net Income	<u>\$ 646,694</u>	<u>\$ 275,480</u>	<u>\$ 310,497</u>	<u>\$ 334,664</u>
Earnings Per Share	<u>\$.12</u>	<u>\$.05</u>	<u>\$.06</u>	<u>\$.07</u>

*The fourth quarter includes the operations of Central States Gas Company from date of acquisition, November 1, 1978.

	1977			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Revenue	\$2,457,741	\$1,923,855	\$1,949,164	\$2,040,678
Operating Expenses	1,757,534	1,576,661	1,551,008	1,628,429
	700,207	347,194	398,156	412,249
Provision for Income Tax	235,000	48,000	40,000	85,000
Net Income	<u>\$ 465,207</u>	<u>\$ 299,194</u>	<u>\$ 358,156</u>	<u>\$ 327,249</u>
Earnings Per Share	<u>\$.10</u>	<u>\$.06</u>	<u>\$.07</u>	<u>\$.07</u>

F. Earnings Per Share

Earnings per share computations are based on the weighted average number of shares outstanding. Computations giving effect to potential dilutive factors result in no dilutive effect on earnings per share.

G. Supplemental Information (Unaudited)

The following pro-forma amounts restate the statements of income for the periods as though the acquisition of Central States Gas Company had been effective at the beginning of the period. Pro-forma adjustments are for depreciation based upon allocation of the purchase price to depreciable assets and interest expense for debentures issued and bank debt assumed.

	Years Ended December 31	
	1978	1977
Revenues	<u>\$24,909,146</u>	<u>\$19,301,167</u>
Net Income	<u>\$ 1,055,313</u>	<u>\$ 977,445</u>
Net Income Per Share	<u>\$.20</u>	<u>\$.18</u>

The inclusion of Central States operations from January 1, 1977 results in decreased earnings principally because monthly gas sales volumes in the periods prior to acquisition were significantly lower than during November and December 1978. This condition is largely due to new gas hook-ups which became effective late in 1978. Another factor affecting profitability is the 5¢ per mcf increase in gas transmission fees charged to the principal gas customers which became effective October 31, 1978. For additional information regarding this acquisition refer to Note 2 of Notes to Consolidated Financial Statements elsewhere in this Form 10-K.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of Fiscal 1978 with Fiscal 1977

Sales and operating revenues in 1978 increased \$4.2 million or 50% over 1977 principally due to gas gathering and sales operations of Central States Gas Company acquired on November 1, 1978. These operations accounted for a 40% increase in revenues while increased activity in drilling arrangements accounted for the remaining 10%. Revenues from oil and gas production remained steady as generally higher product prices offset minor decreases in quantities produced and sold. Miscellaneous revenues increased over 1977 because of increased income on short-term investments and receipt of income from a net profits interest in uranium mining.

Operating costs and expenses increased 51% over the prior year with drilling arrangement activities and Central States gas gathering operations accounting for substantially all of the increase. Increased general and administrative costs reflect the addition of an exploration office in Canada as well as generally higher costs of salaries, payroll benefits, and other administrative services. The increase in depreciation and amortization expense is attributable to additional exploration and development costs added to the full cost pool in 1978 while increased interest expense is attributable to higher interest rates and additional bank borrowing as well as the debentures issued in the acquisition of Central States Gas Company.

The Company's provision for income taxes has been significantly reduced over the prior year because of the effects of reduced provisions for deferred income taxes in Canadian subsidiaries. The portion of total pre-tax earnings attributable to Canadian operations has decreased, reducing tax provisions while earnings attributable to U.S. operations (on which no provisions for income taxes is required) has increased over 1977 thereby decreasing the overall effective income tax rate. Income tax provisions are further reduced and tax rates affected by royalty rebates which are dependent on production royalties paid to the Province of Alberta.

Comparison of Fiscal 1977 with Fiscal 1976

Oil and gas revenues increased by 14% over 1976, attributable to increased production of oil as well as higher oil and gas prices. Oil production increased 11% primarily due to production of "heavy oil". The quantity of net gas sold decreased by 15% due to increased Alberta royalties, reduced market demand, and because greater quantities of Company owned gas are being used in the heavy oil production operations which does not result in reportable revenue. The average price of oil increased from \$10.06/bbl. in 1976 to \$10.90/bbl.

in 1977. Similarly, the average price of gas increased from 53¢/mcf to 72¢/mcf.

During 1977 the Company did not realize any drilling arrangements income as it did not participate in this type of exploration and development activity. However, other income increased over the prior year because of the sale of surplus real estate purchased and developed for a field office in Canada and interest earned on cash deposits.

The increase in general and administrative costs reflects additions to administrative staff, a significant increase in trading activity of the Company's capital stock with increased stock transfer fees and other related expenses, and generally higher costs for salaries, payroll benefits, and other services. The increase of approximately 18% in depreciation and depletion expenses is primarily attributable to additional exploration and development costs added to the full cost pool in 1977 and to increased oil production. Increased interest costs are attributable to larger loan balances. Interest rates did not change significantly during these periods. 1977 earnings have been reduced by \$60,504 or 1.25¢ per share because of foreign exchange conversion as required by the Financial Accounting Standards Board Bulletin No. 8. During the comparable period in 1976 Canadian currency was generally at par with U.S. funds.

Except for minor amount of minimum tax on tax preference items, no provision for U.S. income taxes was required in 1977 or 1976.

Item 3. Description of Properties

(a) The Registrant's numerous properties are located in the provinces of Saskatchewan and Alberta in Canada and in the states of Alaska, Colorado, Kansas, Kentucky, Montana, Nebraska, New Mexico, Oklahoma and Texas in the United States. The Company also has an interest in mining properties located in the United Kingdom. Oil and gas production facilities are generally dispersed over many locations except for the Fort Kent heavy oil project in Alberta where producing wells and facilities are concentrated in a relatively small area. Substantially all of the Company's producing oil and gas properties with the exception of heavy oil properties and facilities are pledged as security for bank loans.

The major portion of the Company's gas gathering and transmission facilities are located in South Central Kansas. Approximately one-half of the value of assets employed in this segment of the Company's operations are allocated to gas contracts acquired in the Central States acquisition. Gathering and transmission facilities and contracts for the purchase of gas are pledged to a bank as collateral for a bank loan.

The Company owns approximately 50% working interest in certain fee mineral interests, unpatented lode mining claims and leases on fee lands covering approximately 17,000 acres potentially valuable for uranium mining located in McKinley and Valencia Counties, New Mexico. Pursuant to agreements, all of the required assessment work, rentals, or advance royalty obligations were met by the Registrant's joint venture partners.

A 360 gross acre tract in McKinley County, New Mexico which includes the old "Poison Canyon Mine" is presently operated by Reserve Oil and Minerals Corporation under a net profits interest arrangement. A small, relatively low grade uranium deposit has been delineated and is being worked now. Approximately 86,000 tons of ore have been mined and processed to date and the yellow cake extracted sold for the joint

account. Evaluation, mining, and operating costs were recouped during the year and the Company received \$75,000 as its share of net profits from that operation.

The Company owned an undivided 70% interest in a tungsten mine and a 3,500 acre mining lease located in Cumberland, England. During 1977 a European group exercised its option to enter into a joint venture for the operation of the property and earn a working interest therein. The Registrant retains a 31.5% working interest in the property. Operating losses from mining operations for the period from September 1, 1977 to December 31, 1978 have not been significant and are included in the current statement of earnings. The Registrant's investment in this subsidiary was previously written down to estimated realizable value of equipment.

(b) (1) (i) *Capitalized Costs*

Details of capitalized costs as of December 31, 1978 and 1977 relating to oil and gas producing activities are as follows:

	(000's Omitted)		(000's Omitted)	
	1978		1977	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Canada				
— Heavy oil	\$ 3,208	\$ 459	\$ 1,968	\$ 303
— Regular oil & gas	9,469	2,716	7,271	2,265
	<u>\$12,677</u>	<u>\$ 3,175</u>	<u>\$ 9,239</u>	<u>\$ 2,568</u>
United States	<u>\$12,888</u>	<u>\$ 4,468</u>	<u>\$11,241</u>	<u>\$ 3,447</u>

Capitalized costs include the cost of leases, drilling, well and lease equipment and related facilities. Capital costs of unproven properties are not significant in relation to total costs.

(b) (1) (ii) *Costs Incurred in Producing Activities*

Details of costs incurred in the Company's oil and gas producing activities during the past five years are as follows:

	(000's Omitted)				
	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Property Acquisition Costs					
Canada — heavy oil	\$ —	\$ —	\$ —	\$ —	\$ —
— regular oil & gas	477	364	22	—	24
Total Canada	<u>\$ 477</u>	<u>\$ 364</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 24</u>
United States	<u>\$ 345</u>	<u>\$ 327</u>	<u>\$ 50</u>	<u>\$ 90</u>	<u>\$ 140</u>
Exploration Costs					
Canada — heavy oil	\$ —	\$ —	\$ —	\$ —	\$ —
— regular oil & gas	547	38	48	41	80
Total Canada	<u>\$ 547</u>	<u>\$ 38</u>	<u>\$ 48</u>	<u>\$ 41</u>	<u>\$ 80</u>
United States	<u>\$ 759</u>	<u>\$ 25</u>	<u>\$ 473</u>	<u>\$ 155</u>	<u>\$ 37</u>
Development Costs					
Canada — heavy oil	\$ 1,185	\$ 791	\$ 849	\$ 27	\$ 188
— regular oil & gas	1,219	177	259	712	759
Total Canada	<u>\$ 2,404</u>	<u>\$ 968</u>	<u>\$ 1,008</u>	<u>\$ 739</u>	<u>\$ 947</u>
United States	<u>\$ 548</u>	<u>\$ 934</u>	<u>\$ 1,256</u>	<u>\$ 807</u>	<u>\$ 649</u>

	(000's Omitted)				
	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Production Costs					
Canada — heavy oil	\$ 267	\$ 402	\$ 196	\$ 85	\$ —
— regular oil & gas	405	399	396	215	220
Total Canada	<u>\$ 672</u>	<u>\$ 801</u>	<u>\$ 592</u>	<u>\$ 300</u>	<u>\$ 220</u>
United States	<u>\$ 2,174</u>	<u>\$ 2,072</u>	<u>\$ 2,222</u>	<u>\$ 1,879</u>	<u>\$ 1,797</u>
Depreciation, Depletion and Amortization					
Canada — heavy oil	\$ 156	\$ 150	\$ 109	\$ 44	\$ —
— regular oil & gas	468	452	309	358	167
Total Canada	<u>\$ 624</u>	<u>\$ 602</u>	<u>\$ 418</u>	<u>\$ 402</u>	<u>\$ 167</u>
United States	<u>\$ 1,286</u>	<u>\$ 937</u>	<u>\$ 880</u>	<u>\$ 706</u>	<u>\$ 711</u>

(b) (1) (iii) *Revenues from Producing Oil and Gas*

Net revenues derived from oil and gas production for each of the past five years is indicated below. Net revenues reflect the Registrant's share of oil and gas produced and sold after deducting direct costs of production.

