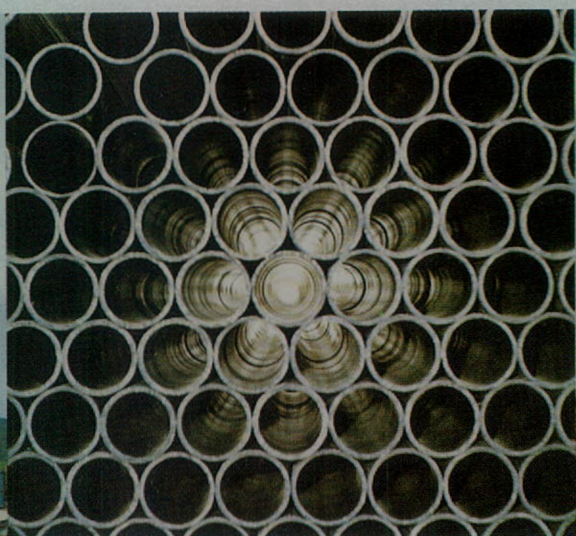
WESTBURNE

INTERNATIONAL INDUSTRIES LTD.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AUG 7 1979
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ANNUAL REPORT 1979

HISTORIC RANCHES OF ALBERTA

"SUMMER SKIES"

A. E. Cross - A-7 Ranch, Nanton, Alberta

O. N. Grandmaison
From the collection
of WESTBURNE
International Industries Ltd.

A. E. Cross began his ranching career in 1885 near the present townsite of Nanton, 55 miles south of Calgary, at the fork of Mosquito Creek. Grandmaison has seen this area as a bountiful and beneficent land and in this painting his colors radiate a glow of warm earth and sunshine. A. E. Cross was originally from Montreal and came to Alberta with the desire to become a rancher and raise fine quality livestock. He soon prospered and besides his A-7 Ranch at Nanton he had many other land interests in the areas of Lundbreck and Willow Creek, in Alberta.

DIRECTORS AND OFFICERS

DIRECTORS

†S. ABRAMOVITCH,
Executive Vice President,
‡United Westburne Industries Limited,
Montreal, Quebec

†W. M. BOOTH,
Vice President,
Kenai Corp.,
Diversified oil and gas activities
Denver, Colorado

JOHN H. COLEMAN,
President,
J.H.C. Associates Limited
Financial consultants
Toronto, Ontario

*LUCIEN CORNEZ,
Chairman,
‡United Westburne Industries Limited,
Montreal, Quebec

*W. J. CUMMER,
President,
Westburne International Industries Ltd.,
Hamilton, Bermuda

*F. R. MATTHEWS, Q.C.
Partner of MacKimmie Matthews,
Barristers & Solicitors,
Calgary, Alberta

ABRAHAM PALMER,
Retired President,
‡Palmers Plumbing Supply Limited,
Ottawa, Ontario

*P. J. PORTER,
President,
‡Westburne Petroleum Services Ltd.,
Calgary, Alberta

JOSEPH RIMERMAN,
President,
Rayrow Realties Ltd.,
Montreal, Quebec

†MAURICE SAILLANT,
Retired Chairman,
‡Saillant Inc.,
Plumbing & heating supplies,
Quebec, Quebec

*J. A. SCRYMGEOUR,
Chairman of the Board,
Westburne International Industries Ltd.,
Hamilton, Bermuda

D. N. STOKER,
Senior Vice President and Director,
Nesbitt, Thomson and Company Limited
Investment dealers,
Montreal, Quebec

*D. W. WESTCOTT,
President,
‡United Westburne Industries Limited,
Vancouver, British Columbia

*P. D. WILLIAMS,
President,
‡Westburne Petroleum & Minerals Ltd.,
Calgary, Alberta

**Member of the Executive Committee*
†Member of the Audit Committee
‡Subsidiary company

OFFICERS

J. A. SCRYMGEOUR,
Chairman of the Board

LUCIEN CORNEZ,
Vice Chairman of the Board

W. J. CUMMER,
President

D. W. WESTCOTT,
Senior Vice President
Equipment and Supplies

P. J. PORTER,
Senior Vice President—Petroleum Services

P. D. WILLIAMS,
Senior Vice President
Exploration and Production

S. ABRAMOVITCH,
Vice President—Finance

L. R. ROBERTS,
Vice President—Administration and Treasurer

J. A. REILLY,
Secretary

W. J. E. GILLETT,
Controller

Head Office
535 Seventh Avenue S.W., Calgary, Alberta
Telephone (403) 266-8931

Transfer Agent and Registrar
Montreal Trust Company,
Vancouver, Calgary, Regina, Winnipeg,
Toronto and Montreal

The Royal Bank & Trust Company
New York, N.Y.

Legal Counsel
MacKimmie Matthews, Calgary, Alberta
Dunnington, Bartholow & Miller,
New York, U.S.A.

Auditors
Touche Ross & Co.

Stock Exchanges
The Toronto Stock Exchange,
The Montreal Stock Exchange,
The American Stock Exchange, Inc.
Ticker Symbol (WBI)

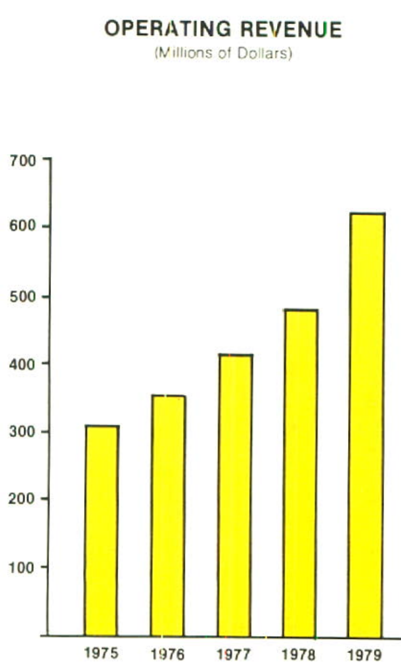
ANNUAL MEETING

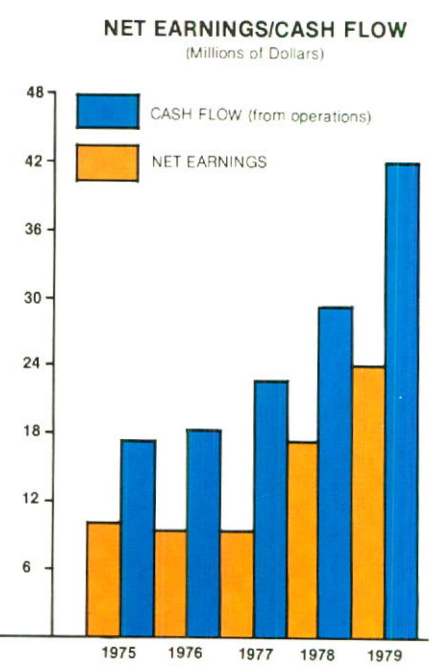
The Annual Meeting of Shareholders will be held at 9:30 A.M., on Tuesday, August 7, 1979, in the Marquis Room, Palliser Hotel, Calgary.

FINANCIAL HIGHLIGHTS

For the year ended March 31—	1979	1978 (Restated)
Total operating revenue	$615,947,000	$482,666,000
Net earnings	23,968,000	16,034,000
Net earnings applicable to common shares	23,935,000	15,943,000
*Per common share — basic earnings	6.28	4.37
— fully diluted earnings	6.16	4.12
Cash flow from operations	41,965,000	29,059,000
As at March 31 —		
Fixed assets — net of depreciation and depletion	104,068,000	98,070,000
Total assets	393,336,000	290,972,000
Long term debt — less amount due within one year	86,498,000	50,793,000
Shareholders' equity		
Preferred	—	1,215,000
Common	95,094,000	77,945,000
Per common share	24.47	21.06
Total equity	95,094,000	79,160,000
Number of common shares outstanding	3,886,220	3,701,404

*Based on weighted average number of shares outstanding during the year.



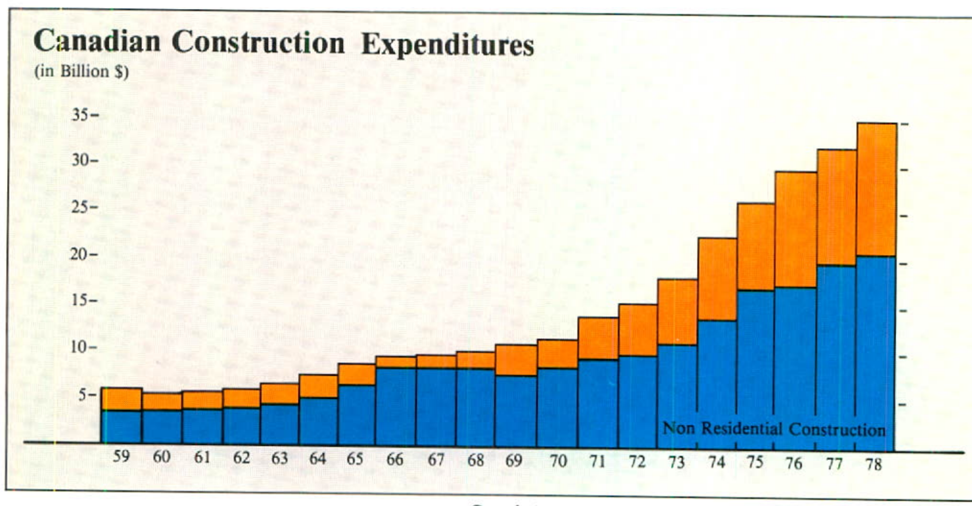


TO OUR SHAREHOLDERS:

Revenues from contract oil and gas drilling operations, oil and gas sales and sales of plumbing, electrical and related supplies totalled $615,947,000. After deducting our costs and expenses of $564,882,000 a balance of $51,065,000 remained. From this we paid interest expenses, income taxes, and made provision for the minority interest in one of our subsidiary companies, leaving net earnings for the year ended March 31, 1979 of $23,968,000, equal to $6.16 per share. All in all an extraordinary year made possible by the dedicated efforts of all of the employees of the Company responding to the opportunities that exist in the various markets in which we serve.

