WESTBURNE

INTERNATIONAL INDUSTRIES LTD.

ANNUAL REPORT 1980

HISTORIC RANCHES OF ALBERTA

"SUMMER SKIES", 1963 O. N. Grandmaison

George Lane Bar-U Ranch, Nanton, Alberta
from the collection of
WESTBURNE International Industries Ltd.

The Bar-U Ranch, located twenty-eight miles from the town of High River, Alberta, was operated and subsequently owned by George Lane, one of the "Big Four" cattle barons of Alberta. He developed an outstanding ranch noted for both its beef cattle and Percheron draught horses.

The painting "July" exudes the warmth of a magical summer day, a cool brook and picturesque pastures ideally set in the foothills of the Rockies. These same pastures received full advantage of the Chinook winds and were excellent winter feeding grounds.

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) 233-6600

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 Alberta 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 5, 1980, in the Glenview Room, Calgary Convention Centre.

TO OUR SHAREHOLDERS

HIGHLIGHTS OF THE YEAR:

Total revenues of $950,667,000.

Net earnings for the year of $25,801,000.

The acquisition of 51.3% of Peyto Oils Ltd. (92% to date of this report).

The formation of Westburne Supply Inc. and the acquisition of twenty-six plumbing supply branches in the United States.

The underwriting on July 8, 1980 of 1,500,000 common shares for a public offering at $29.625 (U.S. funds) to net the Company approximately $48,000,000 (Cdn. funds).

Information on the operations of each of our principal divisions for the year ended March 31, 1980 is contained in the section: Report of Operating Divisions and complete information on our financial position is contained in the section: Financial Review. Significant financial achievements in the current year compared with the prior year were:

1. A 54.3% increase in operating revenues of $334,720,000 to $950,667,000 from $615,947,000.
2. A 36.1% increase in earnings from operations of $18,442,000 to $69,507,000 from $51,065,000. This increase takes into account the non-recurring loss on Iranian operations of $5,263,000 after insurance recoveries. Normal operations, i.e. before the loss on Iranian operations would have shown a percentage increase of 46.4%.
3. Earnings applicable to common shares increased $1,866,000 to $25,801,000 from $23,935,000 and earnings per common share (fully diluted) by $0.24 to $3.32 from $3.08, an increase of 8%. The loss on Iranian operations flows directly to the "bottom line"; excluding that loss, earnings per common share would have been $4.00.

In every Westburne company our staff was taxed at times to their utmost and the final results for the year were due to their considerable efforts.

Our Company operates with three principal divisions: construction equipment and supplies, petroleum industry services and oil and gas exploration and production. Historically, oil and gas has been the smaller division but a major expansion was made with the acquisition of a controlling interest in a Canadian based oil company, Peyto Oils Ltd. In January, 1980 51.3% of the issued shares were acquired. In May, 1980 an offer to acquire the balance of the outstanding common shares was made to shareholders of Peyto and accordingly, as of the date of this report, Peyto is a 92% owned subsidiary. The offer to Peyto shareholders to exchange shares for Westburne common shares remains open until September 2, 1980. With the completion of this expansion, net production of the Company will be approximately 2,000 barrels per day of crude oil and 8,000 mcf per day of natural gas. We anticipate that this division will become a major factor in the growth of the total Company.

The petroleum services division offers outstanding growth and profit possibilities for the foreseeable future. Drilling activity is at an all-time high and our oilfield supply company achieved record sales and profits. We look to expanding both these divisions during the current year.

Our construction equipment and supplies division has grown to be the largest of its kind in Canada. In August, 1979 expansion of this division into the United States was accomplished by the purchase of twenty-six branches of the supply division of Crane Co. now operating under the corporate name of Westburne Supply Inc. In June, 1980 Westburne Supply Inc. entered into an agreement to purchase all of the outstanding shares of a Pueblo, Colorado based wholesale distributor of plumbing supplies with operations in Colorado, Wyoming and Nebraska. Continued growth in the United States is planned through acquisitions and through expansion of product lines.

The world energy picture has not improved since last year's Annual Report highlighted this situation. The Canadian petroleum industry continues to be seriously impaired by political considerations that give effect to artificial pricing of crude oil and by a lack of recognition of the benefit of creative incentive needed to meet the tremendous costs of frontier and tar sand developments. In 1979 the industry received $13 billion in revenue from sales of crude oil, natural gas and by-products and re-invested $13.5 billion in exploring for and producing those products. In addition to the $13.5 billion expenditures, industry had to meet its normal commitments such as working capital requirements, debt repayments, interest payments, dividends, etc. To finance the total 1979 undertaking, industry increased its long term debt, generated funds from new equity issues and utilized proceeds from drilling funds.

While the Federal and Provincial governments were and are debating foreign investment in Canada and whether or not Canadians should be paying world prices for oil in Canada (now $14.75 per barrel in Canada; $40.00 per barrel world), $18 million per day is being spent on imported oil which creates no economic activity in this country.

Canada's low price oil policy will cost taxpayers $3.2 billion this year if there are no increases in the cost of imported oil. It is estimated that by the year 1985 Canada will be importing 600,000 barrels of oil daily which will cost more than $10 billion. It is incredible that we purchase foreign oil at $40.00 per barrel while limiting domestic producers to $14.75 per barrel — this deterrent will not produce self-sufficiency in energy.

The industry requires stability of policy to commit the large cash flows to find and develop the energy required for the future. Westburne believes that, given the incentive of adequate profit, significant reserves throughout the world will be discovered and produced by competent operators. It is fortunate that through all the attempts by various governments to restrict returns to producers, there still exists a total industry committed to continued exploration and development.

In spite of these price problems in the oil and gas industry and a recession in sections of North America, we are convinced that the industries in which we operate will continue to offer outstanding opportunities. We foresee full activity in our petroleum industry services division in the oncoming year with particularly improved profitability from foreign operations. We expect to increase our market penetration in the plumbing and electrical supplies markets in the United States. We see recession in the United States as of short duration and will not effect our long term expansion in that country.

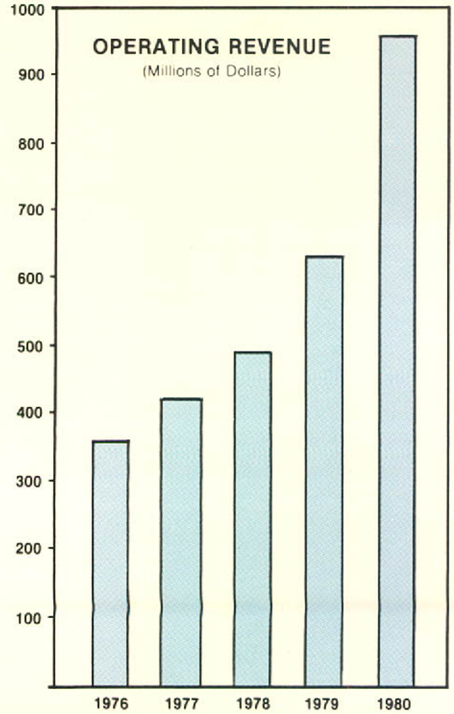
J. A. SCRYMGEOUR
Chairman of the Board

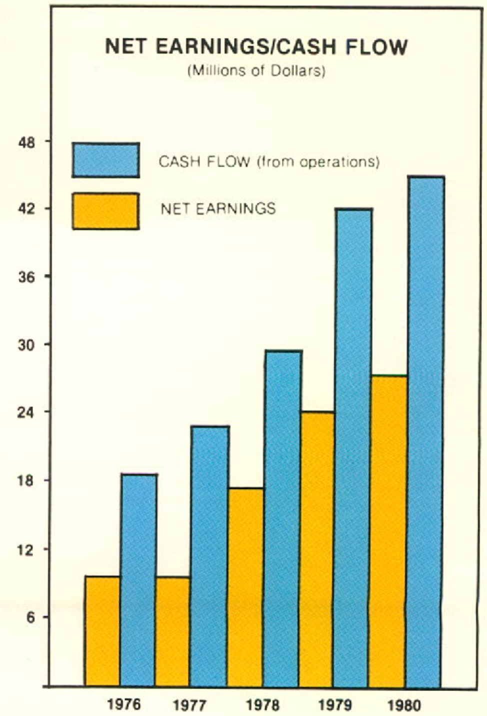
July 8, 1980

FINANCIAL HIGHLIGHTS

For the year ended March 31—	1980	1979
Total operating revenue	$950,667,000	$615,947,000
Net earnings	25,801,000	23,968,000
Net earnings applicable to common shares	25,801,000	23,935,000
*Per common share — basic earnings	3.32	3.14
— fully diluted earnings	3.32	3.08
Cash flow from operations	45,718,000	41,965,000
As at March 31 —		
Fixed assets — net of depreciation and depletion	163,875,000	104,068,000
Total assets	558,145,000	393,336,000
Long term debt — less amount due within one year	101,728,000	86,498,000
Shareholders' equity		
Common	115,459,000	95,094,000
*Per common share	14.86	12.24
*Number of common shares outstanding	7,772,440	7,772,440

*Adjusted retroactively to reflect the 2 for 1 common share split effective August 31, 1979.





OIL AND GAS EXPLORATION AND PRODUCTION

Westburne enters the 80's with optimism and confident of reaching its basic objective of finding new oil and gas reserves.

An important event for Westburne in the past year was the purchase in January 1980 of a controlling interest in Peyto Oils Ltd. Subsequent acquisitions of Peyto shares has increased the interest to approximately 92%. Through these transactions, interests in 480 gross oilwells and 99 gross gaswells in Canada and the United States plus a large exploration acreage position were acquired.

During the past year Westburne/Peyto participated in the drilling of thirty wells; nine resulted in gaswells, three resulted in oilwells, fourteen were dry and four were drilling or completing at year's end. At March 31, 1980 Westburne had interests in 2,821 gross oilwells (207 net oilwells), 183 gross oilwells (34.7 net gaswells). The daily net production from the above wells averaged 8,047 mcf and 1,966 barrels of oil for the month of March, 1980. The gross production before royalties was 10,789 mcf and 2,720 barrels of oil per day.