	(000's Omitted)				
	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Canada					
— heavy oil	\$ 97*	\$ 147	\$ (137)	\$ (85)	\$ —
— regular oil & gas	2,116	2,477	2,296	1,418	486
	<u>\$ 2,213</u>	<u>\$ 2,624</u>	<u>\$ 2,519</u>	<u>\$ 1,333</u>	<u>\$ 486</u>
United States	<u>\$ 2,958</u>	<u>\$ 2,466</u>	<u>\$ 2,147</u>	<u>\$ 1,906</u>	<u>\$ 2,087</u>

*Reflects reduction of Registrant's working interests in producing heavy oil properties. See comments under caption "General Development of Business".

(b) (1) (iv) *Estimated Oil & Gas Reserves*

A review of Worldwide's net proved reserves of crude oil and natural gas owned by Worldwide as of December 31, 1977 and 1978 determined by Worldwide's engineers (based in part upon reports of other consultants) are as follows:

OIL RESERVES (Bbls.) — UNITED STATES

	<u>Total Proved Reserves</u>	<u>Proved Developed Reserves</u>		
		<u>Producing</u>		<u>Non-Producing</u>
		<u>Working Interest</u>	<u>Royalty Interest</u>	
Reserves at December 31, 1977	2,624,121	2,036,986	535,223	51,912
Additions				
Revisions of previous estimates	68,357	69,157	—	(800)
Extensions and discoveries	8,409	8,409	—	—
	<u>2,700,887</u>	<u>2,114,552</u>	<u>535,223</u>	<u>51,112</u>
Deductions				
Production	289,303	258,353	30,950	—
Reserves at December 31, 1978	<u>2,411,584</u>	<u>1,856,199</u>	<u>504,273</u>	<u>51,112</u>

OIL RESERVES (Bbls.) — CANADA

	<u>Total Proved Reserves</u>	<u>Proved Developed Reserves</u>		
		<u>Producing</u>		<u>Non-producing</u>
		<u>Conventional</u>	<u>Heavy Oil*</u>	
Reserves at December 31, 1977	1,296,054	855,084	440,970	—
Additions				
Revisions of previous estimates due to:				
—royalty adjustments	(28,785)	(28,785)	—	—
—additional production & engineering data	4,140	4,140	—	—
	(24,645)	(24,645)	—	—
Extensions and discoveries	571,606	174,511	397,095	—
	1,843,015	1,004,950	838,065	—
Deductions				
Production	109,806	63,395	46,511	—
Disposition of minerals in place	209,281	—	209,281	—
Reserves at December 31, 1978	<u>1,523,928</u>	<u>941,555</u>	<u>582,373</u>	<u>—</u>

*Heavy oil reserves include only proved developed producing reserves. See also comments under caption, "General Development of Business".

See also comments under caption, "Estimated Future Net Revenues", (b) (1) (v).

GAS RESERVES (Mmcf) — UNITED STATES

	<u>Total Proved Reserves</u>	<u>Proved Developed Reserves</u>		
		<u>Producing</u>		<u>Non-producing</u>
		<u>Working Interest</u>	<u>Royalty Interest</u>	
Reserves at December 31, 1977	14,764	14,349	263	152
Additions				
Revisions of previous estimates	1,018	755	—	263
Extensions & discoveries	797	797	—	—
	16,579	15,901	263	415
Deductions				
Production	1,933	1,886	47	—
Reserves at December 31, 1978	<u>14,646</u>	<u>14,015</u>	<u>216</u>	<u>415</u>

GAS RESERVES (Mmcf) — CANADA

	Total Proved Reserves	Proved Developed Reserves	
		Producing	Non-producing*
Reserves at December 31, 1977	27,776	22,267	5,509
Additions			
Revisions of previous estimates due to:			
—royalty adjustment	1,367	1,395	(28)
—additional production & engineering	2,025	2,025	—
	<u>3,392</u>	<u>3,420</u>	<u>(28)</u>
Extensions and discoveries	599	—	599
	<u>31,767</u>	<u>25,687</u>	<u>6,080</u>
Deductions			
Production	1,941	1,941	—
Reserves at December 31, 1978	<u>29,826</u>	<u>23,746</u>	<u>6,080</u>

*Requires pipeline to market gas.

See also comments under caption, "Estimated Future Net Revenues", (b) (1) (v).

There have been no events subsequent to December 31, 1978 which would have a significant effect on the reserves reported above.

(b) (1) (v) *Estimated Future Net Revenues*

Estimated future net revenues from proved reserves of oil and gas as of December 31, 1978 are as follows:

	U.S.A.		Canada*	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed
1979	\$ 2,814,819	\$ 2,814,819	\$ 4,033,390	\$ 4,033,390
1980	2,494,516	2,494,516	3,418,425	3,418,425
1981	2,148,327	2,148,327	3,361,041	3,361,041
Remainder	12,050,354	12,050,354	29,076,954	29,076,954
Total	<u>\$19,508,016</u>	<u>\$19,508,016</u>	<u>\$39,889,810</u>	<u>\$39,889,810</u>

*Expressed in Canadian funds.

The present value of estimated net revenues from proved developed reserves of oil and gas as of December 31, 1978 using a 10% discount factor is as follows:

	U.S.A.	Canada*
Present Value of Oil and Gas Reserves		
Added in previous years	\$10,574,840	\$18,646,379
Added during current year	1,388,276	3,409,374
Total Value — December 31, 1978	<u>\$11,963,116</u>	<u>\$22,055,753</u>

*Expressed in Canadian funds.

There are no proved undeveloped reserves.

These economics were projected utilizing year end 1978 oil and gas prices, operating expenses and capital costs. In the U.S.A. maximum lawful stripper gas price at year end was utilized for wells which qualify for strip-per gas prices under the current regulations issued pursuant to the Natural Gas Policy Act of 1978.

The economics do not include projections for the Company's gas gathering and transmission operations. Future net revenues from Canadian heavy oil reserves include only proved developed reserves as indicated in the table under the caption, "Estimated Oil & Gas Reserves".

Since year end stripper (uncontrolled) oil prices in the U.S.A. have increased \$0.60 to \$1.00 per barrel. Valuing reserves at these higher oil prices without considering any escalations in expenses results in the following values for United States reserves.

	<u>Proved Developed</u>
Total Future Net Revenue	\$21,029,373
Present Value of Net Revenues (at 10% discount)	<u>\$12,957,013</u>

In Canada production is generally subject to a sliding scale royalty that increases with price and decreases as production declines. Accordingly, evaluations of Canadian reserves usually entail escalating product prices over the life of the reserves to arrive at the appropriate royalty percentage on an annual basis. These two factors have the effect of decreasing net remaining volumes being offset by higher cash flows in future periods. The Canadian Federal Government has adopted a policy that will allow the price of Canadian oil to escalate to world price levels over a period of several years and has indicated that initially, price increases of \$1 per barrel on July 1, 1979 and an additional \$1 per barrel on January 1, 1980 will be allowed. Historically gas price increases have tracked oil price increases. Accordingly, the Company anticipates that the selling price of natural gas will also increase.

The application of constant unit values (as of December 31, 1978) to the reserve volumes and resulting estimated future revenue fails to represent fairly the effects of reduced royalties on declining production or increased royalties for higher value. The effect of price changes on royalty and net reserves during 1978 has been indicated in the preceding oil and gas reserve tables.

(b) (2) *Reserve Estimates*

There were no reserve estimates filed with any other United States federal authority or agencies.

(b) (3) (i) *Production*

Net oil and gas production from Company owned wells for each of the last five years is tabulated below:

	Oil (Bbls.)				Gas (Mcf)		
	Canada		U.S.A.		Canada	U.S.A.	
	Conventional	Heavy Oil	Working Interest	Royalty Interest		Working Interest	Royalty Interest
1978	63,400	46,400*	258,400	30,900	1,941,000	1,886,000	47,000
1977	72,600	77,700	264,000	36,800	2,103,400	1,942,800	48,300
1976	87,100	12,400	269,400	37,600	2,454,100	2,116,200	41,600
1975	86,500	1,500	263,400	42,400	2,059,800	2,045,900	47,100
1974	73,500	—	305,400	52,800	831,500	2,346,200	60,700

*Reflects reduction of Registrant's working interest in producing heavy oil properties. See comments under caption, "General Development of Business".

In addition to net production from Company owned oil and gas wells, the following amounts of gas committed to Company pipelines were purchased from others for resale:

	Mcf
1978	2,194,800*
1977	841,700
1976	1,007,100
1975	1,116,500
1974	1,226,300

*Includes two months for pipeline acquired November 1, 1978.

(b) (3) (ii) *Revenue and Cost Data*

The average selling prices of oil and gas received by the Company in the United States and Canada during each of the years 1976 to 1978 are as follows:

	1978	1977	1976
Gas — per mcf			
United States	\$.61	\$.46	\$.40
Canada	\$ 1.19	\$ 1.08	\$.77
Oil — per bbl.			
United States	\$ 13.56	\$ 12.80	\$ 11.31
Canada			
— heavy oil	\$ 8.13	\$ 7.13	\$ 5.85
— conventional	\$ 10.37	\$ 9.27	\$ 8.03

The average production (lifting) cost per unit of production for the years noted is tabulated below. Units of gas produced have been converted to equivalent barrels of oil using the gross revenue method.

	<u>1978</u>	<u>1977</u>	<u>1976</u>
Production Cost — per Bbl.			
United States	\$ 5.76	\$ 5.66	\$ 5.81
Canada*			
—heavy oil	\$ 5.98	\$ 6.21	\$20.41
—conventional	\$ 1.55	\$ 1.33	\$ 1.15

*Production of heavy oil was conducted on an experimental basis from one well during 1976 and prior years; average unit cost of production is therefore not a meaningful number.

(b) (5) *Undeveloped Properties*

The Company owns oil and/or gas rights in leases comprising 123,986 gross acres (99,059 net acres) located in Western Canada and in the United States. The leases expire at various dates from 1979 to 1995 and require the payment of an annual rental in lieu of drilling. Leases may be surrendered at any time by notice or non-payment of lease rental.