Westburne's roots go back over forty years when companies which are now subsidiaries first became active in Western Canada's petroleum industry. However, our period of rapid growth began ten years ago, in March 1969, when our three divisions were merged and commenced operations under the name "Westburne". Since that time our name and logo have become well known across Canada and in various other parts of the world. In the ten year period revenues increased from $105,407,000 to $615,947,000 and the net earnings from $2,484,000 to $23,968,000. We are entering our eleventh year of operations and are confident that last year's progress will continue and that fiscal 1980 will prove to be another most rewarding year.

Canada is fortunate to have enormous energy resources not only in the form of conventional oil and natural gas, but also in tar sands, heavy oil, uranium, coal deposits and hydro electric. Your Company is well positioned in the industries which will be developing these resources.



Graph 1

Commencing with the quarter ended September 30, 1978 we began payment of dividends to holders of our common shares. Including the payment made April 1, 1979 dividends of $2.00 per share were paid in the current fiscal year; of this amount $1.75 was paid as tax deferred dividends out of pre 1972 capital surplus. Effective with our dividend payable on July 1, 1979 the common share dividend was increased to 35¢ from 25¢ per quarter.

Full information on the Company's financial position for the year ended March 31, 1979 is contained in the FINANCIAL REVIEW section of this report.

Rising construction expenditures across Canada of $35 billion in 1978, as shown in Graph No. 1, which does not include a six billion dollar a year renovation market gives rise to the expanding revenues and earnings of our plumbing and electrical supplies division. This division in total provided $426,118,000 revenues and $8,321,000 net earnings after provision for minority interest.

The acquisition, effective in January, 1979, of the business and certain assets of Nedco Ltd. and Zentronics Ltd., contributed to earnings in the fourth quarter and substantially expands our earnings potential in the coming year. These companies, like Westburne, were engaged in the distribution of electrical products in Canada through 46 branches and we are pleased to have the former employees of Nedco and Zentronics as part of the Westburne team. They already have made a valuable contribution in many areas of the Company's operations.

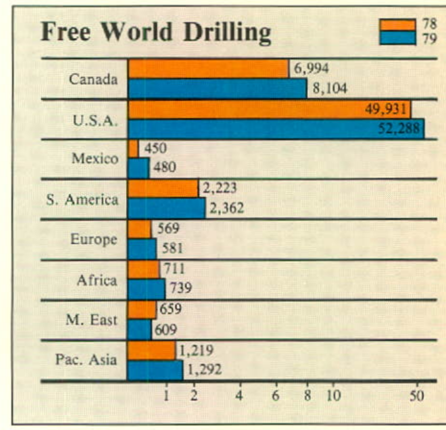
Despite unforeseen and unfavourable developments in Iran, our petroleum industry service division completed another record year in contract drilling and oilfield supplies. Our wholly owned subsidiaries in Canada and the United States attained high levels of operating days, footage drilled and profits earned. We forecast record earnings in last year's Annual Report, but we could not have foreseen that these increases would be quite so dramatic. This has been made possible by rising world petroleum prices, a series of exciting new finds in Canada, the need for the Western world to bring every available barrel of crude oil and every cubic foot of natural gas to the market place and the total commitment in exploration by the petroleum industry to meet this need.

The contract drilling division had revenues of $134,667,000 and the oilfield supply division had revenues of $58,267,000 including sales to affiliated companies. Together they contributed $14,548,000 to net earnings.

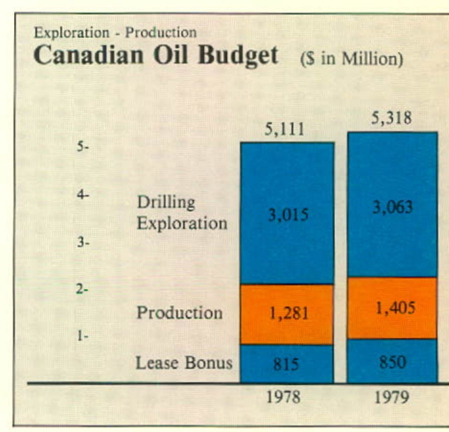
The Canadian petroleum industry expended in excess of ten billion dollars for the first time in 1978. Costs of finding, developing and producing oil and natural gas and payment of royalties and taxes (including income taxes) were nine billion dollars; in addition, approximately one billion dollars was spent on oil sands operations. A record of some 7,000 wells were drilled in Canada in 1978, compared with 6,197 in 1977, an increase of 13.0%. Graph No. 2 shows the wells drilled in 1978 and the estimate for 1979 on a worldwide basis. We draw your attention to the great percentage (90.7%) of the total world wells which were drilled in the United States and Canada.

The petroleum industry in North America is accepting the challenge of the energy crisis. Graph No. 3 shows a 4.1% budgeted increase in 1979 exploration and production expenditures in Canada and Graph No. 4 shows a 14.4% budgeted increase in 1979 expenditures in the United States (dollar amounts shown do not include payment of royalties and taxes).

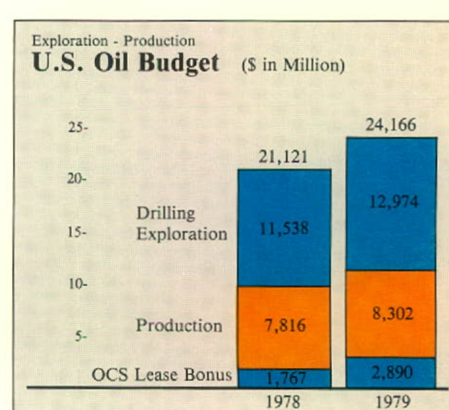
During the past year oil and gas revenues were $6,689,000 and cash flow was $2,202,000. Westburne participated in the drilling of 51 wells: 26 resulted in gas wells, 7 resulted in oil wells, and 18 were dry and abandoned. In the period Westburne acquired interests in 55,753 gross acres in Alberta and British Columbia, the basic ingredient to become a successful oil and gas producer. Our exploration and development over the next twelve months will involve the drilling of approximately 25 prospects on this acreage.



Graph 2



Graph 3



Graph 4

In August, 1978 the Company placed $50,000,000 U.S. unsecured 9.90% Senior Notes with a group of United States and Canadian insurance companies. Proceeds of this fifteen year term financing were used to retire virtually all the long and short term debt in our petroleum industry services and supplies division.

It is with deep regret that your directors report the death in February 1979, of Mr. T. H. Atkinson, M. C., a director of the Company since 1969, and of our subsidiary, United Westburne Industries Limited since 1958. Mr. Atkinson made a valuable contribution to your Company's progress over the years and we shall miss his wise counselling, great experience and enthusiastic support.

Mr. J. Donald Mitchell, of Halifax, Nova Scotia has agreed to stand as a nominee for election to the Board of Directors at the forthcoming Annual Meeting. Mr. Mitchell has been a director of our subsidiary, United Westburne Industries Limited since 1974.

In May 1978 the Company's shares were listed on the American Stock Exchange and as a result we now have over 900 shareholders in the United States. We welcome these and all other new shareholders of the Company.

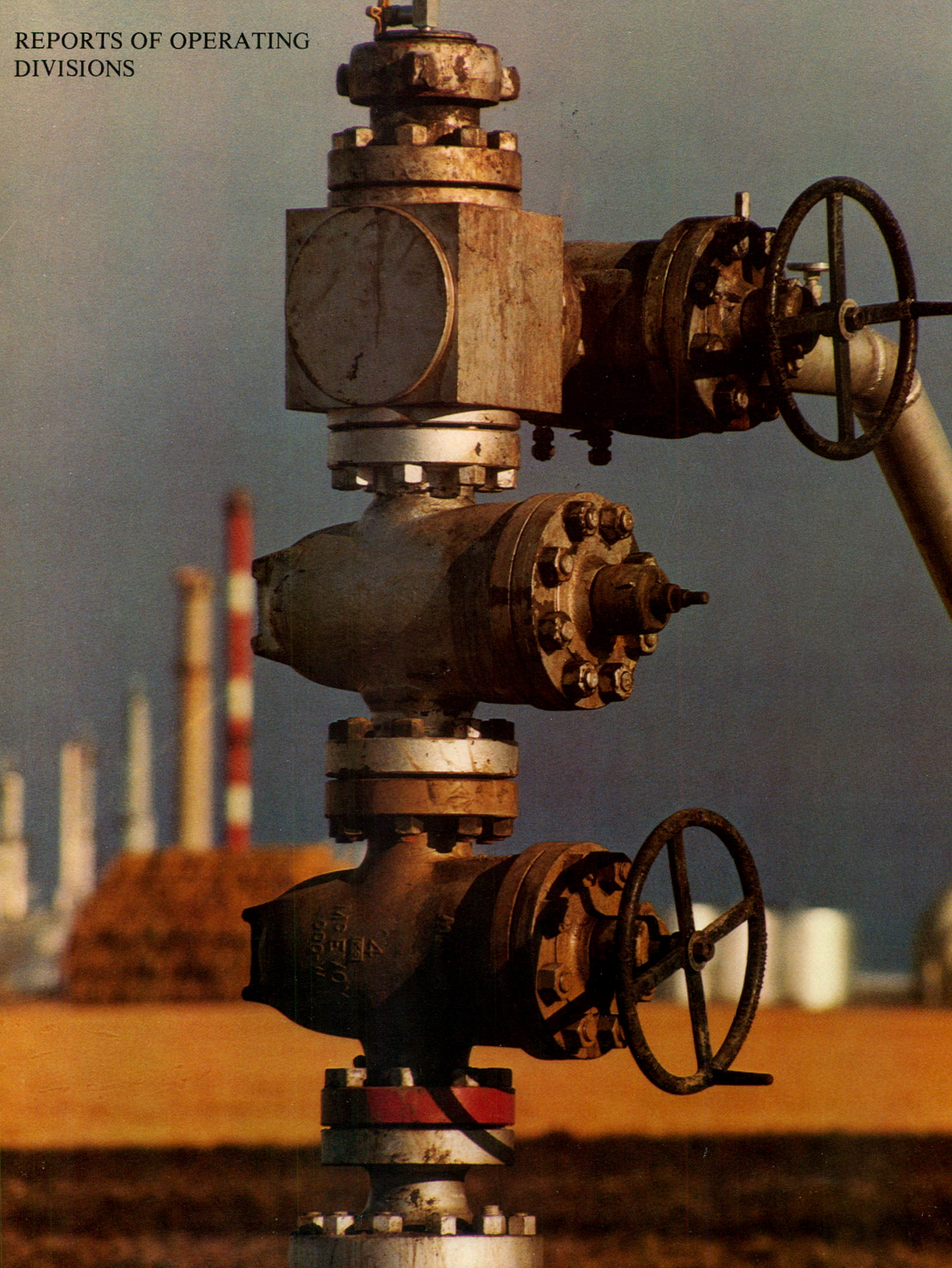
At the Annual Meeting you will be asked to approve a resolution to implement a two for one common share split to be effective August 31, 1979. The stock split has been proposed in our belief that, if approved, it will result in a broader market for our common shares. All directors have indicated that they will vote in favour of approval of the resolution.