Westburne's proven and probable oil and gas reserves at March 31, 1980 as estimated by independent petroleum reservoir analysts were as follows:

	Crude Oil and Natural Gas Liquids (Thousands of Barrels)
Canada	8,616
United States	142
Total	8,758

	Natural Gas (Millions of Cubic Feet)
Canada	51,293
United States	3,858
Total	55,151

These reserves were calculated to produce a future net revenue of $316,718,000, having a present worth net value discounted at 10% of $122,312,000.

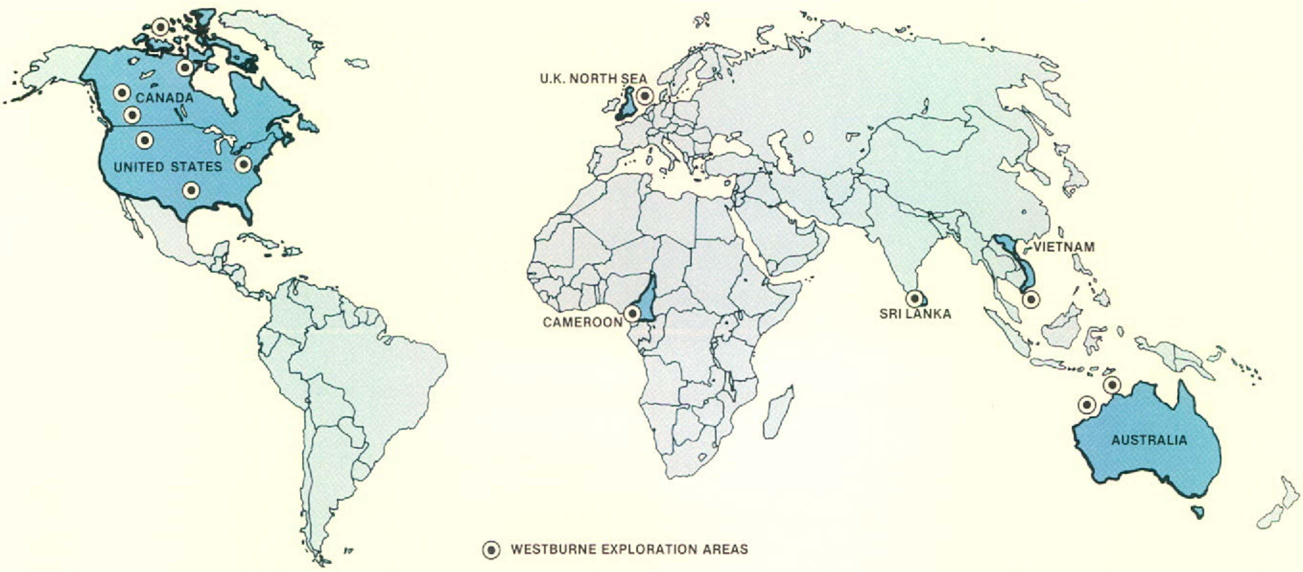
Westburne had an interest at March 31, 1980 in the following acreage:

	Developed Acreage	
	Gross Acres	Net Acres
Canada	187,052	40,995
United States	25,528	4,972
Others	121,252	3,263
Total	333,832	49,230

	Undeveloped Acreage	
	Gross Acres	Net Acres
Canada	302,304	85,326
United States	483,722	142,419
Others	13,231,702	2,103,696
Total	14,017,728	2,331,441

Westburne now has a strong base and excellent prospects for increasing reserves and income in fiscal 1981; the oil and gas exploration programme for the year includes participation in approximately seventy wells in Canada and the United States and the Company will also participate in a diamond drilling programme on the uranium prospect in the Baker Lake area in Canada. On the following pages are maps of some of the areas in which exploratory drilling will take place in fiscal 1981; a summary of Westburne's interests in each of these areas is tabulated on the following page.

WORLDWIDE EXPLORATION

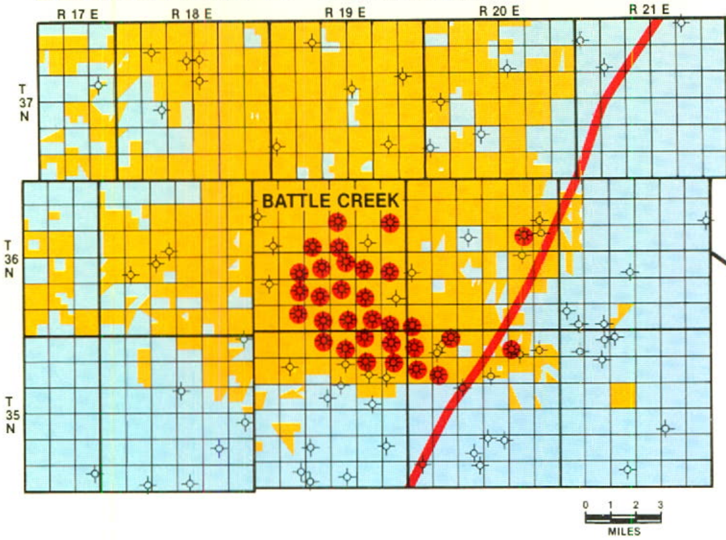


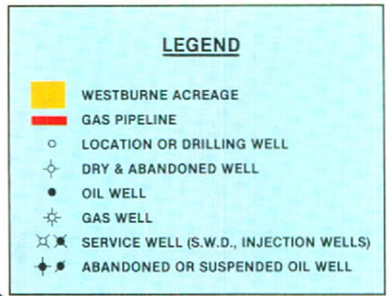
Area	Percentage Interest	Acreage	
		Gross Acres	Net Acres
Alberta			
Tooga	Varying	18,800	8,480
Karr	Varying	19,200	2,688
Montana			
Blaine County	Varying	146,120	26,302
Utah			
Bluebell-Altamont	50%	1,280	640
Texas			
Houston and Trinity Counties	30%	17,577	5,273
Walker County	25%	38,092	9,523
Oklahoma			
Garfield County	25%	2,080	520
Pennsylvania			
Crawford and Erie Counties	35%	17,500	6,125

Westburne's attractive exploration opportunities outside of North America, include interests in Australia, United Kingdom (North Sea area), Vietnam, the Cameroons and Sri Lanka. A map showing these areas of interest is presented above.