The following table sets forth Worldwide's ownership in *undeveloped* leaseholds as of December 31, 1978:

<u>PROVINCE OR STATE</u>	<u>Gross Acres</u>	<u>Net Acres</u>
Alberta, Canada	45,376	34,056
TOTAL — CANADA	45,376	34,056
Colorado	1,369	1,067
Kentucky	11,980	9,544
Louisiana	8,409	4,205
Montana	34,635	30,357
Nebraska	2,840	1,363
North Dakota	1,036	526
Texas	17,741	17,341
Utah	600	600
TOTAL U.S.	78,610	65,003
TOTAL U.S. AND CANADA	123,986	99,059

(b) (6) *Drilling Activity*

During 1978 Worldwide Energy Corporation participated in the completion of 32 wells as summarized below:

	<u>U.S.A.</u>				<u>Canada</u>				<u>Total</u>	
	<u>Exploration</u>		<u>Development</u>		<u>Exploration</u>		<u>Development</u>		<u>Gross</u>	<u>Net</u>
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>		
Oil	—	—	—	—	1	.50	16	7.61	17	8.11
Gas	—	—	2	.03	—	—	1	1.00	3	1.03
Dry	2	.63	1	.25	3	2.50	5	3.11	11	6.49
Service	—	—	—	—	—	—	1	.50	1	.50
Total	<u>2</u>	<u>.63</u>	<u>3</u>	<u>.28</u>	<u>4</u>	<u>3.00</u>	<u>23</u>	<u>12.22</u>	<u>32</u>	<u>16.13</u>

In 1978 Worldwide Energy Corporation recompleted or reworked a total of 23 (20.1 net) wells, 21 (18.6 net) in the U.S. and 2 (1.5 net) in Alberta, Canada. Seventeen (16.6 net) of these reworks are classified as successful.

(b) (4) *Producing Wells and Acreage*

At December 31, 1978 the Company owned working interests in oil and gas wells as follows:

	<u>Gross</u>	<u>Net</u>
Oil Wells	235*	134
Gas Wells	77**	58
Service Wells	77	49
Shut In	137	122
Total	<u>526</u>	<u>363</u>

*Includes 3 wells with multiple oil and gas completions.

**Includes 3 wells with multiple gas completions.

Working interest production for 1978 was derived from approximately 102,640 gross (67,514 net) producing acres of which 32,560 gross (25,712 net) acres are in Canada.

(b) (7) *Present Activities*

At December 31, 1978 (year end) drilling was in progress on one well and 9 wells were awaiting completion. Year end and current status for these ten wells is summarized below:

<u>Well</u>	<u>Location</u>	<u>Gross</u>	<u>Net</u>	<u>Status</u>	
				<u>Year End</u>	<u>Current</u>
<i>USA</i>					
<i>Exploration</i>					
Owen, Ill. 19-14	Beauregard Parish	1	.46	Drilling	Completing
<i>Development</i>					
C. Baker No. 1	Clay, Co., Kentucky	1	1.00	Potential gas well	No change
McMoran No. 2	Comanche Co., Kansas	1	1.00	Potential gas well; Waiting on completion	Completed IP 1100 MCFD 1 BOPD. Waiting on gas line connection
<i>CANADA</i>					
<i>Exploration</i>					
Oyen 11-16	Alberta	1	1.00	Potential gas well; Waiting on gas market.	No change
<i>Development</i>					
Fort Kent Ev 2-28	Alberta	1	.50	Potential heavy oil well; waiting on expansion of project	No change
Fort Kent Ev 11-28	Alberta	1	.50	Potential heavy oil well; waiting on expansion of project	No change
Bonnyville 9C-29	Alberta	1	1.00	Potential heavy oil well; waiting on completion	Completed - steaming
Bonnyville 13-A-28	Alberta	1	1.00	Potential heavy oil well; waiting on completion	Completed - steaming
Provost North 10-23	Alberta	1	1.00	Potential oil well; waiting on completion	Testing
Provost North 2-24	Alberta	1	1.00	Potential oil well; waiting on completion	Testing

(b) (8) *Existing Contractual Obligations*

In the Cold Lake area of northeastern Alberta, Canada, the Company has been supplying gas to the Canadian Department of National Defence since 1955 and to Beaver River Utilities (now Northwestern Utilities Limited) since 1965. During that period of time, the Company has been able to meet or exceed the delivery requirements of both. The Company also has a five year interruptible contract with Imperial Oil Company which terminates on November 30, 1979. Any new contract which may be negotiated with Imperial will

similarly provide for interruptible service based on the priority requirements of the Defence Department and Northwestern Utilities. The Company's gross proved developed reserves of gas in the Cold Lake area available for delivery under these contracts are 30.7 billion cubic feet which can be delivered under current conditions at the rate of approximately 2.5 billion cubic feet per year. Current delivery requirements under the Defence Department and Northwestern Utilities contracts are approximately 1 billion cubic feet of gas per year which is consistent with requirements over the past ten years.

Item 4. Parent and Subsidiaries

The accounts of all wholly-owned subsidiaries as shown below are consolidated with those of the Registrant.

<u>Subsidiary*</u>	<u>Incorporation</u>
Worldwide Energy Company Ltd.	Alberta, Canada
Worldwide Energy (U.K.) Limited	United Kingdom
WECO Development (Canada) Ltd.	Alberta, Canada
Central States Gas Company	Kansas
WECO Kentucky Energy, Inc.	Kentucky
Semco Gas, Inc.	Texas

*Two subsidiaries have not been included in the consolidation as they are inactive and are not material to an understanding of the Company.

Cold Lake Transmission Limited, incorporated under the laws of Alberta, Canada, is a wholly-owned subsidiary of Worldwide Energy Company Ltd.

Item 6. Increases and Decreases in Outstanding Securities

	<u>Face Amount</u>
(a) (1) 6½% Convertible Subordinated Debentures due May 15, 1980	
Balance outstanding — December 31, 1977	\$ 750,000
Redeemed or retired during the year	250,000
Balance outstanding — December 31, 1978	<u>\$ 500,000</u>
(2) 8% Subordinated Convertible Debentures due November 1, 1983	
Issued November 1, 1978 and balance outstanding December 31, 1978	<u>\$7,450,000</u>
(3) 8¾% Convertible Subordinated Debentures due December 15, 1978	
Balance outstanding — December 31, 1977	\$ 106,000
Retired during the year upon conversion to Capital stock and called for redemption	106,000
Balance outstanding — December 31, 1978	<u>Nil</u>
	<u>Shares</u>
(4) Common Stock — 20¢ par value	
Shares outstanding December 31, 1977	4,889,339
<i>Increases</i>	
Issued upon conversion of 8¾% Convertible Subordinated Debentures	19,500
Issued upon exercise of stock purchase warrants	656,225
Issued in partial consideration for acquisition of property	15,000
Reissued Treasury stock as contribution to Registrant's Employees	
Stock Ownership Plan	7,676
Reissued Treasury Stock under Registrant's Stock Purchase Loan Program	5,200
	<u>5,592,940</u>
<i>Decreases</i>	
Treasury stock acquired pursuant to tender offer to holders of 25 shares or less	(5,876)
Treasury stock acquired by foreclosure under Registrant's Stock Purchase Loan Program	(1,500)
Shares outstanding — December 31, 1978	<u>5,585,564</u>

Central States Gas Company has been dissolved pursuant to a plan of liquidation adopted January 24, 1979 whereby all of its assets and obligations are being transferred to and assumed by the Registrant.

Item 5. Legal Proceedings

The Company is a party to an action pending before the Supreme Court of the State of Oklahoma filed March 29, 1977 by United Petroleum Exploration, Inc. seeking review of an Order of the Corporation Commission of the State of Oklahoma finding that the Company's election to participate in the drilling of a well in Beaver County, Oklahoma was timely. A related action filed in the District Court of Beaver County, Oklahoma on July 13, 1977 in the nature of a quiet title action has been stayed pending a decision by the Supreme Court. The Company's share of accumulated net proceeds from this well to December 31, 1978 is approximately \$250,000 which amount is being held for the Company's account by the gas purchaser. Management believes that the Order of the Corporation Commission confirming the Company's right to participate in this well as a working interest owner will be upheld by the Supreme Court.

There are no other material pending legal proceedings.

Information relating to shares issued upon conversion of the 8¾% Debentures, upon the exercise of stock purchase warrants and as a contribution to the Registrant's Employee Stock Ownership Plan has been previously reported on Forms 10-Q for the quarters ended June 30, 1978 and September 30, 1978 which information is incorporated herein by reference.

Pursuant to a cash tender offer to all holders of 25 shares or less, the Registrant acquired 5,876 shares at \$5.50 per share on January 31, 1978, the date the tender offer expired. This tender offer was made after obtaining from the Commission an exemption from Rule 10b-6.

The Registrant maintains an Employee Stock Purchase Loan Program where shares reacquired as treasury stock are made available for purchase by selected employees with non-recourse, interest-bearing loans secured by the shares purchased at the then current market prices. In January, 1978, a total of 5,200 shares were sold to four employees for a total consideration of \$23,425. These shares were issued pursuant to the exemption available under Section 4(2) of the Securities Act of 1933 as not involving any public offering and the shares bear restrictive legends and stop transfers were placed against their transfer. In addition, the Registrant reacquired 1,500 shares as Treasury Stock in October 1978 pursuant to a foreclosure and sale under this program against a former employee's defaulted loan.

Pursuant to resolutions of the Board of Directors adopted at a special meeting held September 26, 1978, Registrant issued 15,000 shares of previously unissued treasury shares on October 23, 1978 to Rainbow Energy Company as partial consideration for the acquisition from Rainbow of an option to acquire an interest in certain oil and gas leases in Alberta, Canada in the Company's Fort Kent heavy oil project. The acquisition of this option was to assure the Company it will maintain a 50% interest in this project after consummation of the agreement with Sun Oil described in Item 1(a) of this Report. These shares were issued in a private placement pursuant to the exemption available under Section 4(2) of the Securities Act of 1933 and Rule 146 thereunder as not involving any public offering. No under-

writers were involved and the Registrant obtained investment letters from Rainbow and both of its two shareholders. The shares bear restrictive legends and stop transfer orders have been placed against their transfer.

(b) Decreases in outstanding debt securities by conversion and redemption of all of Registrant's 8¾% Debentures have previously been reported in Forms 10-Q for the quarters ending June 30, 1978 and September 30, 1978. The decrease in Registrant's 6½% Debentures was a result of the annual sinking fund payment made June 1, 1978.

(c) On November 1, 1978 the Registrant purchased all of the stock of Central States Gas Company as reported in Item 1(a) of this Report. The consideration paid was \$10,450,000 consisting of \$3,000,000 in cash and \$7,450,000 in the Registrant's 8% Subordinated Convertible Debentures due November 1, 1983. The Debentures are convertible into the Registrant's 20¢ par value common stock at a conversion price of \$7 per share. In purchasing Central States, the Registrant also assumed approximately \$5,500,000 in long-term liabilities. The Debentures were issued by the Registrant in a private placement pursuant to the exemption available under Section 4(2) of the Securities Act of 1933 and Rule 146 **thereunder as not involving** a public offering. No underwriters were involved and the Registrant obtained an investment letter from each of the selling shareholders. The Debentures bear restrictive legends and both the Debentures and the underlying "conversion shares" of the Registrant's 20¢ par value common stock to be issued upon conversion of the Debentures are and will be restricted securities transferable only under conditions designed to assure compliance with the Securities Act of 1933.