We are including with this Annual Report a copy of an address by your Chairman to the New York Society of Security Analysts on June 5, 1979 which includes information on the world-wide petroleum industry, Canadian construction industry and Westburne's role in these major industries.

J. A. SCRYMGEOUR
Chairman of the Board

July 4, 1979

REPORTS OF OPERATING DIVISIONS



PETROLEUM INDUSTRY SERVICES AND SUPPLIES DIVISION

Contract Drilling

Throughout the Western world there is now an acute awareness of the problems facing all parts of the world as crude oil reserves dwindle due to increasing consumption and scarcity of newly discovered oil reserves. Although the petroleum industry has increased its expenditures in the search for new oil it appears that governments must recognize the need to provide further incentives to industry to encourage and to make economically sound the expenditure of even larger amounts of risk capital.

The contract oil and gas drilling industry is committed to improving capacity and capabilities to work with the petroleum industry in the search for new reserves. Present equipment is being up-graded and new equipment is being added with the result that wells can be drilled more efficiently and more safely to greater depths.

Westburne's oil and gas drilling division has the majority of its 60 land drilling rigs located in Canada and the United States. These two countries experienced an extremely high demand for drilling services as a large majority of the petroleum industry's worldwide exploration and development budget was spent in North America. At March 31, 1979, 33 wholly owned rigs and four 50% owned rigs were operational in Western Canada or the Canadian Arctic, and ten rigs in the United States. These rigs performed at their highest ever level of activity. Gross revenues for domestic drilling rose to $82,201,000 from $59,988,000 and earnings before income tax increased to $21,756,000 from $13,498,000.

Westburne's international drilling division has land rigs situated in various other parts of the world: five in Africa, four in Iran, four in Southeast Asia.

Westburne's jack-up drilling rig is operating under a bare boat charter lease in the Gulf of Mexico.

The contract in Iran terminated in the midst of political developments and was not renewed. We are presently moving these rigs from Iran and are actively bidding on work in other areas. Negotiations have been completed for an extension to the four-rig contract in Algeria and we are actively bidding for work for the equipment in Southeast Asia. Prospects for new work are enhanced as all non-OPEC countries continue their efforts to find and develop local sources of oil and gas

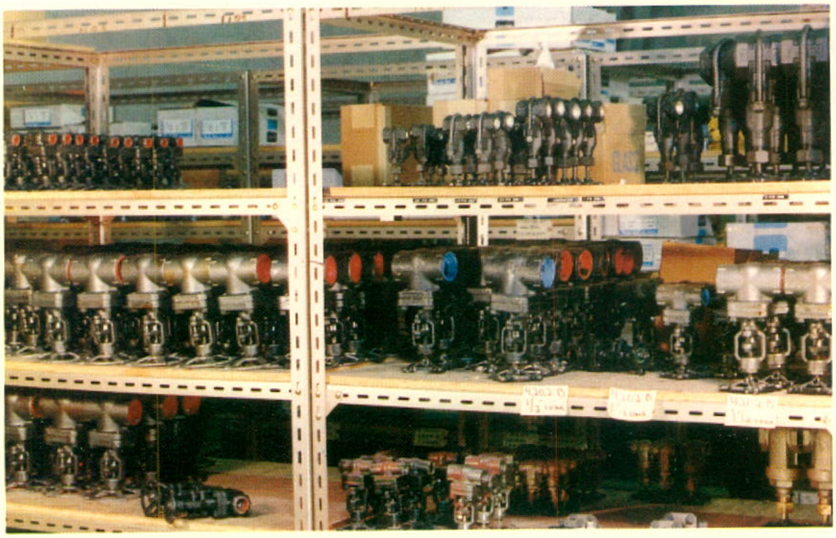
International operations resulted in gross revenues of $52,466,000, up from $46,513,000 in the previous year. After reserving $2,325,000 for costs and expenses in Iran, pre-tax earnings were $741,000, down from $1,602,000 in the previous year.

Westburne continues to contract and provide technical services and labor/management in the North Sea and the Philippines.

During the year this division placed \$50,000,000 U.S., 9.90% fifteen year Senior Notes with a group of United States and Canadian insurance companies. The proceeds of this private placement were used to pay off virtually all long and short term debt and to add to working capital. Accordingly, the working capital position improved significantly in the past year.

In Western Canada, the place where Westburne first entered the contract drilling business, this division has proceeded with an "in house" training program to provide fully qualified field personnel for drilling operations. A training school was established in Calgary and a specialized transportable classroom was built so that training could also be carried out at the well site. As part of this training program a metric well control simulator, the first in Canada, was purchased. In due course the training program will be expanded to our United States and international operations.

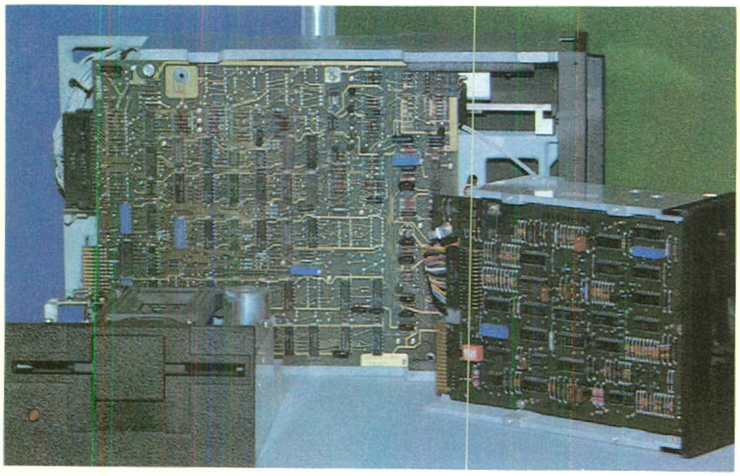
Demand for our drilling services remains high in almost all areas in which we operate and considering the extent of the current energy crisis we expect the demand to continue into the foreseeable future.



Oilfield Equipment and Supplies

The high activity level in the petroleum industry in Western Canada resulted in the most successful ever year for our oilfield equipment and supplies business. Gross revenues climbed almost 50% to $58,267,000 from $38,748,000 in the previous year. Pre-tax earnings were $3,832,000 up from $2,581,000. With the petroleum industry intensifying its search for new oil and gas reserves it becomes apparent that this segment of Westburne's petroleum industry service and supply business will reach new highs in revenues and earnings in fiscal 1980.

The success of our oilfield equipment and supplies business is built on the reputation gained in over thirty years of providing quality service and products to the petroleum industry. This division maintains a staff of approximately eighty people, half of whom are involved in direct customer service positions. Its strength is and has been built on the ability of these people to provide customers with the equipment and service they require. This has served well in the past and we believe that attention to the specific needs of customers is our strong base for continued growth in the future.




WESTBURNE
CENTRAL SUPPLY

CONSTRUCTION EQUIPMENT AND SUPPLIES DIVISION

Construction expenditures in Canada reached an all-time high in 1978 and this division, which distributes plumbing, heating and electrical products to the construction industry shared in the growth. Gross revenues increased to $426,118,000 from $341,222,000 while net earnings after minority interest were $8,321,000 up from $4,522,000 in the previous year. Westburne's progress reflects on the one hand, the better performance of the plumbing, heating and electrical wholesale industry in general, and on the other hand, our control of various costs and expenses to improve profitability.

The most important development in fiscal 1979 was the acquisition of certain assets, principally inventory, trade names and trade marks, of Nedco Ltd. and Zentronics Ltd. from Northern Telecom Ltd. These companies, like Westburne, were engaged in the distribution of electrical products in Canada. The acquisition of these businesses, effective January 4, 1979, already has proven beneficial and contributed to a very successful fourth quarter in this division.

The Nedco/Zentronics business of Westburne operates across Canada employing some 700 persons. While they sell the usual electrical lines to contractors, their principal thrust is in the non-residental market, an area which Westburne previously had not penetrated in depth. This market includes commercial, institutional and industrial construction in addition to the highly specialized electronic and telecommunication equipment fields. Recent analyses indicate that by the early part of the next century electricity should meet over 50% of the Canadian demand for energy. These studies indicate that the largest increase in demand will come from industry; therefore this acquisition should prove particularly rewarding in the long term.