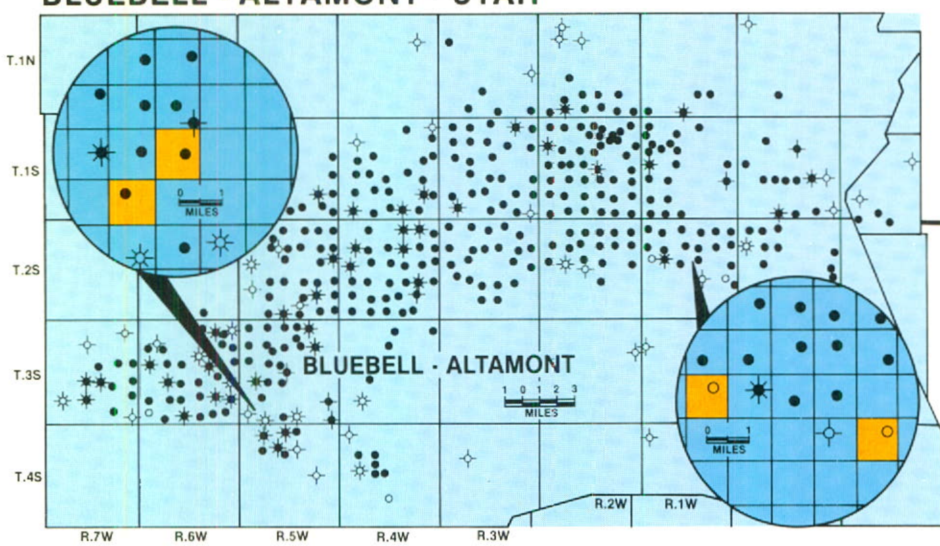
UNITED STATES

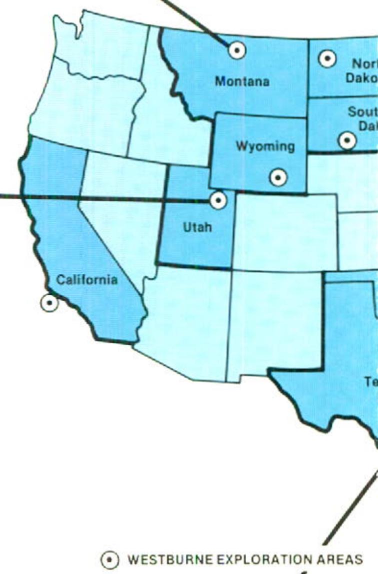
BLAINE COUNTY - MONTANA



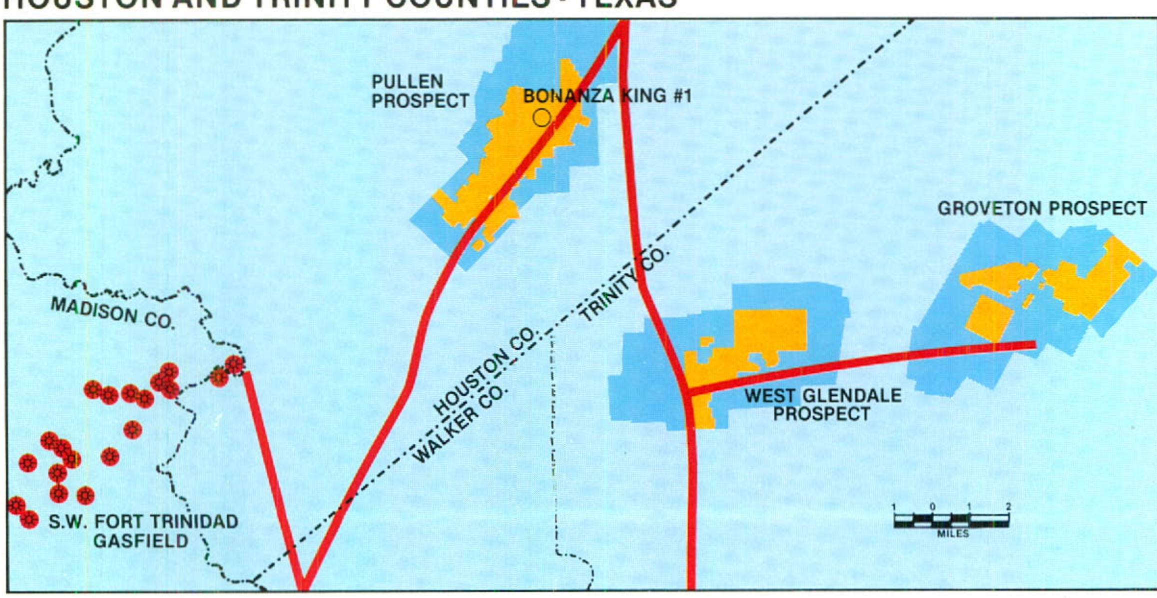


BLUEBELL - ALTAMONT - UTAH

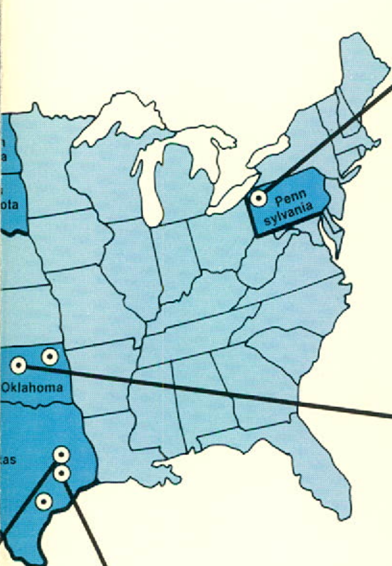




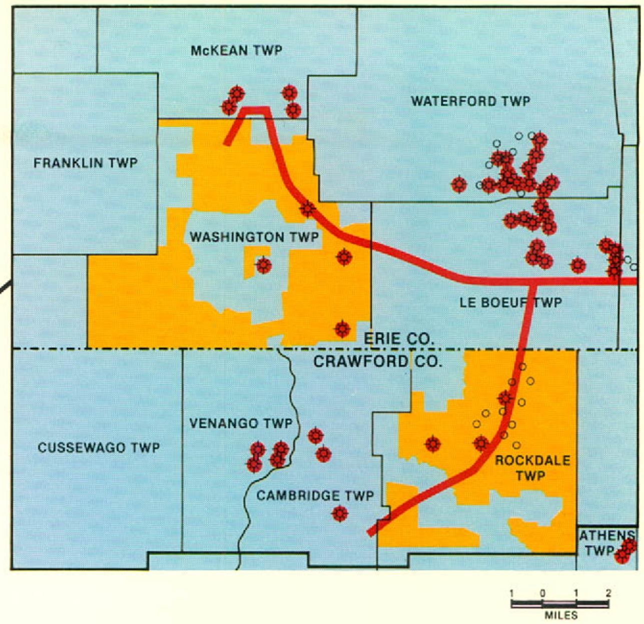
HOUSTON AND TRINITY COUNTIES - TEXAS



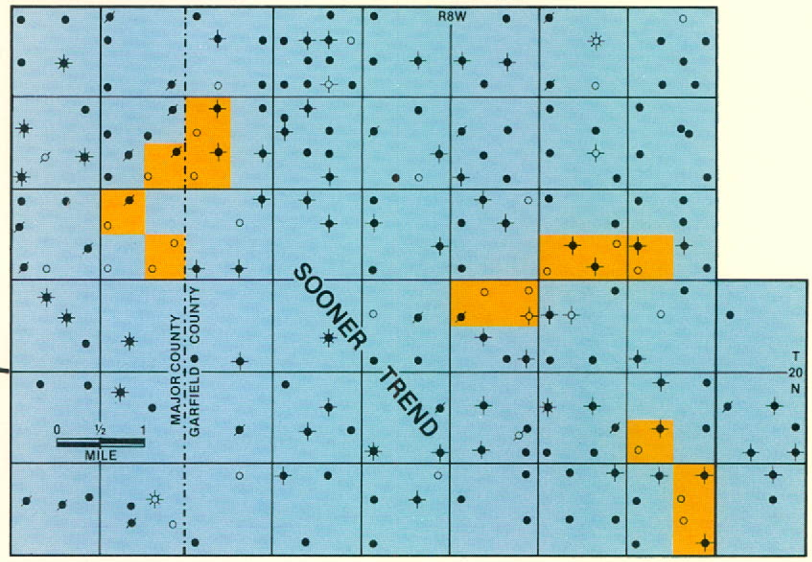
EXPLORATION



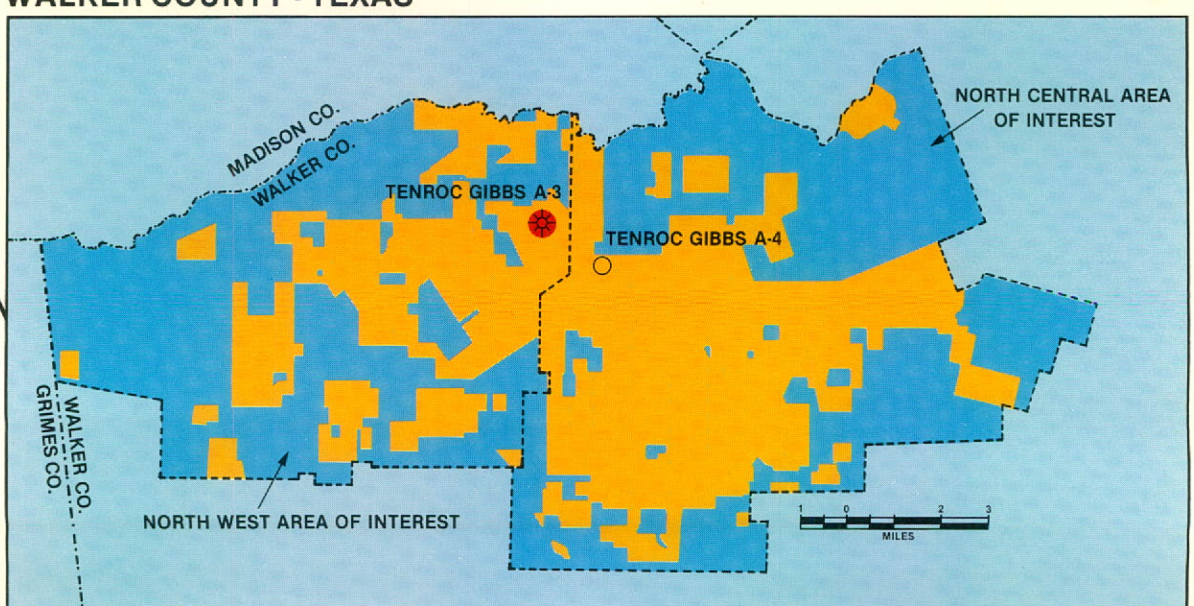
CRAWFORD & ERIE COUNTIES - PENN.