Item 7. Changes in Securities and Changes in Security for Registered Securities

None

Item 8. Defaults Upon Senior Securities

None

Item 9. Approximate Number of Equity Security Holders

The approximate number of holders of record of each class of equity securities of the Registrant as of December 31, 1978 was as follows:

<u>Title of Class</u>	<u>Number of Record Holders</u>
1. 6½% Subordinated Convertible Debentures due May 15, 1980	91
2. 8% Convertible Debentures due November 1, 1983	17
3. Common Stock Purchase Warrants dated July 22, 1974 and expiring July 22, 1981 exercisable at prices from \$3.45 to \$5.95 per share. Common Stock Purchase Warrants dated February 26, 1976 and expiring February 26, 1983, exercisable at prices from \$3.95 to \$6.45 per share	1
4. Common Stock — 20¢ par value	7,930*

*Does not include an estimated 4,000 holders in street name.

Item 10. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 11(a). Indemnification of Directors and Officers

The By-Laws of the Registrant contain a provision requiring the Company to indemnify to the full extent permitted by law any person made, or threatened to be made a party to any action, suit, or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that he, his testator or intestate is or was a director, officer or employee of the Company or serves or served any other enterprise at the request of the Company.

The Registrant also carries Directors and Officers Liability and Corporate Reimbursement insurance in the amount of \$1,000,000 to insure against loss incurred resulting from claims asserted against officers and directors.

Item 11(b). Executive Officers of the Registrant

The names and ages of all executive officers of the Registrant and positions held by each are as follows:

<u>Offices and Principal Occupation for Last Five Years</u>	<u>Name</u>	<u>Age</u>
President and Director	Robert B. Tenison	55
Senior Vice President Since October 1, 1974; January 15, 1974 — September 30, 1974 — manager of engineering	Lysle A. Gust	48
Vice President — Operations Since June 1977; 1971 to June 1977 — superintendent of drilling and production	Ronald J. Cargo	35
Vice President — Exploration Since June 1977; January 1977 to June 1977 — exploration manager; May 1974 to January 1977 — staff geologist; May 1972 — May 1974 — staff geologist — Ladd Petroleum Corporation	Blaine S. Day	36
Treasurer and Comptroller	Walter V. Pelepchan	48
Secretary and General Counsel Since June 1978; October 1971 to June 1978 — associate with the law firm of Davis, Graham & Stubbs, Denver, Colorado engaged in private practice of law — member of Colorado and California bars.	John F. Meck	33

The Officers are elected annually by the Board of Directors at the first meeting after the annual meeting of shareholders. There is no family relationship between any of the Officers.

Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K

(a) (1) *Consolidated Financial Statements*

	<u>Page(s)</u>
Report of Independent Certified Public Accountants	30
Consolidated Balance Sheets as of December 31, 1978 and 1977	31
Consolidated Statements of Income and Retained Earnings for Each Year in the Five Year Period ended December 31, 1978	14
Notes to Statements of Consolidated Income and Retained Earnings	15 to 17
Consolidated Statements of Changes in Financial Position for Each Year in the Five Year Period ended December 31, 1978	32, 33
Notes to Consolidated Financial Statements	34 to 39
Schedules for the Years Ended December 31, 1978 and 1977	
Schedule V — Property, Plant and Equipment	41
Schedule VI — Accumulated Depreciation and Depletion of Property, Plant and Equipment	42

Individual financial statements of the Registrant are omitted as consolidated financial statements are being filed and the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements filed in the aggregate, do not have minority equity interests or indebtedness excluding indebtedness guaranteed by the Registrant to any person other than the Registrant or its consolidated subsidiaries in amounts which together exceed five percent of the total consolidated assets at the date of the latest balance sheet filed.

Schedules Omitted:

Schedules IX, XIII, XIV, and XVI are omitted because the required information is set forth in the Financial Statements, or notes thereto.

Schedules I, II, III, IV, VII, VIII, X, XI, XII, XV, XVII, XVIII and XIX, are omitted because the information called for is not present or is not required.

(a) (2) *Exhibits*

- (i) June 22, 1978 letter agreement with Sun Oil Company Limited. See Item 1 (a) for brief description.
- (ii) Pooling and Farmin Agreement with Pacific Petroleum Ltd. See Item 1(a) for brief description.
- (iii) Deferred Compensation Plan for key employees. See Note 6 of Notes to Financial Statements for brief description.

(b) *Current Reports on Form 8-K Filed During the Quarter Ending December 31, 1978*

- (i) Report dated October 10, 1978 relating to the Company's agreement to acquire Central States Gas Company under "Materially Important Events".
- (ii) Report dated November 1, 1978, relating to the Company's purchase of Central States Gas Company under "Acquisition or Disposition of Assets" and including the following Financial Statements of Central States Gas Company.

1. Balance sheets for the fiscal year ending March 31, 1978 (audited) and for the five month period ending August 31, 1978 (unaudited).
2. Statement of Earnings for fiscal years ending March 31, 1976, 1977 and 1978 (audited) and for the five month period ending August 31, 1978 (unaudited).
3. Statement of Changes in Financial Position for fiscal years ending March 31, 1976, 1977 and 1978 (audited) and for the five month period ending August 31, 1978 (unaudited).

PART II

Part II is omitted pursuant to the General Instruction H, as such information will be included in the Proxy Statement.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To The Board of Directors and Shareholders,
Worldwide Energy Corporation

We have examined the consolidated financial statements and supporting schedules as listed under Item 12 (a) (1) in this Form 10-K of Worldwide Energy Corporation and its subsidiaries. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Worldwide Energy Corporation and subsid-

aries as of December 31, 1978 and 1977, and the consolidated results of their operations and changes in their financial position for each year in the five year period ended December 31, 1978, and the accompanying supporting schedules present fairly the information required to be included therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Denver, Colorado
March 28, 1979

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS — AS OF DECEMBER 31, 1978 AND 1977

ASSETS

	1978	1977
CURRENT ASSETS		
Cash	\$ 3,103,109	\$ 1,208,157
Accounts receivable — (Note 2)	5,679,533	1,586,016
Alberta royalty tax credits receivable	416,471	479,154
Inventory of supplies — at average cost	846,925	555,770
Prepaid items	179,186	39,221
	10,225,224	3,868,318
PROPERTY, PLANT AND EQUIPMENT, AT COST (Note 3 and Schedules V and VI)		
Oil and gas properties	23,200,926	18,620,515
Gas transmission facilities	10,855,383	2,049,571
Gas purchase contracts	7,751,632	—
Mineral properties	298,437	293,737
Other equipment and property	1,144,425	922,852
	43,250,803	21,886,675
Less — Accumulated depreciation and depletion	8,217,493	6,304,941
	35,033,310	15,581,734
DEFERRED CHARGES AND OTHER ASSETS (Note 4)	419,682	270,141
	<u>\$45,678,216</u>	<u>\$19,720,193</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Long-term debt due within one year (Note 3)	\$ 418,300	\$ 561,160
Accounts payable and accrued expenses	6,088,461	1,376,305
	6,506,761	1,937,465
LONG-TERM DEBT (Note 3)	20,145,740	4,594,924
DEFERRED INCOME	547,457	—
DEFERRED INCOME TAXES (Note 5)	1,641,743	1,380,324
Total Liabilities	28,841,701	7,912,713
SHAREHOLDERS' EQUITY (Note 6)		
Common stock, authorized 10,000,000 shares, par value \$.20, issued 5,586,064 shares in 1978 and 4,895,339 in 1977	1,117,213	979,068
Capital in excess of par value	9,519,853	6,220,473
	10,637,066	7,199,541
Treasury stock; 500 shares in 1978 and 6,000 shares in 1977, at cost	(2,825)	(27,000)
Retained Earnings (Note 3)	10,634,241	7,172,541
	6,202,274	4,634,939
Total Shareholders' Equity	16,836,515	11,807,480
	<u>\$45,678,216</u>	<u>\$19,720,193</u>

The accompanying notes are a part of the consolidated financial statements.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended December 31				
	1978	1977	1976	1975	1974
SOURCE OF FUNDS					
From Operations					
Income from continuing operations	\$ 1,567,335	\$ 1,449,806	\$ 1,137,671	\$ 1,020,346	\$ 410,909
Items not requiring outlay of working capital					
Depreciation and depletion	1,917,480	1,545,476	1,305,297	1,116,987	800,057
Deferred income taxes and effects resulting from filing consolidated returns	299,000	676,000	573,200	310,950	102,000
Property write-offs	—	—	24,733	57,475	27,283
Other items	—	96,958	20,234	—	—
Working capital provided by continuing operations	3,783,815	3,768,240	3,061,135	2,505,758	1,340,249
From Discontinued Operations					
Income from discontinued operations	—	—	—	372,767	638,837
Change in net assets of discontinued operations spun-off as a dividend on December 31, 1975	—	—	—	4,322,420	(836,387)
Issue of capital stock	3,461,700	299,300	—	992	1,999
Obligations relating to company acquired					
—debentures issued	7,150,000	—	—	—	—
—bank loan and other	5,484,539	—	—	—	—
Sales and other disposals of properties	—	208,268	—	80,546	138,216
Bank loans	3,812,794	449,996	2,550,000	1,075,000	1,741,000
Decrease of note receivable	—	—	—	—	1,176,959
Decrease (increase) in deferred charges and other items	(129,132)	(53,977)	(61,073)	105,386	41,228
	<u>\$23,563,716</u>	<u>\$ 4,671,827</u>	<u>\$ 5,550,062</u>	<u>\$ 8,462,869</u>	<u>\$ 4,242,101</u>

The accompanying notes are a part of the consolidated financial statements.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION (continued)