March 31, 1979 marked ten years of operations as a Westburne division. In this ten-year period gross revenues have grown to $426,118,000 from $78,299,000 in fiscal 1970, and net earnings after minority interest, to $8,321,000 from $852,000 in fiscal 1970. Gross revenues are expected to be in excess of $600,000,000 in fiscal 1980, a remarkable achievement in a relatively short period of time. This division now has 137 branches with good market exposure in all areas across Canada.

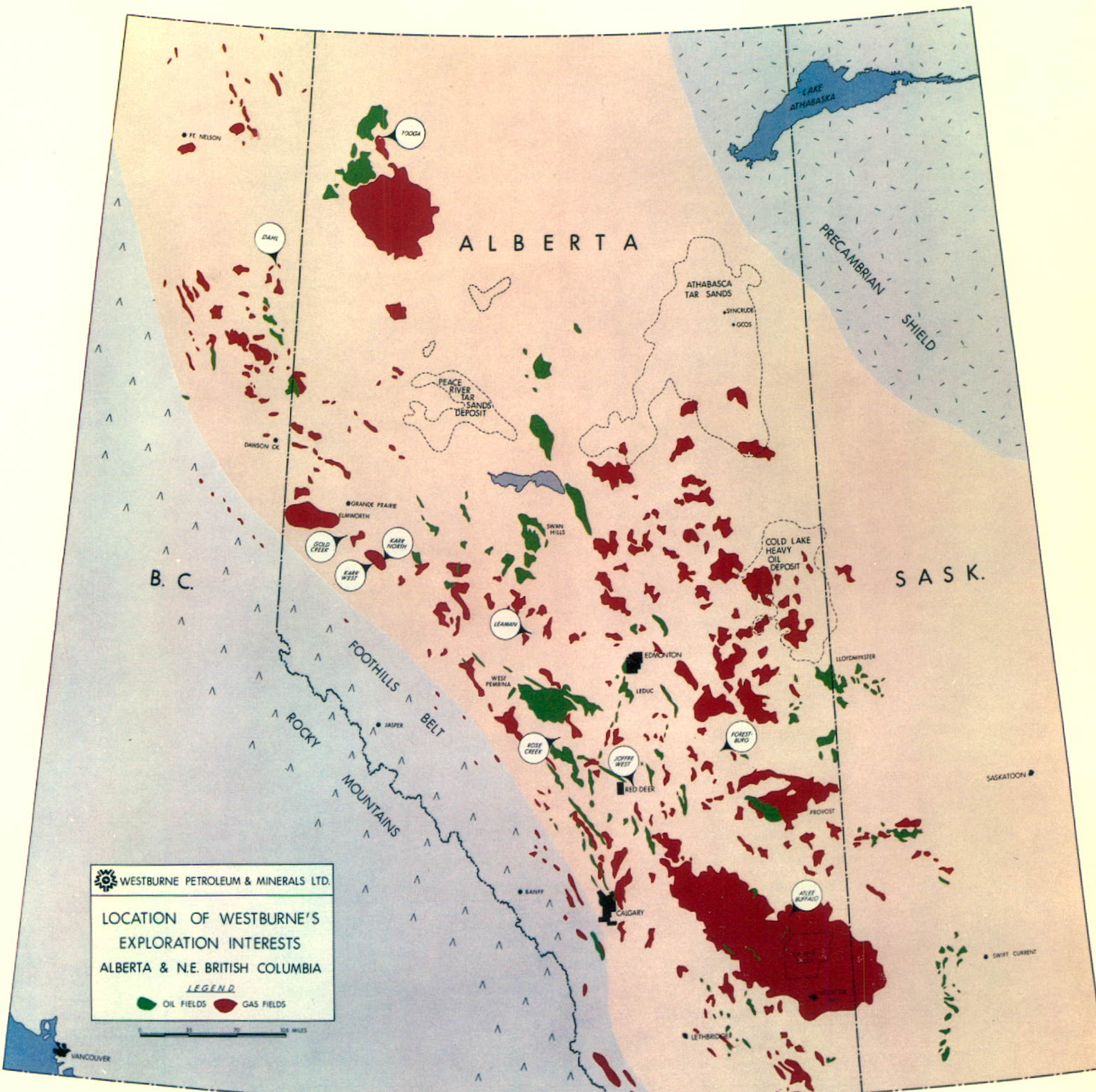
OIL AND GAS EXPLORATION AND PRODUCTION

The Canadian petroleum industry has been successful in finding substantial new reserves of oil and gas in Western Canada in the last few years; consensus of opinion is that other substantial reserves are still to be found in this area. Westburne concurs with this thinking and has been acquiring interests in additional acreage in Western Canada. These newly acquired interests total 55,753 gross acres (16,594 net acres); most prospects fall into our low risk/high potential category for exploration and development. The map adjoining sets out the areas in which the recently acquired acreage is located. During the next year, Westburne expects to participate in the drilling of approximately 25 wells in Western Canada.

During the past year in Western Canada, the United States, the North Sea and the South China Sea, this division participated in the drilling of 51 wells; of these, 26 resulted in gas wells, 7 in oil wells and 18 were dry and abandoned. We continue to follow a reasonably low risk development policy where dry holes have consistently been less than 50% of the total wells drilled. Proven and probable recoverable net reserves of oil and gas as of January 1, 1979 have been estimated by independent engineering consultants to be 6,426,000 barrrels of crude oil and liquids and 6,486 billion cubic feet of natural gas. The present value of future revenue from production of these reserves is estimated to be $29,337,656 discounted at 10%; $23,159,000 discounted at 15%.

Westburne also maintains interests in exploratory acreage in the High Arctic (through a 1.6% interest in Panarctic Oils Ltd. which has estimated natural gas reserves of 12.7 trillion cubic feet), in the United States, Bolivia and the United Kingdom. Geological and seismic work programs continue in these areas and additional exploratory drilling is anticipated during the current year.

Operating revenue from this division for the year was $6,689,000 up from $6,099,000 in the prior year, while cash flow from operations increased to $2,202,000 from $1,975,000. The price of Canadian crude oil, at the date of this report, is $13.75 per barrel as a result of price increases of $1.00 per barrel on July 1, 1978 and July 1, 1979. It appears that the policy of the newly elected Canadian government is to let Canadian crude oil prices rise to world levels in order to stimulate exploration and development of new reserves and to curtail demand for petroleum products. Canada's reserves of natural gas continue to increase at a rapid pace and with anticipated shortages of gas in the United States it appears that the National Energy Board soon will determine the amount surplus to our needs and available for export to United States' markets.



ALBERTA
B. C.
SASK.
LAKE ATHABASKA
PRECAMBRIAN SHIELD
ATHABASCA TAR SANDS
SYNCRUDE
GCOS
PEACE RIVER TAR SANDS DEPOSIT
COLD LAKE HEAVY OIL DEPOSIT
FOOTHILLS BELT
ROCKY MOUNTAINS
FT. NELSON
DAHL
DAWSON CK.
GRANDE PRAIRIE
ELMWORTH
GOLD CREEK
KARR NORTH
KARR WEST
SWAN HILLS
LEAMAN
EDMONTON
LEDUC
WEST PEMBINA
LLOYDMINSTER
JASPER
ROSE CREEK
JOFFRE WEST
RED DEER
FOREST-BURG
PROVOST
SASKATOON
BANFF
CALGARY
ATLEE BUFFALO
SWIFT CURRENT
LETHBRIDGE
VANCOUVER
WESTBURNE PETROLEUM & MINERALS LTD.
LOCATION OF WESTBURNE'S EXPLORATION INTERESTS
ALBERTA & N.E. BRITISH COLUMBIA
LEGEND
OIL FIELDS
GAS FIELDS

FINANCIAL REVIEW

During the year ended March 31, 1979 the Company achieved record levels of revenues, net earnings and cash flow from operations; revenues were $615,947,000, up 27.6% (see managements discussion), net earnings were $23,968,000, up 49.5% and cash flow was $41,965,000, up 44.4% from prior year's figures.

Current assets and working capital

During the year current assets increased by $98,671,000 with $47,224,000 being the increase in accounts receivable and $44,221,000 being the increase in inventory of goods for resale. This large increase results principally from the acquisition in the construction equipment and supplies division of the business of Nedco Ltd. and Zentronics Ltd. and the integration of their activities in wholesale distribution of electrical products with those of the Company from January 4, 1979. These levels of inventory and receivables are normal when related to the estimated revenues for the fiscal year ended March 31, 1980. Cash and short term deposits increased 39.8% to $23,960,000.

Working capital increased by $47,310,000 to $82,461,000 and at March 31, 1979 the current ratio (current assets to current liabilities) was 1.42 : 1.00. Funds from operations increased to $41,965,000 from $29,059,000 in the prior year and this together with a refinancing of certain short term debt contributed to the improvement in the amount of working capital available to meet current obligations.

Fixed assets

During the year the Company expended over $21,000,000 on additions to fixed operating assets; of this amount approximately $14,600,000 was invested in plant and equipment and approximately $6,600,000 in the acquisition of oil and gas interests and in exploratory and development drilling. In the construction equipment and supplies division the expenditures were principally for additional warehouse facilities while in the petroleum industry services and supplies division the expenditures were principally for improvements to drilling rigs, replacement of drilling string and acquisition of other ancillary drilling assets. The Company continues to maintain its operating assets in top condition to ensure its operations will be carried out with maximum efficiency. Under the Company's policy of depreciating the cost of plant and equipment to estimated residual value over the estimated useful lives, a provision of $12,265,000 was charged to depreciation and depletion in the current year.

Other assets

The Company has capitalized the costs of issuing 9.90% Senior Notes in the amount of $50,000,000 U.S.; this financial expense will be amortized over the term of the notes.

Current liabilities

The total amount of current liabilities increased by $51,361,000 and principally reflects the increase in bank loans and accounts payable required to finance the additional revenues generated by the construction equipment and supplies division.