GARFIELD COUNTY - OKLAHOMA

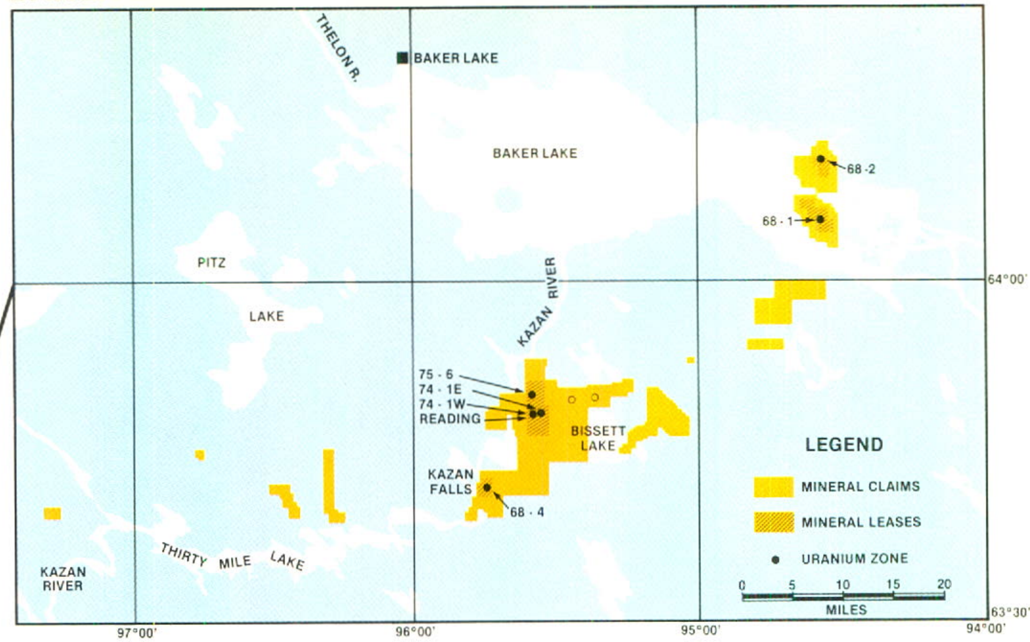


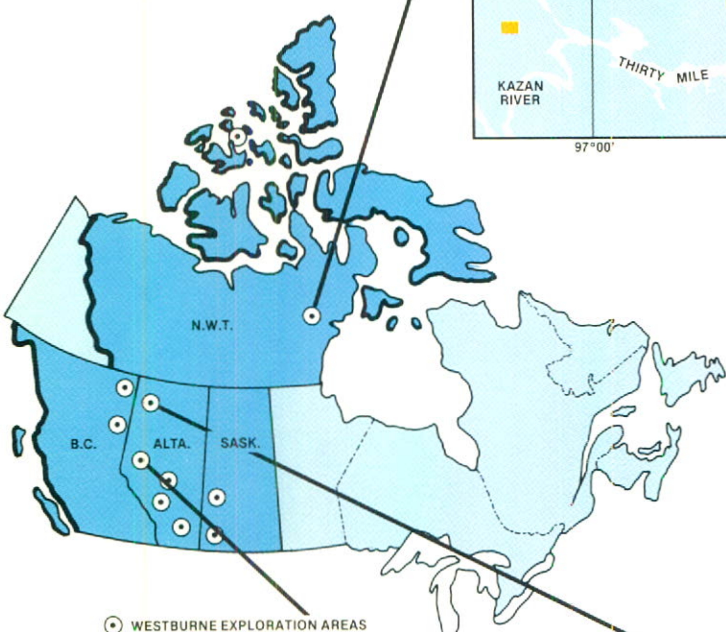
WALKER COUNTY - TEXAS



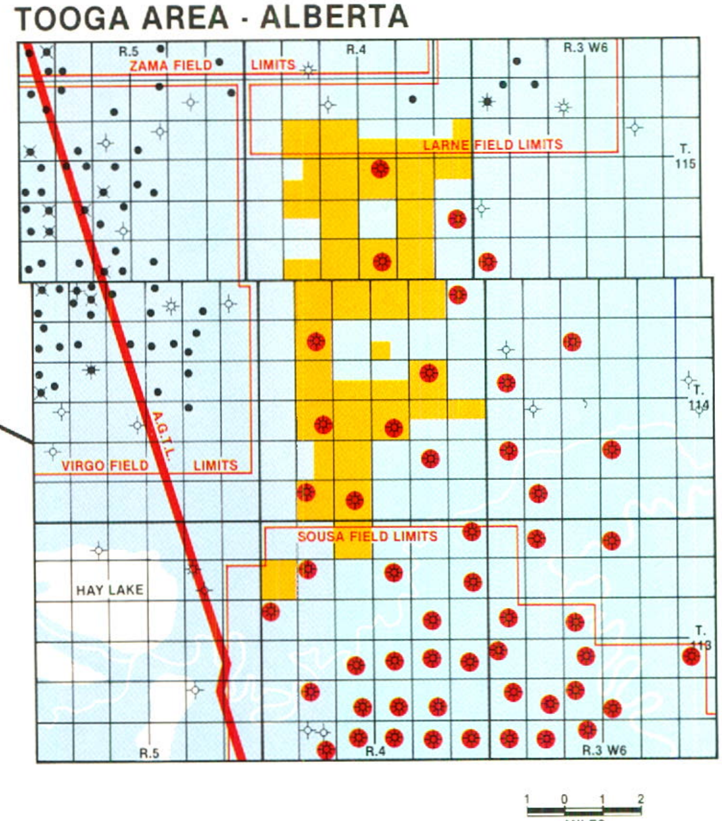
CANADIAN EXPLORATION

BAKER LAKE AREA - NORTHWEST TERRITORIES

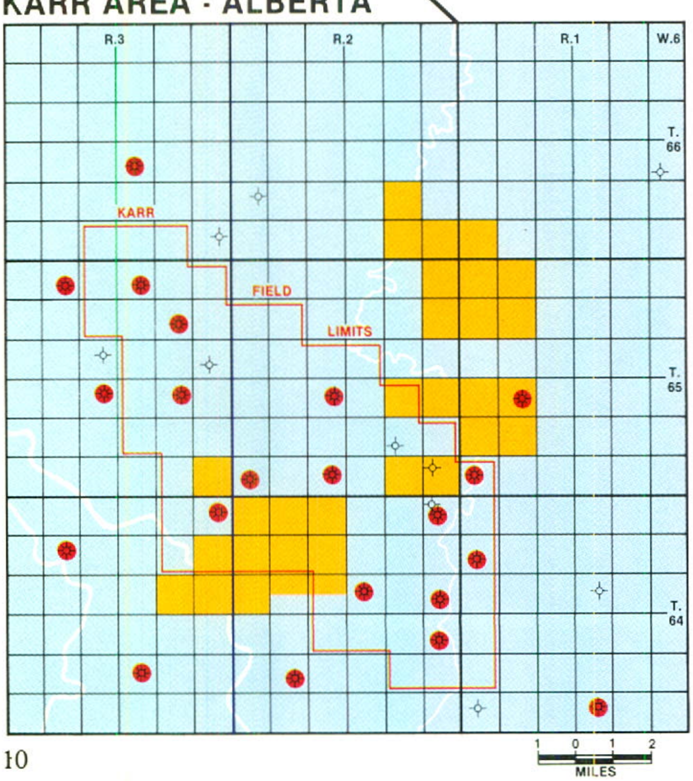


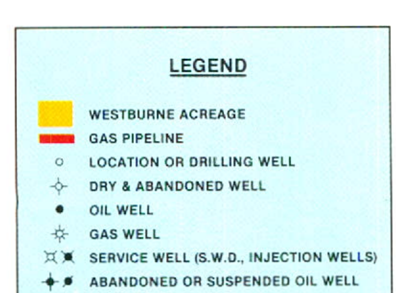


TOOGA AREA - ALBERTA



KARR AREA - ALBERTA

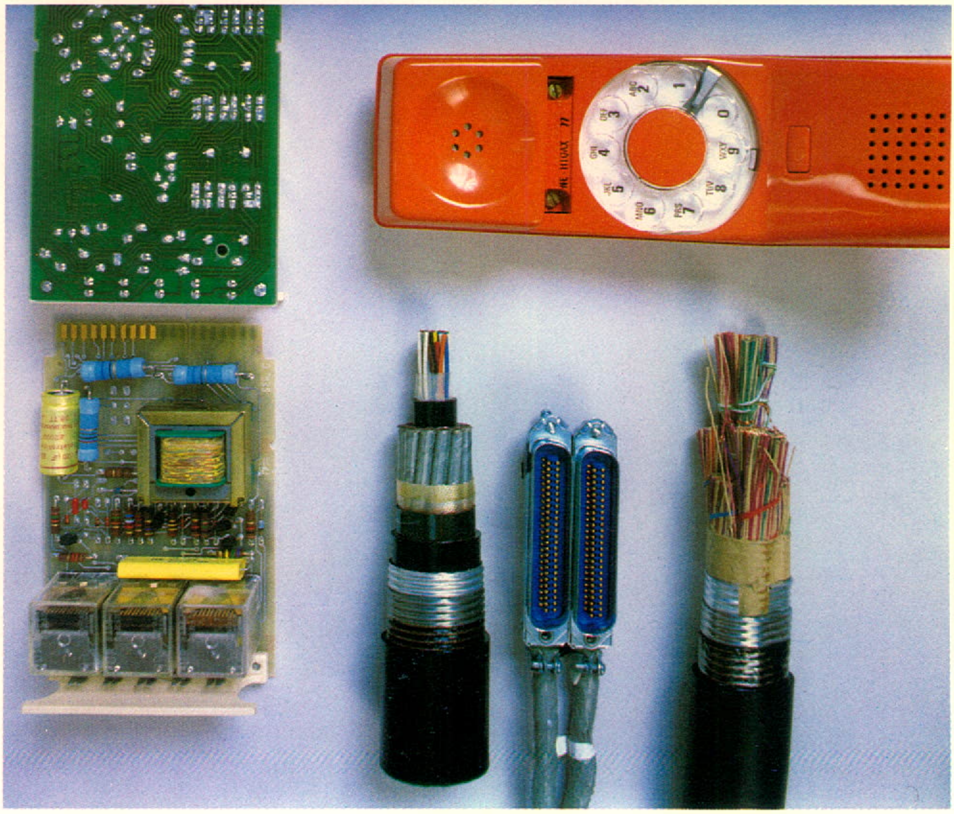




CONSTRUCTION EQUIPMENT AND SUPPLIES DIVISION

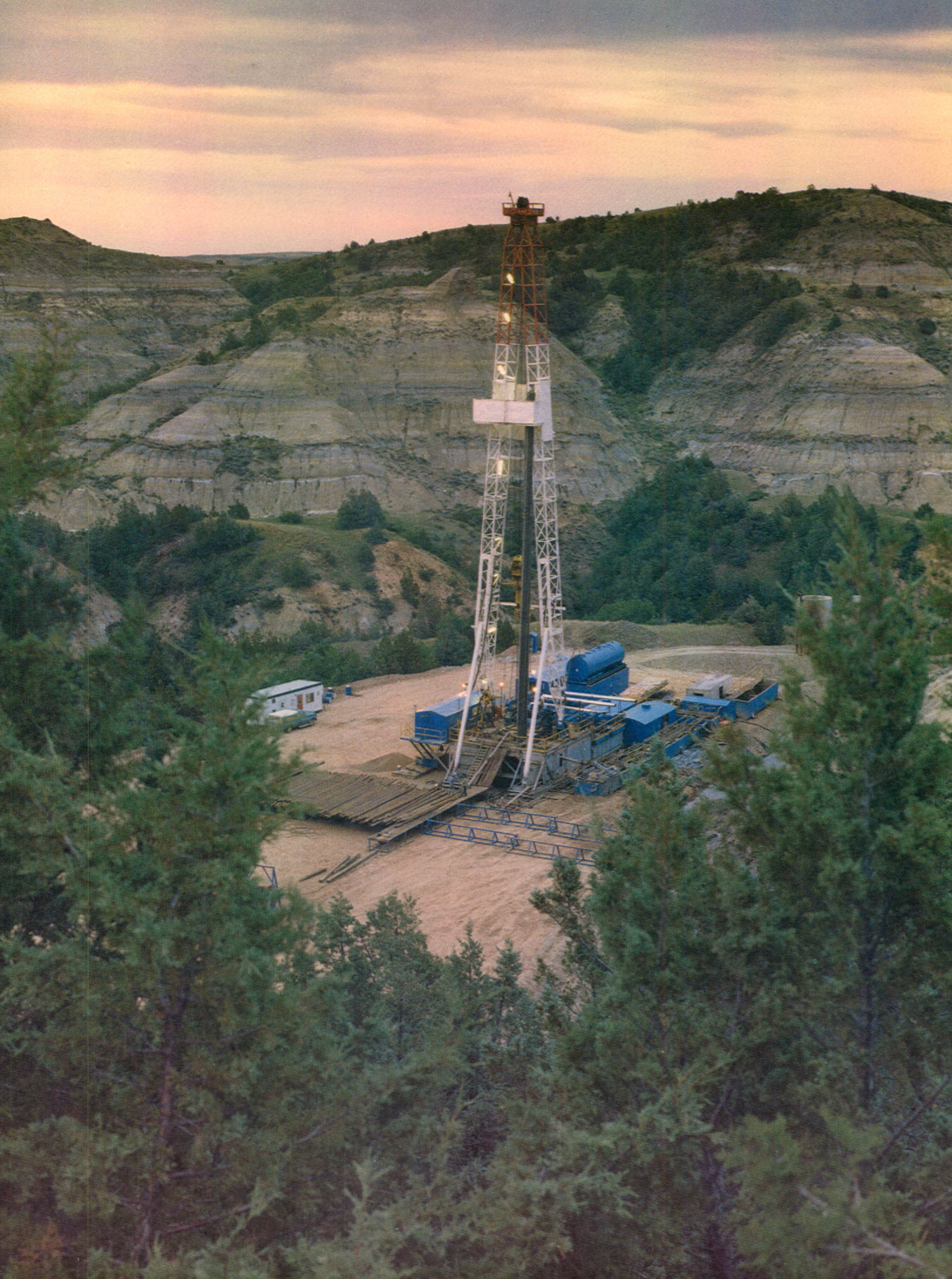
Westburne's construction equipment and supplies division reached all time record revenues and earnings during the year under review. Operating revenues increased to $752,784,000 from $426,118,000 and net earnings, after minority interest of 8.8%, increased to $17,864,000 from $8,321,000.