	Years Ended December 31				
	1978	1977	1976	1975	1974
USE OF FUNDS					
Retirement of long-term debt, net of change in current maturities	\$ 411,978	\$ 878,872	\$ 1,224,971	\$ 965,628	\$ 1,991,689
Additions to properties	5,549,066	3,229,261	3,128,693	2,075,164	2,091,656
Properties of company acquired	15,815,062	—	—	—	—
Net assets spun-off by dividend of common stock of former subsidiary	—	—	—	4,194,502	—
	<u>21,776,106</u>	<u>4,108,133</u>	<u>4,353,664</u>	<u>7,235,294</u>	<u>4,083,345</u>
Increase in Working Capital	1,787,610	563,694	1,196,398	1,227,575	158,756
Working Capital — Beginning of Year	1,930,853	1,367,159	170,761	(1,056,814)	(1,215,570)
Working Capital — End of Year	<u>\$ 3,718,463</u>	<u>\$ 1,930,853</u>	<u>\$ 1,367,159</u>	<u>\$ 170,761</u>	<u>\$(1,056,814)</u>
Changes in Components of Working Capital					
Increase (Decrease) in Current Assets					
Cash	\$ 1,894,952	\$ 588,523	\$ 170,058	\$ (284,911)	\$ 519,803
Accounts receivable	4,030,834	259,365	453,823	685,928	(288,897)
Inventory of supplies and prepaid items ..	431,120	59,599	68,550	286,581	38,773
Notes receivable	—	—	—	(912,584)	788,186
	<u>6,356,906</u>	<u>907,487</u>	<u>692,431</u>	<u>(224,986)</u>	<u>1,057,865</u>
Less Increase (Decrease) in Current Liabilities					
Accounts payable and accrued expenses	4,712,156	181,221	(445,555)	33,229	601,000
Deferred tax credits	—	—	—	—	179,360
Long-term debt due within one year	(142,860)	162,572	(58,412)	(1,226,342)	(295,865)
Payable to Citrus County Land Bureau, Inc.	—	—	—	(259,448)	414,614
	<u>4,569,296</u>	<u>343,793</u>	<u>(503,967)</u>	<u>(1,452,561)</u>	<u>899,109</u>
Increase in Working Capital	<u>\$ 1,787,610</u>	<u>\$ 563,694</u>	<u>\$ 1,196,398</u>	<u>\$ 1,227,575</u>	<u>\$ 158,756</u>

The accompanying notes are a part of the consolidated financial statements.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries operating in the United States, Canada, and the United Kingdom, all of which subsidiaries are wholly-owned. Significant intercompany balances and transactions are eliminated.

Currency Conversion

Foreign subsidiary balance sheets are converted to United States dollars at the rates of exchange in effect at the end of the year, except for property, plant and equipment, deferred income taxes and stockholders' equity accounts which are converted at the historical rate of exchange. Revenue and expense accounts are converted monthly based upon the average rates of exchange in effect during the month, except for depreciation, depletion and amortization, which are translated at the rates of exchange prevailing when the assets were acquired. Gains or losses from foreign exchange are included in net income currently.

Oil and Gas Properties and Gas Transmission Facilities

The Company follows the "full cost" method of accounting under which all costs of acquiring, exploring for and developing oil and gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical expenses, carrying charges of non-producing properties, and exploration and development and overhead expenses related to the acquisition of properties and oil and gas reserves. Separate cost pools are maintained for the United States and Canada and are amortized using the composite unit of production method of depreciation and depletion over the aggregate proven oil and gas reserves of the Company in each country estimated by the Company's engineers. Costs capitalized are not in excess of their estimated net realizable value.

Gas transmission facilities are depreciated over their estimated useful lives or over the lives of reserves estimated to be available for transportation through the facilities if such reserve lives are less than the estimated useful lives of the assets. Gas contracts acquired with Central States Gas Company are amortized over the life of the gas reserves dedicated to the system.

Gains or losses resulting from dispositions of oil and gas properties are charged or credited to the cost pools. Gains or losses on the disposal of unproven leases are recognized at the time of sale.

Depreciation of Other Equipment

Depreciation is provided at straight-line rates ranging from 3% to 33%. Gains and losses from disposals are included in income. Maintenance and repairs are charged to expense. Major improvements and replacements are capitalized.

Income Taxes

The Company files United States income tax returns on a consolidated basis with its United States subsidiaries. Canadian subsidiaries are required to file separate income tax returns.

The Company provides, as required, for deferred income taxes resulting from timing differences in the recognition of income and expenses for financial and tax reporting purposes in the United States and Canada.

Prior to January 1, 1975, differences between financial and tax reporting resulting from United States oil and gas exploration and development costs which are capitalized for financial reporting purposes but deducted currently for tax reporting purposes (oil and gas related financial/tax differences) were considered to be permanent differences (not subject to inter-period tax allocation) as it was estimated that future statutory depletion would offset taxable income resulting from the reversal of such differences. In connection with limitations on allowable statutory depletion imposed by the Tax Reduction Act of 1975, effective as of January 1, 1975, and in accordance with statement of Financial Accounting Standards No. 9, the Company has elected to account for interperiod tax allocation relative to oil and gas related financial/tax differences utilizing the prospective-net method considering interaction with statutory depletion. Under this method, cumulative oil and gas related financial/tax differences in excess of aggregate future statutory depletion are subject to inter-period tax allocation.

Investment tax credits are recognized as a reduction of income taxes in the year in which the credits are utilized.

See also Note 13.

2. MAJOR TRANSACTIONS

On November 1, 1978 the Company acquired all of the capital stock of Central States Gas Company (Central States), a Kansas corporation which owns and operates approximately 395 miles of intrastate gas gathering system in south central Kansas. Consideration for the acquisition was \$3,000,000 cash and the issue of \$7,450,000 (face amount) 8% convertible debentures

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

due November 1, 1983, convertible into common stock of the Company at \$7 per share. The consideration paid after giving effect to a \$300,000 original issue discount to the debenture issue (9% effective interest) combined with \$8,165,000 of debt assumed (which includes current liabilities) results in a value of \$18,315,000 attributable to the underlying assets of Central States. The acquisition has been accounted for by the purchase method and the results of operations are included in the consolidated statements of earnings from the date of acquisition.

The Company has an agreement with Sun Oil Company Limited effective April 1, 1978, for the development of the Fort Kent heavy oil project located in the Cold Lake area of Alberta, Canada. Under the agree-

ment, Sun Oil will earn a 50% working interest by paying 70% of the capital costs of the first two phases of expansion and 55% of Phase III. Phase I expansion was completed in 1978 and is now operational. Phase I and II costs to date are approximately \$4,420,000. Sun Oil advanced the Company \$1,000,000 (Can.) towards its 70% share of these costs and the balance of \$1,890,000 is included in accounts receivable. This agreement was subject to the approval of the Foreign Investment Review Agency of Canada which approval was received on March 22, 1979. The formal agreements concerning this transaction are in the process of being finalized. The Company's accounts reflect this agreement for sharing capital costs as well as revenues and operating expenses from this project with effect from April 1, 1978.

3. LONG-TERM DEBT

	<u>Maturity</u>	<u>December 31 1978</u>	<u>December 31 1977</u>
Payable in U.S. Funds			
Bank Loans — See Below	See Below	\$ 9,749,996	\$ 3,749,996
6½% Subordinated Convertible Debentures*	1980	491,419	728,397
8% Convertible Debentures*	1983	7,150,000	—
8¾% Subordinated Convertible Debentures	1978	—	106,000
		<u>\$17,391,415</u>	<u>\$ 4,584,393</u>
*Net of original issue discount			
Payable in Canadian Funds			
Bank Loan — ¾% above prime interest rates collateralized by Canadian oil and gas properties and production proceeds	See Below	3,172,625	571,691
		<u>20,564,040</u>	<u>5,156,084</u>
Included in Current Liabilities —			
Amounts due within one year		418,300	561,160
		<u>\$20,145,740</u>	<u>\$ 4,594,924</u>

A \$3,749,996 loan outstanding to a European Merchant Bank is due February 8, 1980 and bears interest, payable monthly at 1½% above the London interbank rate. The effective rate at December 31, 1978 was 12 1/16%. Substantially all of the Company's United States producing oil and gas properties and production proceeds are pledged as collateral on the loan. The loan agreement places certain restrictions on the Company's future borrowings and the extent to which working capital may be impaired. It also restricts the dividends paid after December 31, 1975, to amounts not exceeding 75% of net earnings subsequent to that date. At December 31, 1978, \$3,508,000 of retained earnings were not restricted.

At December 31, 1978, the Company had a \$6,500,000 line of credit with a domestic bank of which \$500,000 had not been used. Gas contracts acquired with Central States Gas Company together with trans-

mission facilities are pledged as collateral for this loan (which matures in 1983) which bears interest at ¾% over prime rate. Negotiations are presently underway to increase that line of credit.

The 6½% subordinated convertible debentures are convertible into common stock of the Company at \$9.91 per share and may be redeemed at the Company's option at a price equal to face value. Commencing in 1978, the Company is obligated to provide a sinking fund of \$250,000 a year. Debentures converted or otherwise acquired may be used to offset such a sinking fund. The face amount of such debentures at December 31, 1978 was \$500,000. These debentures were assumed upon the acquisition of PetroDynamics, Inc. and discounted to yield an effective rate of 8½%.

The 8% debentures issued on the acquisition of Central States Gas Company are convertible at the holders option into restricted common stock of the Company

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

at \$7 per share until November 1, 1983, date of maturity. The debentures are redeemable at a premium, upon notice, at the Company's option at any time after November 1, 1979. (See also Major Transactions — Note 2.)

The remaining 8¾% subordinated convertible debentures were converted or retired during 1978.

Subsequent to December 31, 1978 a subsidiary obtained a \$7,000,000 (Cdn. \$) line of credit with a Canadian bank for its Canadian operations. Interest at the rate of ¾ of 1% above prime is payable monthly. Principal repayments are at \$16,500 per month for the first year subject to review and renegotiation by February 28, 1980.

Unamortized discount and issue expenses are being amortized over the life of the debentures and loans.

Maturities of long-term liabilities as of December 31, 1978, over the next five years are as follows:

1979	\$	418,300
1980		4,399,619
1981		427,477
1982		6,427,477
1983		7,577,477
Subsequent		1,313,690
		\$20,564,040

4. DEFERRED CHARGES AND OTHER ASSETS

The Company makes non-recourse loans to key employees, including officers of the Company, for the purpose of purchasing common shares of the Company at current market prices. Loans totaling \$108,700 bearing interest at 4% per annum and collateralized by an

6. COMMON STOCK, CAPITAL IN EXCESS OF PAR VALUE AND RESERVED SHARES

Common Stock and Capital in Excess of Par Value

During the five years ended December 31, 1978, the following changes occurred:

	Issued Shares	Common Stock	Capital in Excess of Par Value
Balance — January 1, 1974	4,827,583	\$ 965,517	\$5,931,733
Issued on conversion of 8¾% debentures	666	133	1,866
Balance — December 31, 1974	4,828,249	965,650	5,933,599
Issued on conversion of 6½% debentures	90	18	974
Balance — December 31, 1975 and December 31, 1976	4,828,339	965,668	5,934,573
Issued on conversion of 8¾% debentures	67,000	13,400	254,600
Gain on treasury stock contributed to			
Employee Stock Ownership Plan	—	—	31,300
Balance — December 31, 1977	4,895,339	979,068	6,220,473
Issued on conversion of 8¾% debentures	19,500	3,900	74,100
Issued on the exercise of stock purchase warrants	656,225	131,245	3,149,880
Issued in exchange for property interests	15,000	3,000	78,562
Loss on treasury stock contribution to			
Employee Benefit Plans	—	—	(3,162)
Balance — December 31, 1978	5,586,064	\$1,117,213	\$9,519,853

assignment of the shares purchased have been made and are included under this caption.