Long term debt (less amount due within one year)

During the year the Company secured additional long term financing of approximately $77,000,000 of which $57,970,000 (U.S. $50,000,000) was through the issue of fifteen-year 9.90% Senior Notes due in 1993, $4,000,000 through issue of a ten-year debenture and $14,773,000 through issue of eighteen-month promissory notes. The proceeds of issue of the 9.90% Senior Notes was used to retire certain long and short term indebtedness and to increase working capital.

Shareholders' equity

The book value of each share of common stock was $24.47 at March 31, 1979, up from $21.06 on the same date last year. In addition, dividends of $2.00 per common share were declared payable during the year. Shareholders' equity at March 31, was $95,094,000 up 20.1% during the year.

All holders of subordinated preferred shares converted such shares into common shares and at March 31, 1979 no first preferred or subordinated preferred shares are outstanding.

Information on capital stock

Westburne has three classes of shares - first preferred shares without par value, subordinated preferred shares without par value and common shares without par value. No first preferred shares or subordinated preferred shares are issued and outstanding. The common shares are listed on The Toronto Stock Exchange, the Montreal Stock Exchange and the American Stock Exchange, Inc.

Price Range on The Toronto Stock Exchange
Two fiscal years ended March 31, 1979

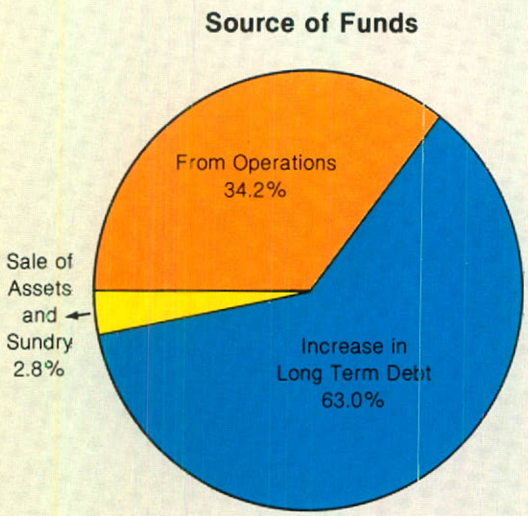
Common shares

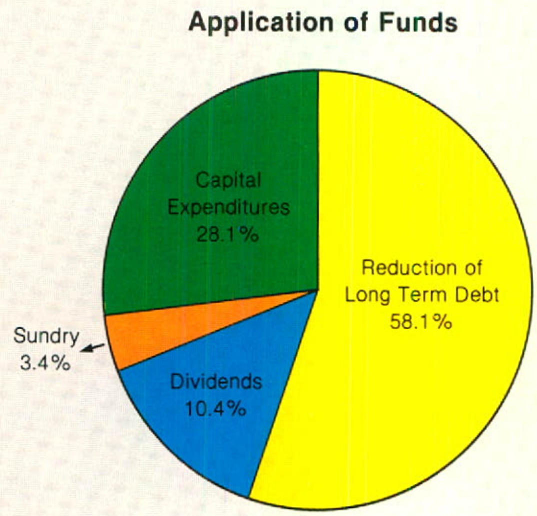
	1979		1978	
Fiscal Quarter	High	Low	High	Low
First	$28½	$21¾	$10½	$ 8⅛
Second	40½	33⅛	13½	10⅛
Third	35⅛	32	23⅜	13
Fourth	48	34⅝	23⅜	18

FINANCIAL CHARTS

CHANGES IN FINANCIAL POSITION

(as a percentage)



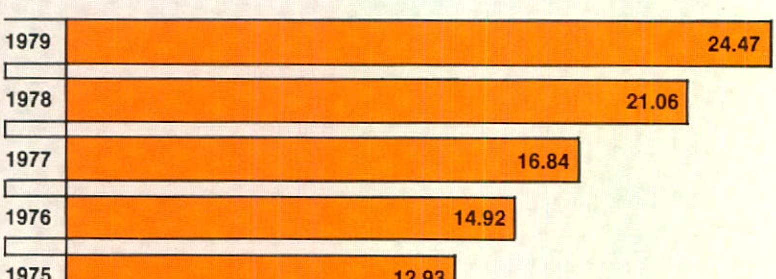


TOTAL ASSETS

(Millions of Dollars)

COMMON SHAREHOLDERS' EQUITY (per share)

(Dollars)



BUSINESS SEGMENTS

Thousands of Canadian Dollars

Revenue and Earnings Contributions (1) Year ended March 31	1979	1978	1977	1976	1975
Revenue Contribution					
Petroleum industry services and supplies					
Contract drilling					
Canadian	$ 61,780	$ 42,959	$ 33,232	$ 24,823	$ 22,586
United States	20,421	17,029	10,844	9,896	8,736
International	52,466	46,513	39,354	21,538	8,160
Oilfield supplies	58,267	38,748	26,474	24,067	20,187
Construction equipment and supplies (plumbing, heating and electrical products)	426,118	341,222	311,436	274,665	249,273
Oil and gas production	6,689	6,099	5,361	4,928	4,125
Intersegment items	(9,794)	(9,904)	(4,206)	(1,971)	(2,579)
	$615,947	$482,666	$422,495	$357,946	$310,488
Earnings Contribution (pre income tax) (2 & 3)					
Petroleum industry services and supplies					
Contract drilling					
Canadian	$ 15,697	$ 9,696	$ 7,179	$ 3,095	$ 2,666
United States	6,059	3,802	(45)	(60)	(25)
International	741	1,602	(682)	(2,766)	907
Oilfield supplies	3,832	2,581	1,382	2,086	1,830
Construction equipment and supplies (plumbing, heating and electrical products)	16,662	8,170	8,051	13,546	13,580
Oil and gas production	1,684	2,155	1,430	1,293	1,487
Intersegment items	271	(182)	28	193	(116)
	$ 44,946	$ 27,824	$ 17,343	$ 17,387	$ 20,329

(1) All revenues and earnings are from Canadian based operations except as set out under the heading "Contract Drilling".

(2) Excludes earnings of $1,970,000 classified as extraordinary in 1976 of which $1,917,000 would have been treated as normal income if the accounting policy adopted in 1977 had been applied retroactively to 1976.

(3) Results of certain prior years have been restated to reflect adjustments to previously reported operating results.

	Assets Employed as of March 31, 1979	Capital Expenditures 1979	Depreciation and Depletion 1979
Petroleum industry services and supplies			
Contract drilling			
Canadian	$ 41,441	$ 6,292	$ 2,386
United States	10,178	996	849
International	63,241	2,112	4,627
Oilfield supplies	16,471	390	74
Construction equipment and supplies (plumbing, heating and electrical products)	232,959	4,202	2,293
Oil and gas production	24,772	6,811	1,921
Intersegment and corporate items	4,274	393	115
	$393,336	$21,196	$12,265

Consolidated Statement of Earnings

Thousands of Canadian Dollars except per share data

westburne international industries ltd.
AND SUBSIDIARY COMPANIES

Year ended March 31	1979	1978
		(Restated)
Operating revenues		
Construction equipment and supplies	$426,118	$341,222
Petroleum industry services and supplies	183,140	135,345
Oil and gas production	6,689	6,099
	615,947	482,666
Costs and expenses		
Cost of sales		
Construction equipment and supplies	345,802	277,887
Petroleum industry services and supplies (Note 15)	137,031	99,537
Oil and gas production	2,214	1,901
Depreciation and depletion	12,265	10,531
Selling, general and administrative	67,570	57,200
	564,882	447,056
Earnings from operations	51,065	35,610
Other expenses and revenues (Note 10)	6,119	7,786
Earnings before income taxes and minority interest	44,946	27,824
Income taxes		
Current	18,441	11,903
Deferred	1,615	(616)
	20,056	11,287
Earnings before minority interest	24,890	16,537
Minority interest	922	503
Net earnings for the year	$ 23,968	$ 16,034
Basic earnings per common share	$6.28	$4.37
Fully diluted earnings per common share *	$6.16	$4.12

* As at March 31, 1979 all share purchase warrants had been exercised and all convertible preferred shares had been converted into common shares.

Consolidated Statement of Retained Earnings

Thousands of Canadian Dollars

Year ended March 31	1979	1978
		(Restated)
Balance at beginning of year—as previously reported	$ 69,313	$ 53,464
Prior years' adjustment (Note 9 [a])	907	970
Balance at beginning of year, as restated	68,406	52,494
Add (Deduct)		
Net earnings for the year	23,968	16,034
Change of minority interest in subsidiary companies	(431)	(31)
Dividends		
Common shares	(7,772)	—
Preferred shares	(33)	(91)
Balance at end of year	$ 84,138	$ 68,406

AUDITORS' REPORT

THE SHAREHOLDERS
WESTBURNE INTERNATIONAL INDUSTRIES LTD.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. as at March 31, 1979 and 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination of the financial statements of Westburne International Industries Ltd. and those subsidiaries of which we are auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries which comprise total assets and gross revenues of 24% and 43% respectively for 1979 and 34% and 57% respectively for 1978 of the related consolidated totals.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
June 4, 1979

TOUCHE ROSS & CO.
Chartered Accountants

Consolidated Balance Sheet
Thousands of Canadian Dollars

March 31	1979	1978
Assets		
Current assets:		
Cash and short term deposits	$ 23,960	$ 17,131
Accounts receivable	132,178	84,954
Inventories, at lower of cost and net realizable value	111,523	67,302
Prepaid expenses and consumable supplies	10,101	9,704
Total current assets	277,762	179,091
Investments and advances, at cost		
Shares and advances	4,006	3,912
Notes and mortgages receivable	668	252
Notes receivable - directors and employees (Note 2)	626	1,453
	5,300	5,617
Fixed assets, at cost (Note 3)	158,657	142,111
Less accumulated depreciation and depletion	54,589	44,041
	104,068	98,070
Other		
Deferred contract costs, less amount amortized	1,646	4,192
Financial expenses, less amount amortized	707	134
Excess of cost of investments in shares of subsidiaries		
over net assets at date of acquisition (Note 4)	3,853	3,868
	6,206	8,194
Total assets	$393,336	$290,972