The significant increase in revenues and earnings in Canada during fiscal 1980 is a reflection of a strong performance from coast to coast. Although parts of the economy were sluggish, Westburne expanded its markets in all sections of the country. The Maritimes division was organized with headquarters in Halifax. Revenues and earnings were strong in that division as well as in both the Quebec and Ontario divisions. Western Canada, from Vancouver to the Lakehead, continued with record levels of activity. The performance of the Nedco and Zentronics acquisition made in January, 1979 was noteworthy. This acquisition was expected to contribute substantially to operations as a result of its commercial and industrial product lines including highly specialized electrical, electronic and telecommunications products, but its operating results proved to be well above these expectations.



Westburne's major market expansion in fiscal 1980 was the entry into the United States through the acquisition in August 1979 of twenty-six plumbing and heating branches from the Crane Co. They are located in sixteen states and will serve as a base for major expansion plans in the United States. We believe that the contribution of that subsidiary will prove highly rewarding in the future. Further expansion in Canada occurred in December, 1979 with the acquisition of Bayfield Plumbing and Heating Supply Limited, an Ontario wholesaler, whose operations complement our Northern Ontario operations.

At the time of this report the construction equipment and supplies division operates 204 branches (26 in the United States) in 173 locations and employs approximately 4,000 people who made it all happen — we are proud of them all.



PETROLEUM INDUSTRY SERVICES AND SUPPLIES DIVISION

Strong demand for drilling services and oilfield equipment and supplies resulted in increased gross revenues of $199,420,000, up from the previous year record revenues of $192,934,000. This was achieved in spite of five drilling rigs formerly in Iran and Africa being idle during the year.

Early indications for fiscal 1981 point towards another record year with all rigs working at the date of this report.

Contract drilling

Gross operating revenues decreased to $126,928,000 from $134,667,000 in the previous year. Revenue increases from domestic operations were more than offset by revenue decreases from international operations. Drilling revenue from domestic operations rose to $93,937,000 from $82,201,000 with resulting earnings before tax of $22,110,000. Demand for Canadian drilling services remained strong throughout the past year and contributed pre-tax earnings of $17,693,000 compared with $15,697,000 in the previous year. Uncertain market conditions during the first half of 1979 influenced profitability in United States operations; however the year ended and currently continues in a very strong and positive position. Pre-tax earnings, because of the first six months, declined to $4,417,000 from $6,059,000 in the previous year.

International operations revenues declined sharply to $32,991,000 from $52,466,000 in the prior year. These operations had a loss of $8,411,000 compared with a profit of $741,000 in the previous year. Earnings were affected by ongoing fixed costs on the five idle drilling rigs and the $5,263,000 loss directly related to the termination of the Iranian contract. Westburne was singularly successful in exporting most of its assets from Iran, and received payment of $9,216,000 from insurance claims for the assets it was forced to leave behind. During the year the four rigs previously in Iran were refurbished and are currently working under contract in other countries.

Westburne's international drilling division has land rigs situated as follows: four in Algeria, two in Abu Dhabi, two in Iraq, one in Dubai, three in Indonesia and one in the Philippines. In addition, Westburne continues to provide technical and labour/management services in the North Sea, Indonesia and the Philippines. The world-wide demand for petroleum industry services continues very strong and Westburne's equipment is well situated in areas of future expansion.

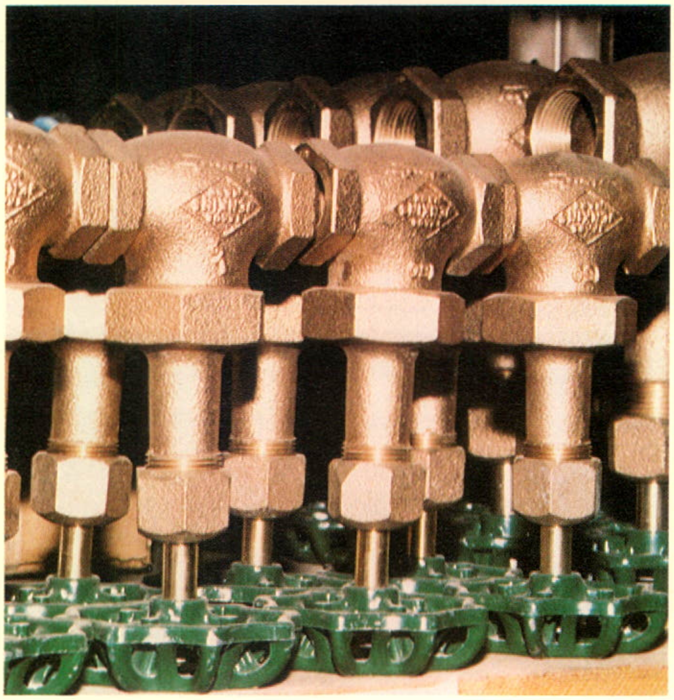
During the year Westburne sold its offshore jack-up drilling rig and now owns land drilling rigs only. At March 31, 1980 all of Westburne's sixty land drilling rigs were operational and/or under contract. Negotiations were recently completed for a further two-year extension of our contract in Algeria where four rigs and related equipment are employed.

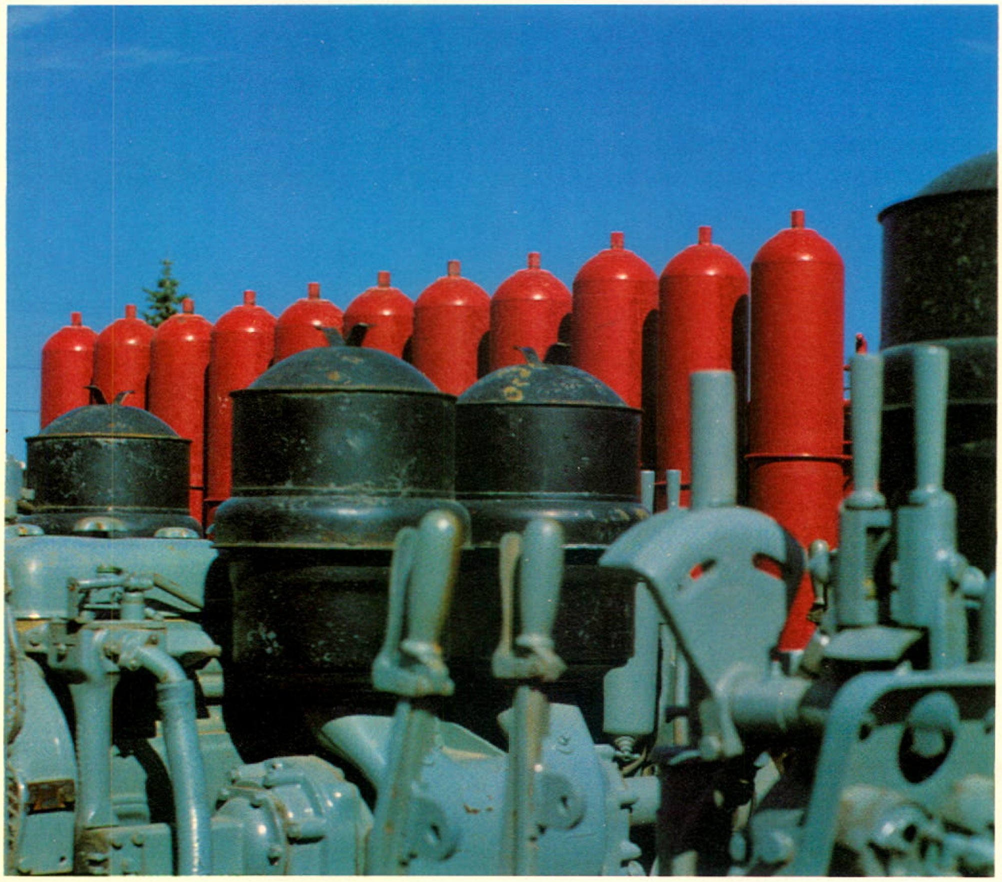
Westburne continued the programme of upgrading its drilling assets and to this end made capital improvement expenditures of $20,241,000 in the year. Also, a new rig design for tar sands development was completed; this drilling rig whose unique design allows for drilling of a horizontal well bore in the potential producing horizon, will begin operating in the second quarter of fiscal 1981 for a major oil company.

The ongoing programme for improved performance in all areas continued during the year. Technical and safety training was extended and the quality of performance of our drilling personnel and support staffs attest that our standards are of the highest level. Our employees are to be commended for jobs well done—often under the most difficult of conditions.