5. INCOME TAXES

At December 31, 1978, the Company has a net operating loss carryforward for United States tax reporting purposes of approximately \$600,000 available to offset taxable income arising in subsequent years, and, if not used, \$281,000 will expire in 1980, and \$319,000 will expire in 1983; and an unused statutory depletion carryforward of approximately \$2,567,000 available without limitation to offset future taxable income; and an investment tax credit carryforward of approximately \$371,000 which will expire, if not used, in various amounts during the years 1979 through 1985. The net operating loss carryforward is composed primarily of permanent differences between tax and financial reporting.

The cumulative amount of oil and gas related financial/tax differences on which deferred income taxes have not been provided under the prospective net method of income tax allocation considering interaction with statutory depletion (Note 1 to the Financial Statements) was approximately \$4,355,000 at December 31, 1978.

At December 31, 1978, approximately \$5,500,000 of drilling, exploration and lease acquisition costs, depletion allowances, and undepreciated capital costs are available to be applied against future taxable income of the Company's Canadian subsidiaries; and an investment tax credit carryforward of approximately \$80,000 which will expire, if not used in 1983. Additional deferred taxes will be provided for financial reporting purposes at such time as these costs are applied to reduce future income taxes payable.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 1978, pursuant to a tender offer to holders of 25 shares or less, the Company acquired 5,876 shares of its common stock for cash at \$5.50 per share net. Some of these shares together with shares acquired in the previous year were contributed to the Employee Stock Ownership Plan while others were reissued to employees under the Company's stock purchase loan plan. The remaining 500 shares of common stock are held in treasury at their cost — \$2,825.

Reserved Shares

Of the authorized but unissued common shares, 1,414,740 shares were reserved at December 31, 1978 (December 31, 1977 - 1,512,393 shares) for issue upon the exercise of the following:

- (a) Outstanding warrants for the purchase of 150,000 shares of common stock of the Company at prices from \$3.45 to \$5.95 to July 22, 1981 and 150,000 shares of common stock of the Company at prices from \$3.95 to \$6.45 to February 26, 1983.
- (b) 50,454 shares have been reserved for conversion of 6½% convertible subordinated debentures due May, 1980 (Note 3).
- (c) 1,064,286 shares have been reserved for the conversion of 8% convertible subordinated debentures due November 1, 1983 (Note 3).

7. EMPLOYEE BENEFIT PLANS

The Company's non-qualified, non-funded Deferred Compensation Plan for key employees, including officers of the Company, provides for qualified employees to be credited with amounts determined annually by the Board of Directors. At the end of each Plan year, each participating employee will be paid 20% of the balance of the credit in his account. During 1978 the Company accrued \$57,578 (\$27,832 in 1977) to the credit of the Plan which amounts have been charged against current operations.

During 1978 the Company established a Deferred Profit Sharing Plan for employees of Canadian subsidiary companies which Plan has been approved for registration by the Canadian Department of National Revenue. The Company's contribution for 1978 was \$28,460.

8. RELATED PARTY TRANSACTIONS

During 1978 the Directors approved a policy of allowing key employees, Officers and Directors of the

Company to participate in exploration joint ventures with the Company on the same terms as those offered to industry partners. As at December 31, 1978 six individuals were participants in one program and had, in the aggregate, subscribed for .065% working interest in the project.

9. COMMITMENTS AND CONTINGENCIES

Worldwide's operations are subject to a variety of state and federal statutes and regulations, including those governing the pricing of crude oil, petroleum products and natural gas liquids. In common with other producers, compliance with these statutes and regulations has been and is subject to audit by the Department of Energy. The statutes and regulations are in many cases uncertain in their applicability to the Company's operations thus requiring many day-to-day unilateral interpretations by Worldwide personnel in order to carry on the Company's business. Worldwide is unable to predict what positions, if any, might be taken during the course of audits by the regulatory authorities as to their interpretation of the proper application of the various statutes and regulations referred to above. The Company believes, however, that these matters will not be material in relation to Worldwide's consolidated financial position.

In order to retain their interest in undeveloped oil and gas properties, the companies will be required to pay delay lease rentals, which based on holdings at December 31, 1978, will amount to approximately \$301,000 annually.

10. SUPPLEMENTARY INCOME STATEMENT INFORMATION

<u>Item</u>	<u>1978</u>	<u>1977</u>
Maintenance and repairs	\$ 979,043	\$1,030,248
Depreciation and depletion of property, plant and equipment	\$1,917,480	\$1,545,476
Taxes, other than income	\$ 323,014	\$ 311,428
Rents, other than delay rentals on undeveloped properties ..	\$ 192,756	\$ 164,131

Note: The Company pays no royalties other than petroleum and natural gas royalties which are based on sales and are recorded in the accounts as a deduction from sales.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SEGMENT INFORMATION

Segment information for the year ended December 31, 1978 is as follows:

	(000's Omitted)				
	Total	Other	Oil & Gas Production	Drilling Arrangements	Gas Gathering & Transmission
Revenue	\$12,582	\$449	\$ 7,745	\$858	\$ 3,530
Operating Profit	\$ 4,123	\$471	\$ 3,166	\$185	\$ 301
Interest Expense	\$ 876				
Corporate General and Administrative Expense	\$ 1,684				
Pre-Tax Earnings	\$ 1,563				
Depreciation, Depletion and Amortization	\$ 1,917	\$ —	\$ 1,723	\$ —	\$ 194
Capital Expenditures	\$ 5,549	\$ —	\$ 5,158	\$ —	\$ 391

Identifiable assets related to the above segments as of December 31, 1978 are:

	\$45,978	\$474	\$25,794	—	\$19,710
--	----------	-------	----------	---	----------

Information regarding the Company's assets, liabilities, and operations by country for 1978 is as follows:

	(000's Omitted)			
	U.K.	Canada	U.S.	Total
Assets	\$168	\$13,813	\$31,697	\$45,678
Liabilities	\$ —	\$ 7,507	\$21,335	\$28,842
Gross Revenues	\$ —	\$ 3,053	\$ 9,529	\$12,582
Net Income	\$(63)	\$ 795	\$ 835	\$ 1,567

During 1978 the Company had sales of oil and gas to three customers which individually exceeded 10% of its total oil and gas sales for the year. The amounts of such sales were \$3,014,600; \$1,566,300; and \$1,302,000, representing 27%, 14%, and 12% respectively of the Company's oil and gas revenues. Drilling arrangements income arises from transactions with one industry partner.

Similar information for 1977 is as follows:

	(000's Omitted)			
	U.K.	Canada	U.S.	Total
Assets	\$176	\$ 8,873	\$10,671	\$19,720
Liabilities	\$ 3	\$ 2,716	\$ 5,194	\$ 7,913
Gross Revenues	\$ —	\$ 3,621	\$ 4,750	\$ 8,371
Net Income	\$ —	\$ 828	\$ 622	\$ 1,450

The total dollar sales in 1977 to its three major customers represented 18%, 15% and 10% respectively of the Company's oil and gas revenues.

12. SUBSEQUENT EVENTS

On December 27, 1978 the Company extended an offer to purchase not more than \$250,000 principal amount of 6½% convertible debentures due 1980 for

cash at 90% of face value plus accrued interest. By February 10, 1979, the expiry date of the offer, debentures in the principal amount of \$40,000 had been tendered for which the Company paid \$36,000.

13. ACCOUNTING RULES CHANGES

In December 1977, the Financial Accounting Standards Board ("FASB") issued Statement No. 19 which required (i) companies engaged in oil and gas production to use the "successful efforts" method of accounting, and (ii) companies having differences between amounts deducted for tax purposes and amounts deducted for financial purposes related to IDC and similar costs to use interperiod tax allocation for such differences. Previously, companies were allowed to use either the "successful efforts" or "full cost" methods of accounting for oil and gas production. These requirements were to be effective for fiscal years beginning after December 15, 1978.

In August 1978, the Securities and Exchange Commission ("SEC"), following an extensive review of FASB Statement No. 19, concluded (i) that the requirement for interperiod tax allocation on IDC differences was appropriate, and (ii) that neither "successful efforts" nor "full cost" accounting was adequate for accounting for oil and gas production activities. The SEC concluded that a new method termed "reserve recognition accounting" should be developed for such activities. This method, a form of "current value" accounting, would recognize proved oil and gas reserves as assets and additions to such reserves as income currently. The SEC indicated that development of such a method would probably take at least three years before it could be implemented.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pending the development of "reserve recognition accounting", the SEC stated that companies may continue to use the method they had been using, i.e., either "successful efforts" or "full cost" accounting. Simultaneously, the SEC published proposed rules which would govern the application of the two methods and which were designed to eliminate variations which had previously existed within both methods. The finally adopted requirements, published in December 1978, are effective for fiscal years ended after December 25, 1979. When effective, the new rules must be applied retroactively.

The Company's oil and gas production activities are accounted for on the "full cost" method but there are certain differences between the application of that "full cost" method and the SEC prescribed method. The Company has not completed its study of the effect of the changes and is unable to quantify the cumulative effect on retained earnings as at December 31, 1978. This determination will be made during 1979 and the changes will (i) require comprehensive inter-period tax allocation (deferred income taxes — See Note 5) not considering the recognition of interaction with future depletion allowances, and (ii) not allow drilling arrangements to be recognized as income.