Signed on behalf of the Board:

J.A. SCRYMGEOUR, Director

LUCIEN CORNEZ, Director

March 31	1979	1978 (Restated)
Liabilities		
Current liabilities:		
Bank loans, secured (Note 5)	$ 80,077	$ 57,414
Accounts payable	91,477	62,034
Income taxes payable	8,240	7,557
Dividends payable	1,126	50
Long term debt due within one year	13,748	16,399
Deferred income taxes	633	486
Total current liabilities	195,301	143,940
Long term debt, less amount due within one year (Notes 5 & 6)	86,498	50,793
Deferred income taxes	15,251	14,610
Minority interest (Note 7)	6,031	5,049
Unrealized currency translation loss (Note 1[b])	(4,839)	(2,580)
Total liabilities	298,242	211,812
Shareholders' equity:		
Share capital (Note 8)		
Preferred	—	1,215
Common	5,630	4,213
Contributed surplus	5,326	5,326
Retained earnings (Note 9)	84,138	68,406
Total shareholders' equity	95,094	79,160
Total liabilities and shareholders' equity	$393,336	$290,972

Consolidated Statement of Changes in Financial Position

Thousands of Canadian Dollars

westburne international industries ltd.
AND SUBSIDIARY COMPANIES

Year ended March 31	1979	1978 (Restated)
Source of funds:		
Net earnings before minority interest	$ 24,890	$ 16,537
Depreciation and depletion	12,265	10,531
Deferred income tax	1,615	(616)
Other	3,195	2,607
Funds from operations	41,965	29,059
Long term debt	77,243	6,744
Sale of fixed assets and changes in investments	3,250	4,914
Issue of share capital	202	125
	122,660	40,842
Application of funds:		
Capital expenditures	21,196	14,563
Reduction in long term debt (adjusted for foreign currency translation)	43,797	19,737
Deferred contract costs	574	2,669
Dividends - preferred	33	91
- common	7,772	—
Other	1,978	(73)
	75,350	36,987
Increase in working capital	47,310	3,855
Working capital, beginning of year (Note 9)	35,151	31,296
Working capital, end of year	$ 82,461	$ 35,151
Changes in working capital		
Increase in:		
Cash and short term deposits	$ 6,829	$ 2,432
Accounts receivable	47,224	10,517
Inventories	44,221	5,232
Prepaid expenses and consumable supplies	397	380
(Increase) decrease in:		
Bank loans	(22,663)	(7,125)
Other payables	(31,349)	(6,860)
Long term debt due within one year	2,651	(721)
Increase in working capital	$ 47,310	$ 3,855

1. Principles of consolidation and accounting policy

(a) The consolidated financial statements include the accounts of Westburne International Industries Ltd. ("Westburne"), and all subsidiary companies (collectively called for the purposes of these notes, the "Company"). Eliminated on consolidation are 618,980 common shares of Westburne owned by subsidiaries and carried at a cost of $2,274,000. All material inter-company transactions have also been eliminated.

The consolidated financial statements include the Company's share of the assets, liabilities, revenues and expenses of a partnership involving contract drilling operations.

(b) Assets and liabilities and income and expenses of the Company which are in currencies other than Canadian dollars are translated into Canadian funds as follows:

i. Current assets, current liabilities and long term debt are translated at exchange rates in effect at the end of the period;

ii. All non-current assets and other liabilities are translated at the rates prevailing when acquired or incurred; and

iii. Income and expenses, except depreciation and depletion, are translated at the average rate for the period.

Unrealized foreign currency translation gains/losses are excluded in determining net earnings for the year in which foreign exchange rates change.

(c) The Company follows the full cost method of accounting in respect of its oil and gas activities, with one worldwide pool of assets. All costs relating to the exploration for and development of oil and gas reserves are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

(d) It is the policy of the Company to depreciate the cost of plant and equipment to its estimated residual value over the estimated useful lives of the assets as follows:

Buildings - at rates of 5% to 10% mainly on a diminishing balance basis.

Drilling rigs - at a rate per drilling day designed to prorate original cost less a residual value of 30% over 3,000 drilling days.

Drill string - straight-line basis related to drilling activity.

Oil production equipment, oil and mineral leases and development expenditures - unit of production based on full cost method and estimated proven recoverable reserves.

Other equipment - mainly 20% to 30% diminishing balance basis.

Repairs and maintenance and minor expenditures for renewals and betterments are charged directly to earnings. Major renewals and betterments are capitalized and the replaced units retired.

Except for intangible oil and mineral leases and development expenditures in respect of which the full cost method is followed, it is the policy of the Company to relieve the property accounts and related accumulated depreciation of the amounts included therein for property sold and any resultant gain or loss is included in earnings.

(e) Deferred contract costs represent mobilization and start-up costs incurred on long term drilling contracts in foreign countries and are amortized over the term of the contract.

2. Notes receivable - directors and employees

The Company holds notes of directors and employees, including officers, which have arisen from subscriptions for shares of Westburne and certain of its subsidiaries:

	1979	1978
5% notes receivable due on or before December 31, 1979	$ 61,000	$ 150,000
6% notes receivable due on or before December 31, 1980	200,000	728,000
6% notes receivable due on or before July 1, 1983	126,000	300,000
Non-interest bearing notes receivable due on or before May 1, 1983	239,000	275,000
	$626,000	$1,453,000

3. Fixed assets

	1979		1978	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 2,009,000	$ 2,009,000	$ 2,001,000	$ 2,001,000
Buildings	19,084,000	13,236,000	16,794,000	11,917,000
Drilling rigs	69,617,000	50,477,000	66,366,000	51,379,000
Drill string	12,970,000	6,256,000	11,370,000	6,161,000
Oil production equipment	5,788,000	3,509,000	5,585,000	3,690,000
Other equipment	25,096,000	11,766,000	22,109,000	10,789,000
Oil and mineral leases and development expenditures	23,113,000	15,835,000	16,916,000	11,163,000
Drilling equipment held for resale	980,000	980,000	970,000	970,000
	$158,657,000	$104,068,000	$142,111,000	$ 98,070,000

4. Excess of cost of investments in shares of subsidiaries over net assets at date of acquisition

The unamortized excess of costs of investments in shares of subsidiaries over net assets at date of acquisition arises from the accounting for acquisitions of subsidiaries on a purchase basis.

Management is of the opinion that the amount of $3,283,000 attributed to intangible assets pertaining to subsidiaries acquired prior to April 1, 1974 is of continuing value and accordingly does not contemplate any amortization of this amount. However, in accordance with generally accepted accounting practice, the excess cost of investments in shares of subsidiaries acquired after that date and allocated to intangibles, is being amortized over a period of forty years.

5. Assets pledged

The Company has pledged certain of its accounts receivable, investments and oil and gas producing properties and has granted debentures secured by floating charges on certain other assets as security for bank loans.

The Company has also granted a floating charge on certain assets as security for outstanding Sinking Fund Debentures amounting to $2,572,000 and has granted mortgages secured by certain real property and improvements.

6. Long term debt

	1979	1978
Sinking Fund Debentures Series A - 7% maturing March 15, 1987	$ 1,912,000	$ 1,952,000
Series B - 7½% maturing August 1, 1982	160,000	200,000
Series C - 8½% maturing March 31, 1989	500,000	550,000
	2,572,000	2,702,000
The Company has convenanted to provide a sinking fund related to the above debentures aggregating $365,000 by March 31, 1980 and annually thereafter in such amount as is required to retire the indebtedness at maturity. The debentures are redeemable prior to maturity for other than sinking fund purposes at maximum premiums ranging from 2.00% to 3.95% such premiums to decrease by .375% to .50% yearly until the various redemption prices equal the par values.		
Senior Notes	57,970,000	—
9.90% Senior Notes due 1993 - U.S. $50,000,000 repayable in equal annual instalments of U.S. $3,847,000 commencing August 1, 1981		
Bank loans	10,235,000	44,931,000
The above have maturities from 1979 to 1992 and carry interest rates ranging from 11% to 13¾% at March 31, 1979.		
Non-interest bearing note, payable in six equal quarterly instalments commencing April 1, 1979	14,773,000	—
Mortgages, secured debentures, conditional sales contracts, etc.	14,696,000	19,559,000
The above mature from 1979 to 2001 and carry interest ranging from 6¼% to 14% at March 31, 1979		
Total long term debt	100,246,000	67,192,000
Less amount due within one year	13,748,000	16,399,000
	$86,498,000	$50,793,000

The aggregate maturities and sinking fund requirements of long term debt outstanding as at March 31, 1979 for the five years ending March 31st are as follows:

1980	$13,748,000
1981	8,233,000
1982	7,035,000
1983	6,952,000
1984	6,633,000

7. Minority interest

Amounts making up minority interest are as follows:

	1979	1978
Preferred shares	$2,036,000	$2,036,000
Common shares and contributed surplus	453,000	382,000
Retained earnings	3,542,000	2,631,000
	$6,031,000	$5,049,000

8. Share capital

The Company is permitted under the Canada Business Corporations Act to issue an unlimited number of preferred shares, subordinated preferred shares and common shares.

	Issued	
	Shares	Amount
Subordinated preferred shares without par value, issuable in series		
5% subordinated cumulative redeemable convertible preferred shares, 1969 series		
Issued as at March 31, 1978	18,700	$187,000
Converted into common shares	18,700	187,000
	Nil	Nil
6% subordinated cumulative redeemable convertible preferred shares, 1970 series		
Issued as at March 31, 1978	72,800	728,000
Converted into common shares	72,800	728,000
	Nil	Nil
6% subordinated cumulative redeemable convertible preferred shares, 1973 series		
Issued as at March 31, 1978	30,000	300,000
Converted into common shares	30,000	300,000
	Nil	Nil
Common shares without par value		
Issued as at March 31, 1978 (1)	3,701,404	4,212,754
Issued on conversion of preferred shares	169,816	1,215,000
Issued on exercise of share purchase warrants	15,000	201,900
Common shares (1)	3,886,220	$5,629,654

(1) Exclusive of 618,980 shares owned by subsidiaries.