Oilfield equipment and supplies

This segment of our group continued to provide quality service and products and as predicted last year, reached new highs in revenue and earnings in fiscal 1980. Gross revenue





climbed almost 25% to $72,492,000 from $58,267,000 in the previous year while pre-tax earnings were $5,865,000 compared to $3,832,000.

Increases in revenues occured in all areas with the largest growth occurring in the oil and gas production segment of the business. During the third quarter of last year a branch was opened in Grande Prairie, Alberta, to serve the needs of customers involved in the Deep Basin gas field development in Northern Alberta and British Columbia while the Lloydminster, Alberta branch serves the heavy oil development programmes in Alberta and Saskatchewan. Expansion will continue with the opening of a branch in St. John's, Newfoundland during the second quarter. This branch will position us well for total involvement in the development of offshore Eastern Canadian reserves. An exclusive representation to market pumping units was established with a new Canadian manufacturer and a market arrangement for oil country tubular goods was also entered into with Nippon Steel Corp. of Japan. Continued growth in business volume points to increased earnings in the year ahead.

FINANCIAL REVIEW

During the year ended March 31, 1980 the Company achieved record levels of revenues, net earnings and cash flow from operations; revenues were $950,667,000, up 54.3% (see management's discussion), net earnings were $25,801,000, up 7.6% and cash flow was $45,718,000, up 8.9% from prior year's figures.

Current assets and working capital

In the year, current assets increased by $104,287,000 with a $59,995,000 increase in accounts receivable and a $47,526,000 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 in Canada of Nedco Ltd. and Zentronics Ltd. in January, 1979 and 26 branches of Crane Co. in the United States in August, 1979 and the full integration of their activities with those of the Company. The increase in levels of inventory and receivables are normal when related to the increase in revenues in the current year. Cash and short term deposits decreased 15.9% to $20,165,000.

Working capital decreased by $12,600,000 to $69,861,000 and at March 31, 1980 the current ratio (current assets to current liabilities) was 1.22:1.00. Funds from operations increased to $45,718,000 from $41,965,000 in the prior year.

Fixed assets

During the year $36,312,000 was expended on new operating assets. In addition, in January 1980, the Company acquired a 51.3% interest in Peyto Oils Ltd., a Calgary-based oil company, for approximately $34,000,000. On consolidation of Peyto's assets with those of the Company at March 31, 1980 approximately $46,000,000 was allocated to oil and gas properties and equipment; of this amount $27,175,000 represents the portion of the purchase price in excess of Peyto's net assets as recorded in their financial statements.

At March 31, 1979 the Company had four drilling rigs and ancillary equipment in Iran and as a result of political turmoil in that country was not able at that date to export this equipment; however, by mid-summer the four drilling rigs and certain other equipment had been removed from Iran. Since that time these rigs have been refurbished and are under contract in various countries in the Middle East.

It is the Company's policy to maintain operating assets in peak operating condition and to this end almost $22,000,000 was expended on repairs and maintenance. Under the Company's policy of depreciating the cost of plant and equipment to estimated residual value over their estimated useful lives, a provision of $12,895,000 was made for depreciation and depletion in the current year.

Other assets

In addition to the acquisition in January, 1980 of 51.3% of Peyto Oils Ltd. the Company, on May 1, 1980, made an offer to acquire the balance of the outstanding Peyto common shares. Costs incurred to March 31, 1980 relating to the Peyto offer were deferred and show as deferred financial expense at that date.

Current liabilities

The total amount of current liabilities increased by $116,887,000 and reflects an increase in bank loans of $66,146,000 and in accounts payable of $50,894,000. These increases (except for approximately $34,000,000 in bank loans used to acquire the 51.3% interest in Peyto as explained above) were required to finance the additional revenues generated by the construction equipment and supplies division.

Long term debt (less amount due within one year)

The increase in long term debt reflects primarily a revolving bank loan of $20,000,000 which the Company has the option to repay subsequent to 1985, less normal payments on other outstanding long term debt.

Shareholders' equity

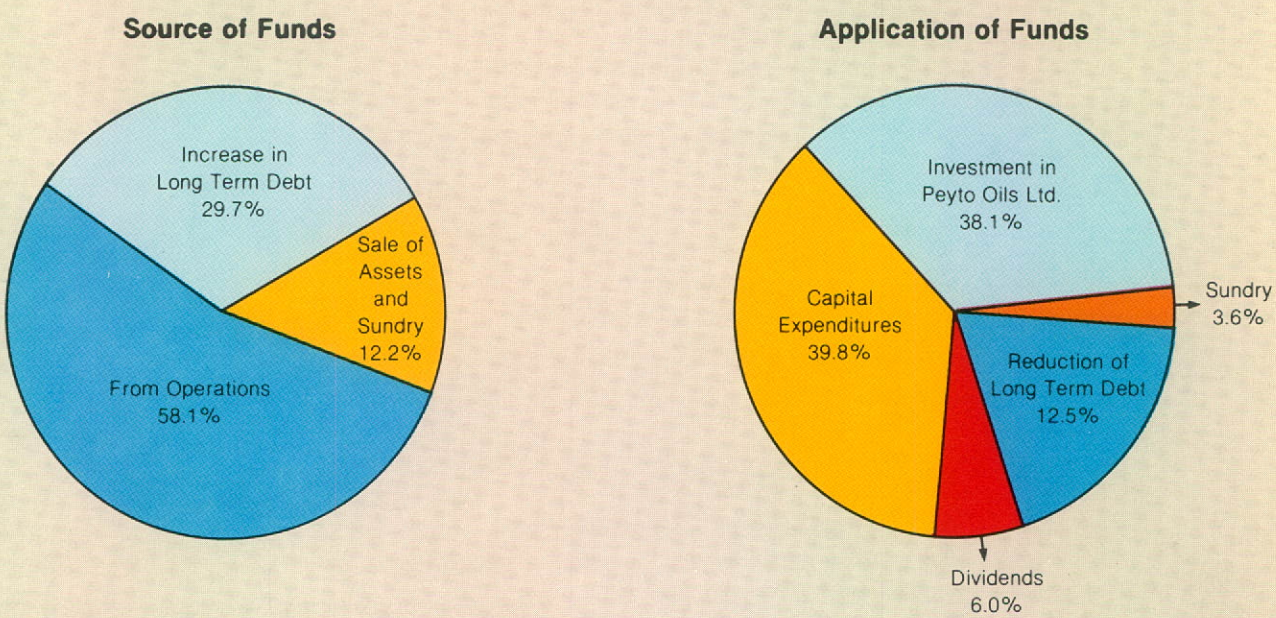
The book value of each share of common stock (after giving effect to the 2 for 1 split effective August 31, 1979), was $14.86 at March 31, 1980, up from $12.24 on the same date last year. In addition, dividends of $0.70 per common share were declared and paid during the year. Shareholders' equity at March 31st was $115,459,000, up 21.4% during the year.

Information on capital stock

Westburne has three classes of shares - first preferred shares, no par value, subordinated preferred shares, no par value and common shares, no par value. No first preferred shares or subordinated preferred shares are issued and outstanding. The common shares are listed on The Toronto Stock Exchange, Montreal Stock Exchange, Alberta Stock Exchange and the American Stock Exchange, Inc.

FINANCIAL CHARTS

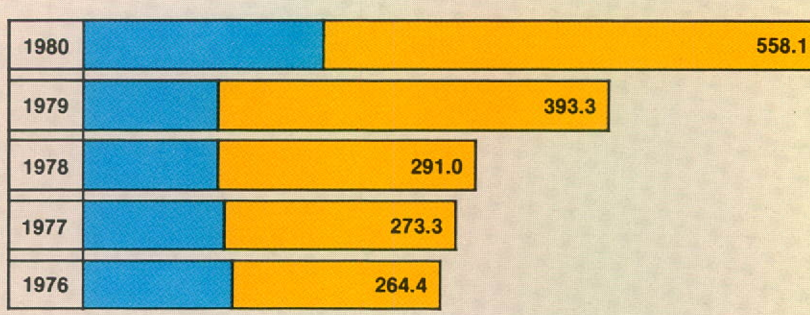
CHANGES IN FINANCIAL POSITION
(as a percentage)



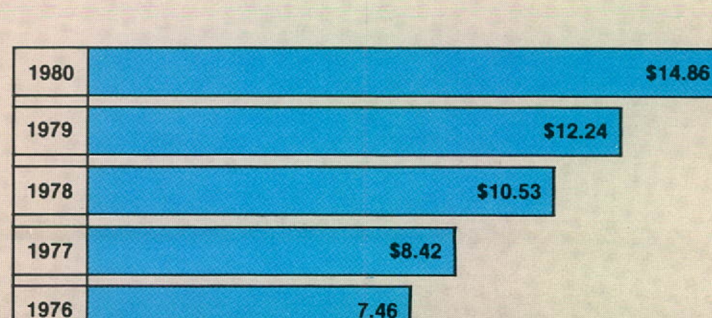
TOTAL ASSETS
(Millions of Dollars)

Fixed Assets—property and equipment (net)

Receivables, inventories and others



COMMON SHAREHOLDERS' EQUITY (per share)
(Dollars)



BUSINESS SEGMENTS

Thousands of Canadian Dollars

Revenue and Earnings Contributions Year ended March 31	1980	1979	1978	1977	1976
Revenue Contribution					
Construction equipment and supplies (plumbing, heating and electrical products)					
Canada	$689,334	$426,118	$341,222	$311,436	$274,665
United States	63,450	—	—	—	—
Petroleum industry services and supplies					
Contract drilling					
Canada	73,149	61,780	42,959	33,232	24,823
United States	20,788	20,421	17,029	10,844	9,896
International	32,991	52,466	46,513	39,354	21,538
Oilfield supplies	72,492	58,267	38,748	26,474	24,067
Oil and gas production	8,588	6,689	6,099	5,361	4,928
Intersegment items	(10,125)	(9,794)	(9,904)	(4,206)	(1,971)
	$950,667	$615,947	$482,666	$422,495	$357,946
Earnings Contribution (pre income tax) (1 & 2)					
Construction equipment and supplies (plumbing, heating and electrical products)					
Canada	$ 33,872	$ 16,662	$ 8,170	$ 8,051	$ 13,546
United States	1,113	—	—	—	—
Petroleum industry services and supplies					
Contract drilling					
Canada	17,693	15,697	9,696	7,179	3,095
United States	4,417	6,059	3,802	(45)	(60)
International	(8,411)	741	1,602	(682)	(2,766)
Oilfield supplies	5,865	3,832	2,581	1,382	2,086
Oil and gas production	1,332	1,684	2,155	1,430	1,293
Intersegment items	(390)	271	(182)	28	193
	$ 55,491	$ 44,946	$ 27,824	$ 17,343	$ 17,387

(1) 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.