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

<u>Column A</u>	<u>Column B</u> Balance January 1, 1978	<u>Column C</u> Additions At Cost	<u>Column D</u> Retirements or Sales	<u>Column E</u> Other Changes (1)	<u>Column F</u> Balance December 31, 1978
Undeveloped Properties	\$ 1,524,323	\$ 1,403,173	\$ 216,216	\$ (189,611)	\$ 2,521,669
Developed Properties					
Leaseholds	10,534,216	2,214,696	122,997	233,742	12,859,657
Gas contracts	—	7,751,632(2)	—	—	7,751,632
Production Equipment	6,561,976	1,460,640	158,885	(44,131)	7,819,600
Gas Pipeline, Plant Equipment and Rights-of-Way	2,049,571	8,888,770(2)	82,958	—	10,855,383
Mineral Properties	293,737	4,700	—	—	298,437
Other Assets	922,852	283,114	61,541	—	1,144,425
	<u>\$21,886,675</u>	<u>\$22,006,725</u>	<u>\$ 642,597</u>	<u>\$ —</u>	<u>\$43,250,803</u>

<u>Column A</u>	<u>Column B</u> Balance January 1, 1977	<u>Column C</u> Additions At Cost	<u>Column D</u> Retirements or Sales	<u>Column E</u> Other Changes (1)	<u>Column F</u> Balance December 31, 1977
Developed Properties	\$ 8,916,362	\$ 1,588,322	\$ —	\$ 29,532	\$10,534,216
Undeveloped Properties	1,158,539	395,536	—	(29,752)	1,524,323
Production Equipment	5,768,671	836,495	43,190	—	6,561,976
Gas Pipeline, Plant Equipment and Rights-of-Way	1,946,438	103,133	—	—	2,049,571
Mineral Properties	293,517	—	—	220	293,737
Other Assets	782,155	305,775	165,078	—	922,852
	<u>\$18,865,682</u>	<u>\$ 3,229,261</u>	<u>\$ 208,268</u>	<u>\$ —</u>	<u>\$21,886,675</u>

(1) Transfers

(2) Primarily acquisition of subsidiary company. (See Note 2)

WORLDWIDE ENERGY CORPORATION AND SUBSIDIARIES

**SCHEDULE VI — ACCUMULATED DEPRECIATION AND
DEPLETION OF PROPERTY, PLANT AND EQUIPMENT**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
	<u>Balance January 1, 1978</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes (1)</u>	<u>Balance December 31, 1978</u>
Undeveloped Properties	\$ 514,856	\$ 118,644	\$ —	\$ —	\$ 633,500
Developed Properties					
Leaseholds	3,173,640	820,396	—	—	3,994,036
Gas contracts	—	132,289	—	—	132,289
Production Equipment	1,584,296	531,266	823	—	2,114,739
Gas Pipeline, Plant Equipment and Rights-of-Way	785,645	219,726	5,812	—	999,559
Mineral Properties	—	5,243	—	—	5,243
Other Assets	246,504	89,916	—	1,707	338,127
	<u>\$ 6,304,941</u>	<u>\$ 1,917,480</u>	<u>\$ 6,635</u>	<u>\$ 1,707</u>	<u>\$ 8,217,493</u>

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
	<u>Balance January 1, 1977</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Retirements</u>	<u>Other Changes (1)</u>	<u>Balance December 31, 1977</u>
Developed Properties	\$ 2,469,056	\$ 704,584	\$ —	\$ —	\$ 3,173,640
Undeveloped Properties	405,363	109,493	—	—	514,856
Production Equipment	1,059,527	513,639	—	3,910	1,584,296
Gas Pipeline, Plant Equipment and Rights-of-Way	637,670	147,975	—	—	785,645
Other Assets	200,190	69,785	15,951	(7,520)	246,504
	<u>\$ 4,771,806</u>	<u>\$ 1,545,476</u>	<u>\$ 15,951</u>	<u>\$ (3,610)</u>	<u>\$ 6,304,941</u>

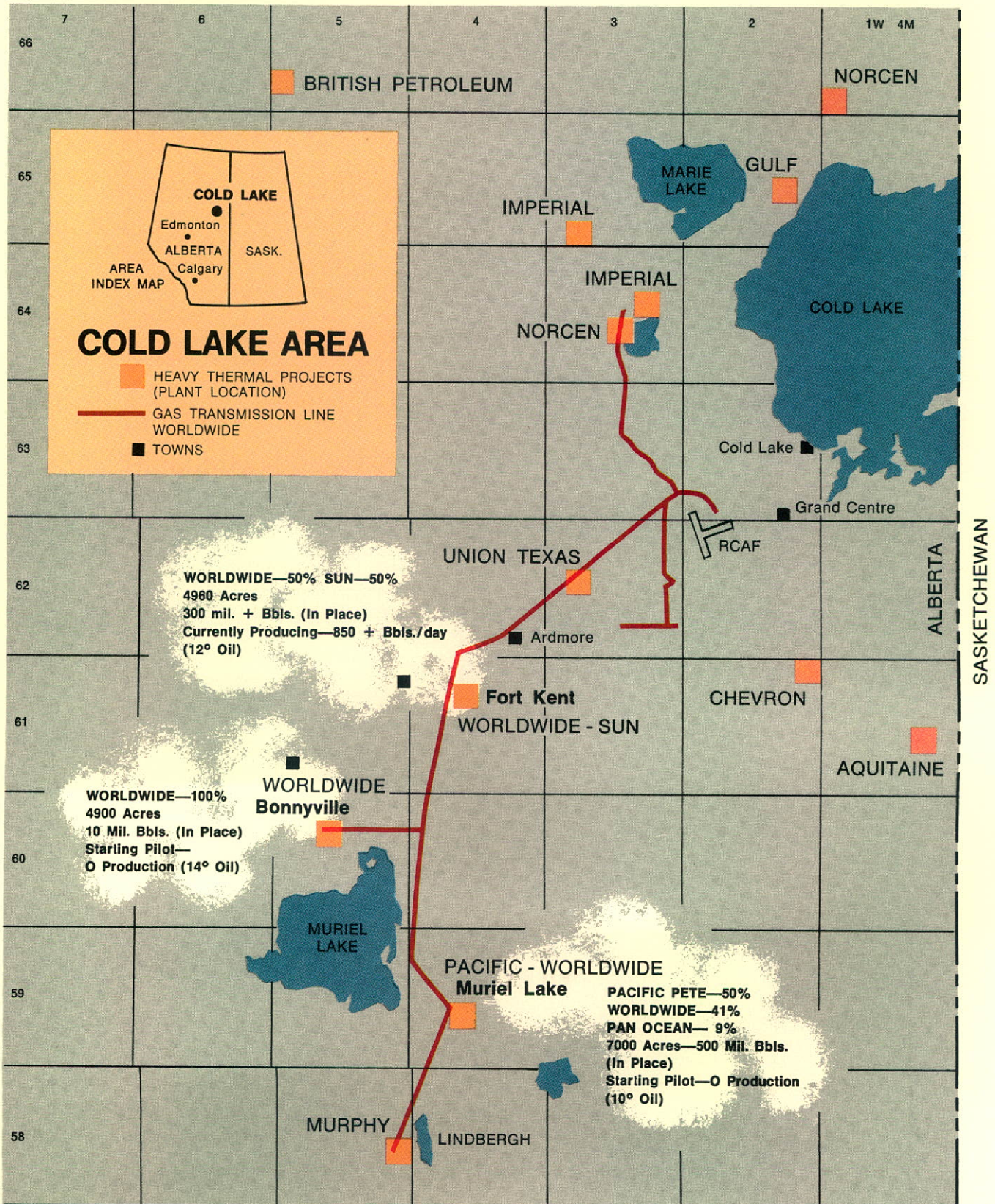
(1) Transfers and miscellaneous adjustments.

(Blank Page)

(Blank Page)



WORLDWIDE ENERGY CORPORATION and Subsidiaries





**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

WORLDWIDE ENERGY CORPORATION is an oil and gas producer with working interests in 310 producing oil and gas wells in the United States and Canada and undeveloped leaseholds covering 99,000 net acres. The Company owns and operates approximately 395 miles of intrastate gas gathering and transmission facilities in Kansas, as well as a small interstate system in Texas and a 60 mile system in the Cold Lake area of Northeastern Alberta, Canada. Also the Company holds interests in uranium and other mineral properties including working interests of approximately 50% in leases and claims on 17,000 acres of uranium mining property in the Ambrosia Lake District of New Mexico.

SUMMARY OF QUARTERLY EARNINGS (UNAUDITED)

	1978			
	4th Qtr.*	3rd Qtr.	2nd Qtr.	1st Qtr.
Revenue	\$6,210,574	\$2,026,298	\$2,191,382	\$2,153,420
Operating Expenses	<u>5,558,880</u>	<u>1,758,818</u>	<u>1,931,885</u>	<u>1,768,756</u>
	651,694	267,480	259,497	384,664
Provision for Income Tax	<u>5,000</u>	<u>(8,000)</u>	<u>(51,000)</u>	<u>50,000</u>
Net Income	<u>\$ 646,694</u>	<u>\$ 275,480</u>	<u>\$ 310,497</u>	<u>\$ 334,664</u>
Earnings Per Share	<u>\$.12</u>	<u>\$.05</u>	<u>\$.06</u>	<u>\$.07</u>

*The fourth quarter includes the operations of Central States Gas Company from date of acquisition, November 1, 1978.



Additional 5,000 bbl. storage tank for Phase II Expansion



WORLDWIDE STOCK MARKET PRICE RANGE

The following table sets forth high and low bid and asked prices for the common stock for each quarterly period of the two-year period ended December 31, 1978 and for the first quarter of 1979. These prices represent interdealer prices without adjustment for markup, markdown or commissions and do not necessarily reflect actual transactions in the common stock of the Company.

	Common Stock			
	Bid Prices		Asked Prices	
	High	Low	High	Low
CALENDAR YEAR 1977				
1st quarter	4-7/8	3-13/16	5-1/8	4-1/16
2nd quarter	5	4-1/8	5-1/4	4-3/8
3rd quarter	6-1/8	4	6-3/8	4-1/4
4th quarter	5-1/4	3-7/8	5-1/2	4-1/8
CALENDAR YEAR 1978				
1st quarter	5-1/16	4-1/4	5-5/16	4-1/2
2nd quarter	5-3/4	4-11/16	6	4-15/16
3rd quarter	7-5/16	5-1/4	7-9/16	5-1/2
4th quarter	6-3/4	3-13/16	7	4-1/16
CALENDAR YEAR 1979				
1st quarter	7-5/8	5-3/8	7-7/8	5-5/8

WORLDWIDE STOCK LISTINGS

Worldwide's stock is traded over the counter and quoted over NASDAQ's National listing using the symbol WWEN. The stock is included in the Federal Reserve Board's list of marginable securities. In Canada the Company's stock is traded on the Toronto Stock Exchange.

Market Makers as of April 18, 1979

Advest, Inc.	Hinkle Northwest, Inc.
B. J. Leonard & Co., Inc.	Loeb Rhoades Hornblower & Co.
Bruns Nordeman Rea & Co.	M. S. Wien & Co., Inc.
J. Daniel Bell & Co., Inc.	Mayer & Schweitzer, Inc.
Dain Kalman & Quail, Inc.	Merrill Lynch Pierce Fenner & Smith, Inc.
Dean Witter Reynolds, Inc.	Pitfield MacKay & Co., Inc.
Drexel Burnham Lambert, Inc.	Sherwood Securities Corp.
Eppler Guerin & Turner, Inc.	Troster Singer Stevens Rothchild Corp.
Hanifen Imhoff & Samford, Inc.	Webber Hall Cobb & Caudle, Inc.
Herzog Heine Geduld, Inc.	Wedbush Noble Cooke, Inc.



Producing well close to steam building.