9. Retained earnings

(a) Opening retained earnings have been restated to reflect the accrual of employee termination costs under a foreign drilling contract and the adjustments of prior years' income taxes.

(b) Long term debt agreements impose various restrictions upon the payment of dividends of certain subsidiaries.

10. Supplementary information to statement of earnings

	1979	1978
Other expenses (revenues)		
Interest - long term debt	$ 7,867,000	$ 6,804,000
Other interest expense	6,387,000	4,758,000
Interest and other investment income	(7,566,000)	(3,564,000)
Gain on sale of assets	(569,000)	(212,000)
	$ 6,119,000	$ 7,786,000

11. Commitments and other liabilities

(a) The Company has entered into lease agreements for premises and equipment at annual rentals of approximately $4,459,000 as at March 31, 1979 and for various terms expiring up to 1992. In addition, the Company has entered into lease agreements covering various other assets which at March 31, 1979 called for annual rentals of $940,000 for various terms expiring up to 1987.

(b) Contingent liabilities exist for indeterminate amounts of suits, claims and guarantees. In the opinion of management of the Company the outcome of these contingencies will not have a materially adverse effect upon the Company's financial position.

12. Remuneration of directors and senior officers

The Company and its subsidiaries paid all directors and senior officers including directors who are officers, an aggregate of $1,143,000 during the year ended March 31, 1979 (1978 -$995,000).

13. Unaudited replacement cost information

In accordance with a requirement of the United States Securities and Exchange Commission, the Company has provided certain disclosures in Form 10-K with respect to the replacement cost of certain assets and the related effect on net earnings.

14. Line of business

As required by the Regulations to the Canada Business Corporations Act the directors of the Company have determined that the Company has three classes of business:

i. construction equipment and supplies (plumbing, heating and electrical products);

ii. petroleum industry services and supplies (contract drilling and oilfield supplies);

iii. oil and gas exploration and production.

Summarized operating data of these businesses are as follows:

	(Thousands of Canadian Dollars)		
	Revenue	Expense	Pre-Tax Earnings
Construction industry equipment and supplies	$426,118	$409,456	$ 16,662
Petroleum industry services and supplies	192,934	166,605	26,329
Oil and gas exploration and production	6,689	5,005	1,684
Inter-segment items (1)	(9,794)	(10,065)	271
Total	$615,947	$571,001	$ 44,946

(1) Inter-segment items primarily represent sales of oilfield supplies to contract drilling affiliates.

15. Foreign operations

Prior to December 31, 1978 the Company was negotiating for a renewal of the drilling contract for its four rigs in Iran. Due to political disturbances these negotiations were suspended but the contract was extended for a final term of 90 days from January 1, 1979 to March 31, 1979. Negotiations are presently under way to obtain export permits for the four rigs and ancillary equipment. At March 31, 1979 a provision of $2,325,000 was made to provide for estimated costs and expenses which will be incurred from that date until final export clearances are received.

FIVE YEAR CONSOLIDATED SUMMARY OF EARNINGS(1)

Thousands of Canadian Dollars

Year ended March 31	1979	1978	1977	1976	1975
OPERATING REVENUES					
Construction equipment and supplies	$426,118	$341,222	$311,436	$274,665	$249,273
Petroleum industry services and supplies	183,140	135,345	105,698	78,353	57,090
Oil and gas production	6,689	6,099	5,361	4,928	4,125
	615,947	482,666	422,495	357,946	310,488
COSTS AND EXPENSES					
Cost of sales					
Construction equipment and supplies	345,802	277,887	251,789	217,137	195,539
Petroleum industry services and supplies	137,031	99,537	80,102	61,675	42,898
Oil and gas production	2,214	1,901	2,146	2,036	1,636
Depreciation and depletion	12,265	10,531	8,969	6,790	3,712
Selling, general and administrative	67,570	57,200	53,135	45,904	41,500
	564,882	447,056	396,141	333,542	285,285
EARNINGS FROM OPERATIONS	51,065	35,610	26,354	24,404	25,203
OTHER EXPENSES AND REVENUES	6,119	7,786	9,011	7,017	4,874
	44,946	27,824	17,343	17,387	20,329
INCOME TAXES	20,056	11,287	7,923	9,809	10,122
	24,890	16,537	9,420	7,578	10,207
OTHER					
Extraordinary items	—	—	—	1,970	206
Minority interest	(922)	(503)	(445)	(640)	(600)
NET EARNINGS (before preferred dividends)	$ 23,968	$ 16,034	$ 8,975	$ 8,908	$ 9,813

(1) Results for certain prior years have been restated to reflect adjustments to previously reported operating results.

Management's Discussion and Analysis of Operations

(Condensed information on segmented business operations appears on Page 19.)

March 31, 1979 to March 31, 1978

Operating revenues

Revenues increased to $615,947,000 from $482,666,000, an increase of $133,281,000 (27.6%) in the 1979 fiscal year. The construction equipment and supplies division increased its revenues by $84,896,000 or 24.9%; the petroleum industry services and supplies division increased its revenues by $47,795,000 or 35.3% and the oil and gas division increased its revenues by $590,000 or 9.7%. Division increases resulted from,

(a) Construction equipment and supplies (wholesale distribution of plumbing, heating and electrical products) -increased its revenues 24.9% to $426,118,000 from $341,222,000 by continued growth through internal expansion and through the acquisition, effective January 4, 1979, of the wholesale electrical distribution business of Nedco Ltd. and Zentronics Ltd.

(b) Petroleum industry services and supplies -

(i) Contract oil and gas drilling, domestic operations (includes Canada, United States and United Kingdom), increased its revenues by 37.0% to $82,201,000 from $59,988,000 due to continued strong demand for drilling services in both Canada and the United States. In this market the Company experienced the highest ever utilization of its drilling assets. International operations had an increase of 12.8% in revenues to $52,466,000 from $46,513,000 with most of the drilling rigs under contract during the majority of the period. The Company's operations in Iran (four drilling rigs) were shut down early in 1979 and the contract was terminated at March 31, 1979.

(ii) Oilfield supplies showed an increase in revenues of 50.4% to $58,267,000 from $38,748,000. This large increase reflects the continued high level of activity in the petroleum industry in Western Canada and the resulting strong demand for oilfield supplies and equipment. Approximately 17% of the sales volume in fiscal 1979 (25% in fiscal 1978) was to affiliated contract drilling companies and these sales are eliminated on consolidation.

(c) Oil and gas division - as in 1978, the product sales remained relatively constant but increases in Canadian crude prices contributed to increased revenues of 9.7% to $6,689,000 from $6,099,000.

Costs and expenses

The total costs and expenses increased by $117,826,000 (26.4%) over the prior year while the increase in revenues was $133,281,000 (27.6%). This percentage increase accounts for the increase to $51,065,000 from $35,610,000 in earnings from operations. Components of costs and expenses vary from year to year and the most significant variations in the current period are -

(i) Direct cost of sales, (a) the construction equipment and supplies division improved its gross margin by .44% due to reduced cost of sales resulting principally from improved inventory control, and (b) in petroleum industry services and supplies the contract oil and gas drilling division maintained its profit margins overall with the domestic operations controlling costs at levels below the related increase in revenue. This was possible due to the high utilization of equipment as all elements of the cost of sales do not vary directly with activity. In international drilling operations cost of sales increased marginally over the related increase in revenue. In the oilfield supplies division cost of sales increased somewhat due to a different mix of products sold which resulted in slightly lower margins.

(ii) Depreciation and depletion - the Company provides for depreciation of drilling assets on an activity basis and for depletion of oil and gas development expenses on a unit of production based on full cost method and estimated proven recoverable reserves. Increased activity in the contract drilling division and increased expenditures in the oil and gas division together with variance of recoverable oil and gas reserves accounts for the majority of the increase in this cost.

(iii) Selling, general and administrative - these costs increased by 18.1% over the prior year but when taken as a percentage of gross revenue these costs actually declined to 11.0% from 11.9%, indicating good control of these expenses.

Other expenses (revenues)

Long term debt interest expense increased by $1,063,000 arising principally in the petroleum industry services and supplies division which paid off its short term debt from a portion of the proceeds of issue of fifteen-year senior notes. Other interest increased in the construction equipment and supplies division due to increased levels of short term borrowing to finance higher levels of accounts receivable and inventory and to a general increase in interest rates. Interest and other investment income which arises principally from financing accounts receivable, from short term deposits and from equipment rental, has increased by $4,002,000 during fiscal 1979. Of this amount approximately $2,450,000 arises from rental of our jack-up drilling rig.

Earnings (before income tax and minority interest)

Net earnings for fiscal 1979 (before income tax and minority interest) increased to $44,946,000 from $27,824,000, an increase of $17,122,000. After allocation of intersegment items the construction equipment and supplies division increased earnings to $16,455,000 from $8,170,000; petroleum industry services and supplies division to $26,762,000 from $17,499,000 and oil and gas production division to $1,729,000 from $2,155,000.

Income tax

The percentage of income tax to pre-tax earnings, on a consoldiated basis, varies from year to year from the stated rates of corporation income tax and is affected by the amount of income earned in the various countries and the impact of the following:

(a) Certain of the Company's international drilling contracts are exempt from income tax.

(b) The Company's income tax on oil and gas earnings is subject to certain rebates and allowances by the principal Canadian oil and gas producing provinces.

(c) Taxable income earned by the construction equipment and supplies division is subject to a special reduction relating to the value of its investment in inventory of goods for resale.