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

	Assets Employed as of March 31, 1980	Capital Expenditures 1980	Depreciation and Depletion 1980
Construction equipment and supplies (plumbing, heating and electrical products)			
Canada	$286,155	$ 8,098	$ 2,882
United States	38,940	775	35
Petroleum industry services and supplies			
Contract drilling			
Canada	36,289	11,592	3,748
United States	13,453	1,248	925
International	77,301	7,401	2,382
Oilfield supplies	24,718	141	91
Oil and gas production	76,879	7,023	2,719
Intersegment and corporate items	4,410	34	113
	$558,145	$36,312	$12,895

PRICE RANGE OF COMMON SHARES

Two fiscal years ended March 31, 1980

TORONTO STOCK EXCHANGE

Fiscal Quarter	1980 High	1980 Low	1979 High	1979 Low
First	24 3/4	19 7/8	14 1/4	10 3/4
Second	25 1/8	21 1/4	20 1/4	12 5/8
Third	30 1/2	18 3/4	18 3/4	12 1/2
Fourth	42 1/2	24	24	17 3/8

AMERICAN STOCK EXCHANGE (US $)

Fiscal Quarter	1980 High	1980 Low	1979 High	1979 Low
First	21 1/8	17	12 3/4	9 3/4
Second	21 7/8	18	17 7/8	11 1/4
Third	26 7/8	15 7/8	16 1/8	10
Fourth	36 3/4	19 3/4	20 7/8	14 1/2

(1) Adjusted retroactively to reflect a 2 for 1 stock split effective August 31, 1979.

Consolidated Statement of Earnings

Thousands of Canadian Dollars except per share data

Year ended March 31	1980	1979
Operating revenues		
Construction equipment and supplies	$752,784	$426,118
Petroleum industry services and supplies	189,295	183,140
Oil and gas production	8,588	6,689
	950,667	615,947
Costs and expenses		
Cost of sales		
Construction equipment and supplies	609,660	345,802
Petroleum industry services and supplies	143,951	137,031
Oil and gas production	3,176	2,214
Depreciation and depletion	12,895	12,265
Selling, general and administrative	106,215	67,570
	875,897	564,882
Special provision for loss arising on termination of drilling contract in Iran less insurance recoveries of $9,216,000 (Note 14)	5,263	—
	881,160	564,882
Earnings from operations	69,507	51,065
Other expenses and revenues (Note 10)	14,016	6,119
Earnings before income taxes and minority interest	55,491	44,946
Income taxes		
Current	24,695	18,441
Deferred	2,887	1,615
	27,582	20,056
Earnings before minority interest	27,909	24,890
Minority interest	2,108	922
Net earnings for the year	$ 25,801	$ 23,968
Basic earnings per common share *	$3.32	$3.14
Fully diluted earnings per common share *	$3.32	$3.08

* Adjusted retroactively to reflect a 2 for 1 stock split effective August 31, 1979.

Consolidated Statement of Retained Earnings

Thousands of Canadian Dollars

Year ended March 31	1980	1979
Balance at beginning of year—as previously reported	$ 84,138	$ 69,313
Prior years' adjustment (Note 9 [a])	—	907
Balance at beginning of year, as restated	84,138	68,406
Add (Deduct)		
Net earnings for the year	25,801	23,968
Change of minority interest in subsidiary companies	5	(431)
Dividends		
Common shares	(5,441)	(7,772)
Preferred shares	—	(33)
Balance at end of year	$104,503	$ 84,138

AUDITORS' REPORT

THE SHAREHOLDERS
WESTBURNE INTERNATIONAL INDUSTRIES LTD.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. as at March 31, 1980 and 1979 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 other auditors who have examined the financial statements of subsidiary companies which comprise 26% and 24% of total consolidated assets at March 31, 1980 and 1979 and 29% and 43% of consolidated operating revenues for the years then ended, respectively.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1980 and 1979 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
May 31, 1980

TOUCHE ROSS & CO.
Chartered Accountants

Consolidated Balance Sheet

Thousands of Canadian Dollars

March 31	1980	1979
Assets		
Current assets:		
Cash and short term deposits	$ 20,165	$ 23,960
Accounts receivable	192,173	132,178
Inventories, at lower of cost and net realizable value	159,049	111,523
Prepaid expenses and consumable supplies	10,662	10,101
Total current assets	382,049	277,762
Investments and advances, at cost		
Shares and advances	4,469	4,006
Notes and mortgages receivable	710	668
Notes receivable - directors and employees (Note 2)	646	626
	5,825	5,300
Fixed assets, at cost (Note 3)	231,380	158,657
Less accumulated depreciation and depletion	67,505	54,589
	163,875	104,068
Other		
Deferred contract costs, less amount amortized	1,158	1,646
Financial expenses, less amount amortized	1,374	707
Excess of cost of investments in shares of subsidiaries		
over net assets at date of acquisition (Note 4)	3,864	3,853
	6,396	6,206
Total assets	$558,145	$393,336

Signed on behalf of the Board:

J.A. SCRYMGEOUR, Director

LUCIEN CORNEZ, Director

March 31	1980	1979
Liabilities		
Current liabilities:		
Bank loans, secured (Note 5)	$146,223	$ 80,077
Accounts payable	142,371	91,477
Income taxes payable	12,653	8,240
Dividends payable	1,670	1,126
Long term debt due within one year	8,747	13,748
Deferred income taxes	524	633
Total current liabilities	312,188	195,301
Long term debt, less amount due within one year (Notes 5 & 6)	101,728	86,498
Deferred income taxes	21,802	15,251
Minority interest (Note 7)	14,564	6,031
Unrealized currency translation loss (Note 1[b])	(7,596)	(4,839)
Total liabilities	442,686	298,242
Shareholders' equity:		
Share capital (Note 8)		
Common	5,630	5,630
Contributed surplus	5,326	5,326
Retained earnings (Note 9)	104,503	84,138
Total shareholders' equity	115,459	95,094
Total liabilities and shareholders' equity	$558,145	$393,336

Consolidated Statement of Changes in Financial Position

Thousands of Canadian Dollars

Year ended March 31	1980	1979
Source of funds:		
Earnings before minority interest	$ 27,909	$ 24,890
Depreciation and depletion	12,895	12,265
Deferred income tax	2,887	1,615
Other	2,027	3,195
Funds from operations	45,718	41,965
Long term debt	23,346	77,243
Sale of fixed assets and changes in investments	9,588	3,250
Issue of share capital	—	202
	78,652	122,660
Application of funds:		
Capital expenditures	36,312	21,196
Reduction in long term debt (adjusted for foreign currency translation)	11,448	43,797
Acquisition of 51.3% of Peyto Oils Ltd. including negative working capital of $831,000	34,786	—
Deferred contract costs	1,804	574
Dividends - preferred	—	33
- common	5,441	7,772
Other	1,461	1,978
	91,252	75,350
Increase (decrease) in working capital	(12,600)	47,310
Working capital, beginning of year (Note 9)	82,461	35,151
Working capital, end of year	$ 69,861	$ 82,461
Changes in working capital		
Increase (decrease) in:		
Cash and short term deposits	$ (3,795)	$ 6,829
Accounts receivable	59,995	47,224
Inventories	47,526	44,221
Prepaid expenses and consumable supplies	561	397
(Increase) decrease in:		
Bank loans	(66,146)	(22,663)
Other payables	(55,742)	(31,349)
Long term debt due within one year	5,001	2,651
Increase (decrease) in working capital	$(12,600)	$ 47,310

1. Summary of Significant Accounting Policies

(a) The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The statements include the accounts of Westburne International Industries Ltd. ("Westburne") and all subsidiary companies including the accounts of Peyto Oils Ltd. and its subsidiaries from February 1, 1980 (See Note 15) (collectively called for the purposes of these notes, the "Company"). Eliminated on consolidation are 1,237,960 Common Shares of Westburne owned by subsidiaries and carried at a cost of $2,274,000. All material intercompany transactions have also been eliminated.

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

(b) Assets and liabilities and income and expenses of the Company which are in currencies other than Canadian dollars are converted into Canadian funds on the following basis:

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

(ii) All non-current assets and other liabilities are converted at the rates prevailing when acquired or incurred; and

(iii) Income and expenses, except depreciation and depletion, are converted 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 to its oil and gas activities with one world wide 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% per annum 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 recoverable reserves.

Other equipment - mainly 20% to 30% per annum 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 reduce 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) Mobilization and start-up costs incurred on long term drilling contracts in foreign countries are deferred and amortized over the terms of the contracts.

2. Notes receivable - directors and employees

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

	1980	1979
5% notes receivable due on or before December 31, 1979	—	$ 61,000
6% notes receivable due on or before December 31, 1980	80,000	200,000
6% notes receivable due on or before July 1, 1983	126,000	126,000
Non-interest bearing notes receivable due on or before May 1, 1983	265,000	239,000
10% note receivable due on or before October 31, 1981	175,000	—
	$646,000	$ 626,000

3. Fixed assets

	1980		1979	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 3,084,000	$ 3,084,000	$ 2,009,000	$ 2,009,000
Buildings	20,364,000	14,107,000	19,084,000	13,236,000
Drilling rigs	72,779,000	51,396,000	69,617,000	50,477,000
Drill string	15,518,000	6,908,000	12,970,000	6,256,000
Oil production equipment	12,482,000	7,905,000	5,788,000	3,509,000
Other equipment	32,047,000	18,185,000	25,096,000	11,766,000
Oil and mineral leases and development expenditures	74,388,000	61,572,000	23,113,000	15,835,000
Drilling equipment held for resale	718,000	718,000	980,000	980,000
	$231,380,000	$163,875,000	$158,657,000	$104,068,000

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

The unamortized excess of cost 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 $2,470,000 at March 31, 1980 and has granted mortgages secured by certain real property and improvements.