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

FIVE YEAR SUMMARY OF OPERATIONS

	1978	1977	1976	1975	1974
OIL AND GAS					
Production — oil (000's bbl.)	399	451	407	393	432
— gas (mmcf)	3,874	4,095	4,612	4,161	3,239
Sales — oil (000's bbl.)	395	449	405	392	435
— gas (mmcf)	5,633	4,835	5,674	5,364	4,557
Net wells owned					
— oil	134	120	121	120	125
— gas	58	59	56	53	52
— service	49	54	52	51	53
— shut-in*	122	117	111	107	84
<i>*Includes wells temporarily shut-in for water flood.</i>					
NET WELLS DRILLED					
— oil	8	3	6	3	1
— gas	1	6	2	3	1
— dry or suspended	6	4	5	3	—
— injection	1	—	1	1	1
RESERVES					
— oil (000's bbl.)	3,936	3,920	3,977	4,294	4,566
— gas (mmcf) — owned	44,472	42,540	50,949	52,104	61,867
— gas (mmcf) — committed	74,075	4,227	5,119	6,188	7,305



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

FIVE YEAR FINANCIAL SUMMARY

	1978	1977	1976	1975	1974
BALANCE SHEET DATA (dollars in thousands)					
Property, plant and equipment	\$35,033	\$15,582	\$14,094	\$12,360	\$11,540
Other assets	10,645	4,138	3,233	2,538	7,346
Total assets	<u>\$45,678</u>	<u>\$19,720</u>	<u>\$17,327</u>	<u>\$14,899</u>	<u>\$18,886</u>
Long-term liabilities	\$20,564	\$ 5,156	\$ 5,406	\$ 4,139	\$ 5,256
Deferred Income taxes	1,642	1,380	677	104	15
Shareholders' equity	16,837	11,807	10,049	8,912	11,748

PER SHARE DATA

Income — continuing operations	\$.30	\$.30	\$.24	\$.21	\$.09
Income — discontinued operations	—	—	—	.08	.13
Net income	<u>\$.30</u>	<u>\$.30</u>	<u>\$.24</u>	<u>\$.29</u>	<u>\$.22</u>
Dividend — spin-off of subsidiary	—	—	—	\$.87	—
Book value	\$3.01	\$2.43	\$2.09	\$1.85	\$2.43
Weighted average shares outstanding (000's)	5,289	4,865	4,813	4,820	4,828

OTHER DATA

Stock outstanding — common (000's)	5,586	4,889	4,813	4,813	4,828
Number of shareholders	11,900	12,300	12,000	7,935	9,200
Number of employees	114	69	52	46	49

All real estate operations have been excluded and are included in discontinued operations due to spin-off of real estate net assets as of December 31, 1975

Earning data is presented on page 14.



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

DIRECTORS

Arthur Cassel, Chairman
President
Citrus County Land Bureau, Inc.
Great Neck, New York

Barron C. Housel†
Oil and Gas Consultant
Houston, Texas

Arthur R. Smith*†
Vice President
Allarco Developments Ltd.
Calgary, Alberta

J. Kenneth Boyles*
Vice President
The National State Bank
Elizabeth, New Jersey

William C. Jones III*
Attorney
Robinson, Boese & Davidson
Tulsa, Oklahoma

Robert B. Tenison†
President
Worldwide Energy Corporation

* Member of Audit Committee
† Member of Executive Committee

OFFICERS

Robert B. Tenison
President

Blaine S. Day
Vice President - Exploration

John F. Meck
Secretary

Lysle A. Gust
Senior Vice President

Walter V. Pelepchan
Treasurer

Mary Evelyn Dickerson
Assistant Secretary

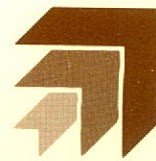
Ronald J. Cargo
Vice President - Operations

FORM 10-K EXHIBITS

Copies of the exhibits to our Form 10-K as filed with the Securities and Exchange Commission are available upon payment of copying charges by writing to the Company at 1600 Tower Building, 1700 Broadway, Denver, Colorado 80290.



Producing well being steamed



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**

OPERATIONS PERSONNEL

Denver, Colorado
1700 Broadway, Suite 1600

ENGINEERING AND OPERATIONS

Tom Carroll, *District Engineer*
Jon Dull, *Engineer*
Jean Muse, *Production Accounting*

EXPLORATION AND LAND

Albert H. Gillis, *Senior Staff Geologist*
Jan Ilves, *Staff Geologist*
Larry D. Van Cleave, *Land Manager*
Judy Ball, *Junior Landman*
Sue Jaquet, *Land Records Supervisor*
Bob Bonaquisti, *Drafting*

ACCOUNTING AND ADMINISTRATION

James M. Posey, *Staff Attorney*
Priscilla Sip, *Payroll Services*
Roy F. Peters, *Chief Accountant*
Larry Drees, *Staff Accountant*
Charles Lundberg, *Staff Accountant*
Maxine Price, *Staff Accountant*
Peggy Meissner, *Revenue Accounting*
John Quinn, *Data Processing Manager*
Patrick N. Williams, *Tax Manager*

Houston, Texas
1300 Main St., Suite 1130

Don Burnett, *Exploration Manager, Gulf Coast Division*
Claudia P. Ludwig, *Staff Geologist*

Freer, Texas

Lloyd R. Upton, *Operations Manager*

Perryton, Texas

Paul R. Andrew, *Field Superintendent*

Pratt, Kansas

Donald E. Gray, *Operations Manager*
Phyllis Goss, *Supervisor — Pipeline Right-of-Way*

Calgary, Alberta
3125 Shell Centre
400 - 4th Avenue S.W.

F. Wayne Rutledge, *Exploration Manager*
Gary Huyck, *Staff Geologist*
Beatrice M. Cooper, *Land Supervisor*

Bonnyville, Alberta, Canada

WORLDWIDE ENERGY COMPANY LTD.
William J. Lawrence, *Operations Manager*
COLD LAKE TRANSMISSION LIMITED
Prosper L. Theroux, *Operations Manager*

SUBSIDIARIES

Worldwide Energy Company Ltd., Calgary, Alberta
Central States Gas Company, Denver, Colorado
Cold Lake Transmission Limited, Bonnyville, Alberta
WECO Development (Canada) Ltd., Calgary, Alberta

Semco Gas, Inc., Denver, Colorado
Worldwide Energy (U.K.) Limited, Keswick,
Cumberland, U.K.

TRANSFER AGENTS AND REGISTRARS

The National State Bank, Elizabeth, New Jersey
(common stock)
Guaranty Trust Company of Canada, Toronto
(common stock)

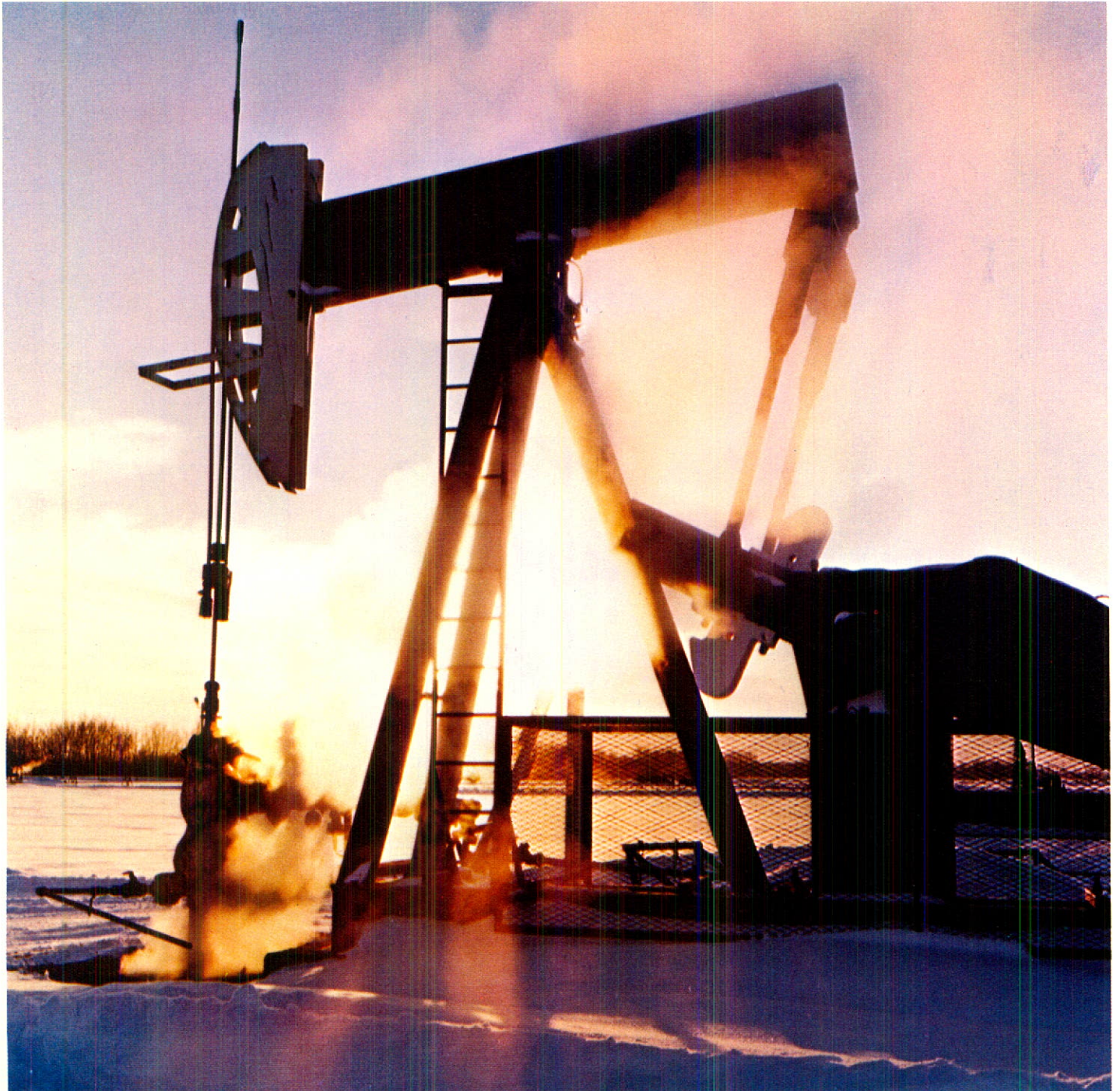
Mercantile Trust Company, St. Louis, Missouri
(6½% Debenture)

AUDITORS

Coopers & Lybrand
2500 Anaconda Tower, Denver, Colorado



**WORLDWIDE ENERGY
CORPORATION
and Subsidiaries**



Producing well — steam comes back, too



**WORLDWIDE ENERGY
CORPORATION**

1600 Tower Building / 1700 Broadway
Denver, Colorado 80290
303/861-8615