Net earnings - fiscal 1979 - 1978

Net earnings after minority interest increased by 49.5% to $23,968,000 from $16,034,000. The construction equipment and supplies division increased earnings after minority interest by 84.0% to $8,321,000 from $4,522,000; the petroleum industry services and supplies division increased earnings by 43.8% to $14,548,000 from $10,116,000 and in the oil and gas division earnings declined by 21.3% to $1,099,000 from $1,396,000. On a fully diluted basis, earnings per share were $6.16 compared to $4.12

March 31, 1978 to March 31, 1977

Operating revenues

Operating revenues increased to $482,666,000 from $422,495,000, an increase of $60,171,000 (14.2%) in the 1978 fiscal year with each division increasing its revenues—construction equipment and supplies division increased by $29,786,000 or 9.6%, petroleum industry services and supplies division by $29,647,000 or 28.1% while the oil and gas division increased by $738,000 or 13.8%. Division increases resulted from,

(a) Construction equipment and supplies (wholesale distribution of plumbing, heating and electrical products) -this division, during a period when industry sales remained relatively stable, increased its percentage share of the market place with operating revenues increasing by 14.2% to $341,222,000 from $311,436,000.

(b) Petroleum industry services and supplies -

(i) Contract oil and gas drilling - this division accounts for its operations on a geographical basis, i.e., 'domestic' which includes Canada, United States and United Kingdom operations and 'international' which includes Africa, Middle East and Far East operations. Domestic operations increased revenues by 36.1% to $59,988,000 from $44,076,000 as a result of the very high demand for drilling services in the areas in which the Company operates in Canada and the United States. International operations improved revenues by 18.2% to $46,513,000 from $39,354,000 as a result of contracting two additional rigs for work in Africa in addition to those which previously operated in Algeria. Revenues from other international operations were similar to those of fiscal 1977.

(ii) Oilfield supplies - this business reached record high revenues with an increase of 46.4% to $38,748,000 from $26,474,000 in the year. The increase reflects the strong demand due to high activity in the petroleum industry in Western Canada. Approximately 25% of sales in fiscal 1978 were to affiliated companies in contract oil and gas drilling and on consolidation these sales are eliminated.

Costs and expenses

The total costs and expenses increased by $50,915,000 or 12.8%. The increase in revenue was $60,171,000 or 14.2% and this percentage increase accounts for the increase in earnings from operations to $35,610,000 from $26,354,000. Components of costs and expenses vary from year to year and the most significant variations in the current period are -

(a) Direct cost of sales; (i) the construction equipment and supplies division had a .89% reduction in its gross margin due to increased cost of sales. This resulted from meeting competitive pricing in the plumbing, heating and electrical products field in order to increase market share; and (ii) in petroleum industry services and supplies group, the contract drilling division improved margins overall with the cost of sales for domestic operations increasing by 23.9% compared with increased revenue of 36.1% and cost of sales for international operations by 21.0% compared with increased revenue of 18.2%. The domestic operations benefited by the high utilization of equipment since all elements of cost of sales do not vary directly with activity. Accordingly this permitted better gross margins. International operations incurred the normal high start-up costs on the two new contracts in Africa which increased the costs in the initial contract period. In the oilfield supplies division costs increased by a percentage similar to the increase in operating revenues; and (iii), oil and gas production costs actually declined due to reduction in maintenance costs to production equipment and other related facilities.

(b) Depreciation and depletion; the Company provides for depreciation of drilling assets on an activity basis and for depletion of oil and gas development expenses on a unit of production based on full cost method and estimated proven recoverable reserves. Increased activity in the contract drilling division and oil and gas production together with variance of recoverable reserves accounts for the majority of the increase in this cost.

(c) Selling, general and administrative; good control of these expenses by each division limited the increase to $4,065,000 or approximately 7% over the prior year, a percentage increase of less than 50% of the increase in gross operating revenues.

Other expenses (revenues)

Long term debt interest expense reduced by $1,955,000 which reflects both the reduction of long term debt during the period plus the reduction of rates on certain long term debt where rates are adjusted semi-annually; the increase of $678,000 in other interest reflects the cost of additional lines of short term credit to finance additional accounts receivable and inventories as a result of increased gross operating revenues. The income from interest and other investment income (as in the prior year, principally from financing accounts receivable and on short term deposits being accumulated for instalment payments on long term debt) increased by $1,160,000, offsetting the reduction of $1,237,000 income from sale of fixed assets.

Net earnings (before income tax and minority interest)

Net earnings for fiscal 1978 (before income tax and minority interest) increased to $27,824,000 (1977 - $17,343,000), an increase of $10,481,000. After allocation of intersegment items the equipment and supplies division contributed $8,170,000 earnings (1977 - $8,051,000) contract drilling and oilfield supply $17,681,000 (1977 - $7,834,000) and oil and gas production division $2,155,000 (1977 - $1,430,000).

Income tax

The percentage of income tax to pre-tax earnings, on a consolidated basis, varies from year to year from the stated rates of corporation income tax and is affected by the amount of income earned in the various countries and the impact of the following:

(a) Certain of the Company's international drilling contracts are exempt from income tax.

(b) The Company's income tax on oil and gas earnings are subject to certain rebates and allowances by the principal Canadian oil and gas producing provinces.

(c) Taxable income earned by the construction equipment and supplies division in the current year is subject to a special reduction relating to the value of its investment in inventory of goods for resale.

Net earnings - fiscal 1978-1977

Net earnings after minority interest increased by 78.7% to $16,034,000 from $8,975,000. The construction equipment and supplies division increased net earnings by 16.1% after minority interest of $4,522,000 (1977 - $3,976,000) contract drilling and oilfield supplies increased by 158.4% to $10,116,000 from $3,915,000 and the oil and gas production division by 28.8% to $1,396,000 from $1,084,000. On a fully diluted basis earnings per share were $4.12 compared with $2.29.

Ten Year Summary (1)

Thousands of Canadian Dollars except per share data

Year ended March 31
OPERATING
Operating revenues
Pre-tax earnings — before extraordinary items
Net earnings — before extraordinary items
Net earnings — after extraordinary items
Net earnings applicable to common shares
Per common share outstanding (2)
Basic earnings — ordinary
— extraordinary
— total
Fully diluted earnings
— ordinary
— extraordinary
— total
Cash flow from operations
FINANCIAL
Receivables
Inventories
Working capital
Fixed assets, net of depreciation and depletion
Total assets
Common shareholders' equity
Equity per common share (3)
Number of common shares outstanding

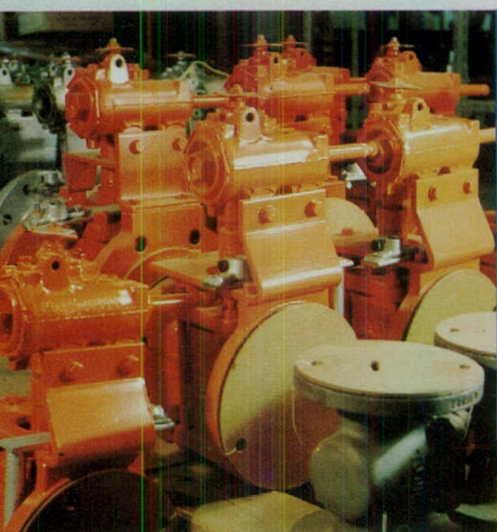
1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
$ 615,947	$ 482,666	$ 422,495	$ 357,946	$ 310,488	$ 235,330	$ 179,093	$ 130,636	$ 104,714	$ 105,407
44,946	27,824	17,343	17,387	23,329	11,177	7,862	4,774	4,233	4,822
23,968	16,034	8,975	6,938	9,607	5,127	3,966	2,669	2,549	1,854
23,968	16,034	8,975	8,908	9,813	5,446	4,366	2,771	3,066	2,502
23,935	15,943	8,870	8,610	9,317	4,937	3,863	2,258	2,558	2,484
$6.28	$4.37	$2.54	$2.00	$2.83	$1.49	$1.14	$0.71	$0.71	$0.66
—	—	—	0.60	0.07	0.10	0.13	0.03	0.18	0.24
6.28	4.37	2.54	2.60	2.90	1.59	1.27	0.74	0.89	0.90
6.16	4.12	2.29	1.78	2.33	1.24	0.97	0.65	0.64	0.62
—	—	—	0.51	0.05	0.08	0.10	0.02	0.13	0.20
6.16	4.12	2.29	2.29	2.38	1.32	1.07	0.67	0.77	0.82
$ 41,965	$ 29,059	$ 21,341	$ 18,095	$ 16,729	$ 11,397	$ 9,572	$ 5,456	$ 5,691	$ 5,000
$ 132,178	$ 84,954	$ 74,437	$ 64,264	$ 56,423	$ 48,838	$ 39,592	$ 26,310	$ 20,658	$ 19,532
111,523	67,302	62,496	57,031	49,461	42,910	29,698	22,547	16,124	16,225
82,461	35,151	31,862	30,371	31,351	24,204	20,766	11,598	13,367	11,421
104,068	98,070	99,117	111,857	81,437	48,639	39,721	32,441	27,421	24,395
393,336	290,972	273,284	264,357	213,934	155,445	119,751	90,466	71,229	66,984
$ 95,094	$ 77,945	$ 60,986	$ 51,579	$ 40,310	$ 31,472	$ 26,812	$ 22,627	$ 19,108	$ 15,807
$24.47	$21.06	$16.84	$14.92	$12.93	$10.12	$ 8.70	$ 7.50	$ 6.60	$ 5.71
3,886,220	3,701,404	3,621,304	3,456,329	3,116,517	3,109,272	3,083,143	3,015,693	2,893,303	2,768,407

(1) Results of certain prior years have been restated to reflect adjustments to previously reported operating results.

(2) Based on weighted number of common shares outstanding during the year.

(3) Based on common shares outstanding at year end.

WESTBURNE



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