6. Long term debt

	1980	1979
Sinking Fund Debentures Series A - 7% maturing March 15, 1987	$ 1,900,000	$ 1,912,000
Series B - 7½% maturing August 1, 1982	120,000	160,000
Series C - 8½% maturing March 31, 1989	450,000	500,000
	2,470,000	2,572,000
The Company has convenanted to provide a sinking fund related to the above debentures aggregating $365,000 annually. The debentures are redeemable prior to maturity for other than sinking fund purposes at maximum premiums ranging from 1.50% to 3.45% such premiums to decrease by .375% to .50% yearly until the various redemption prices equal the par value.		
Senior Notes	59,570,000	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	28,413,000	10,235,000
Mature from 1980 to 1992 and carry interest rates ranging from 11% to 21.5% at March 31, 1980		
Non-interest bearing note, payable in two equal quarterly instalments	5,551,000	14,773,000
Mortgages, secured debentures, conditional sales contracts, etc. Mature from 1980 to 2005 and carry interest rates ranging from 6.25% to 19%	14,471,000	14,696,000
Total long term debt	110,475,000	100,246,000
Less amount due within one year	8,747,000	13,748,000
	$101,728,000	$86,498,000

The aggregate maturities and sinking fund requirements of long term debt outstanding as at March 31, 1980 for the five succeeding years are as follows:

	March 31,
1981	$8,747,000
1982	7,347,000
1983	7,239,000
1984	6,735,000
1985	6,936,000

No provision has been made in the table for a $20,000,000 revolving bank loan to a subsidiary which is treated as maturing after 1985 since the Company has the option to repay the loan subsequent to that date.

7. Minority interest

Amounts making up minority interest are as follows:

	1980	1979
Preferred shares	$2,036,000	$2,036,000
Common shares and contributed surplus	3,719,000	453,000
Retained earnings	8,809,000	3,542,000
	$14,564,000	$6,031,000

8. Share capital

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

	Issued	
	Shares	Amount
Common shares without par value		
Issued and outstanding as at March 31, 1980 and 1979 (1) (2)	7,772,440	$5,629,554

(1) After giving retroactive effect to the 2 for 1 split of the common shares effective August 31, 1979.

(2) Exclusive of 1,237,960 shares owned by subsidiaries.

9. Retained earnings

(a) Opening retained earnings at April 1, 1978 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 by certain subsidiaries.

10. Supplementary information to statement of earnings

	1980	1979
Other expenses (revenues)		
Interest - long term debt	$10,649,000	$ 7,867,000
Other interest expense	14,065,000	6,387,000
Interest and other investment income	(7,945,000)	(7,566,000)
Gain on sale of assets	(2,753,000)	(569,000)
	$14,016,000	$ 6,119,000

11. Commitments and other liabilities

(a) The Company has entered into lease agreements for premises and equipment and for various other assets. At March 31, 1980, future total minimum lease payments were:

1981	$7,714,000
1982	5,758,000
1983	4,385,000
1984	3,654,000
1985	3,143,000
1986-1991	8,930,000
1991-1996	2,347,000
Total	$35,931,000

Rent expense for premises, equipment and other assets for the year ended March 31, 1980 was $6,485,000.

The effect on net income if all non-capitalized financing leases were capitalized would not be significant.

(b) Contingent liabilities exist for guarantees and various suits and claims which have arisen in the normal course of business. In the opinion of the 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 $1,376,000 during the year ended March 31, 1980 (1979 $1,143,000).

13. Lines 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. wholesale distribution of construction equipment and supplies (plumbing, heating and electrical products)

ii. petroleum industry service and supply (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
Wholesale distribution of construction industry equipment and supplies	$752,784	$717,799	$ 34,985
Petroleum industry service and supply	199,420	179,856	19,564
Oil and gas exploration and production	8,588	7,256	1,332
Inter-segment items (1)	(10,125)	(9,735)	(390)
	$950,667	$895,176	$ 55,491

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

14. Foreign operations

From 1975 to 1979, the Company conducted drilling operations in Iran under a contract with the Oil Service Company of Iran. Subsequent to the expiration of the contract on March 31, 1979, the Company sought to export from Iran the four drilling rigs and related equipment used in connection with the contract. While it succeeded in exporting the rigs, political turmoil precluded it from exporting certain of the related equipment, including camps, spare parts and heavy equipment and it incurred costs in exporting the rigs. A non-recurring special provision of $14,479,000 was made in respect of such losses. The Company made claims under the political risk and civil commotion insurance with respect to its losses and included as a reduction of the special provision recoveries of $9,216,000 from such claims. The net loss of $5,263,000 is not deductible for income tax purposes.

15. Acquisitions and subsequent events

In January, 1979, for $20,321,000 and in August, 1979, for $14,472,000 (U.S.) the Company acquired certain assets, principally inventories, from others engaged in wholesale distribution of electrical and electronic products in Canada and plumbing products in the United States respectively.

In January, 1980, the Company acquired 51.3% of the outstanding shares of Peyto Oils Ltd. for $33,954,000. On May 1, 1980, the Company made an offer to acquire all of the Peyto common shares not owned by it for cash at a price of $22.75 per share or, in exchange for common shares of the Company at the rate of 0.8 of a Company common share for each common share of Peyto. To May 30, 1980, approximately 115,000 Peyto common shares had been acquired for cash. Assuming 100% of the Peyto shares will be acquired, the Company will be required to issue 1,184,495 additional common shares. It is possible that government approval of the Peyto acquisition may be required under the Foreign Investment Review Act and, if such should be the case, and if such approval is not forthcoming then the Company could be required to divest itself of all the Peyto common shares.

These acquisitions have been accounted for as purchases and results of the operations are included since the dates of acquisition.

FIVE YEAR CONSOLIDATED SUMMARY OF EARNINGS(1)

Thousands of Canadian Dollars

Year ended March 31	1980	1979	1978	1977	1976
OPERATING REVENUES					
Construction equipment and supplies	$752,784	$426,118	$341,222	$311,436	$274,665
Petroleum industry services and supplies	189,295	183,140	135,345	105,698	78,353
Oil and gas production	8,588	6,689	6,099	5,361	4,928
	950,667	615,947	482,666	422,495	357,946
COSTS AND EXPENSES					
Cost of sales					
Construction equipment and supplies	609,660	345,802	277,887	251,789	217,137
Petroleum industry services and supplies (2)	149,214	137,031	99,537	80,102	61,675
Oil and gas production	3,176	2,214	1,901	2,146	2,036
Depreciation and depletion	12,895	12,265	10,531	8,969	6,790
Selling, general and administrative	106,215	67,570	57,200	53,135	45,904
	881,160	564,882	447,056	396,141	333,542
EARNINGS FROM OPERATIONS	69,507	51,065	35,610	26,354	24,404
OTHER EXPENSES AND REVENUES	14,016	6,119	7,786	9,011	7,017
	55,491	44,946	27,824	17,343	17,387
INCOME TAXES	27,582	20,056	11,287	7,923	9,809
	27,909	24,890	16,537	9,420	7,578
OTHER					
Extraordinary items	—	—	—	—	1,970
Minority interest	(2,108)	(922)	(503)	(445)	(640)
NET EARNINGS (before preferred dividends)	$ 25,801	$ 23,968	$ 16,034	$ 8,975	$ 8,908

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

(2) Includes in 1980 a special provision for loss of $14,479,000 arising on termination of drilling contract in Iran less insurance recoveries of $9,216,000.

WESTBURNE INTERNATIONAL INDUSTRIES LTD. AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED STATEMENT OF EARNINGS

Fiscal Year Ended March 31, 1980 to Fiscal Year Ended March 31, 1979

Operating revenues

Revenues increased to $950,667,000 from $615,947,000, an increase of $334,720,000 (54.3%) in the year ended March 31, 1980. The divisional operating revenues compared to the preceding year were as follows:

(a) Construction equipment and supplies

Operating revenues in this division increased to $752,784,000 from $426,118,000 in 1979, an increase of $326,666,000 (76.7%). Of the increase $294,443,000 or 69.1% was attributable to the acquisitions in January 1979 of certain inventories and fixed assets of Nedco Ltd. and Zentronics Ltd. in Canada and in August 1979, of certain inventories and fixed assets of 26 branches of Crane Co. in the United States. The remaining increase occurred from higher volumes through internal expansion and from increased prices.

(b) Petroleum industry services and supplies

(i) Revenues from contract oil and gas drilling domestic operations (Canada, United States and United Kingdom) increased to $93,937,000 from $82,201,000, an increase of $11,736,000 (14.3%). This reflects the high levels of activity being experienced in oil and gas exploration and development in Western Canada. However, a significant portion of the increase in revenue of domestic drilling and oilfield supplies was offset by a decrease of a comparable amount in revenues from international drilling operations. This decrease was the result of rigs formerly under contract in Iran and Africa being idle during the current year.

(ii) Oilfield supplies showed an increase in revenues of 24.4% to $72,492,000 from $58,267,000. 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 14% of the sales volume in fiscal 1980 (17% in fiscal 1979) was to affiliated contract drilling companies and these sales are eliminated on consolidation.

(c) Oil and gas division

Operating revenues increased to $8,588,000 from $6,689,000 a year ago, an increase of $1,899,000 (28.4%). Of the increase $1,501,000 or 22.4% was attributable to the operating revenues of Peyto Oils Ltd. for the two months operations included in the consolidated statement of earnings. The remaining increase in revenue was due to higher crude oil and natural gas prices and an increase in gas production offset somewhat by lower crude oil production for the period.

Costs and expenses

Total costs and expenses before the special provision for loss on Iranian operations increased by $311,015,000 (55.1%) over the previous year. Components of costs and expenses vary from period to period and the most significant variations for the year were:

(a) Cost of sales

(i) Cost of sales in the construction equipment and supplies division increased to $609,660,000 from $345,802,000, an increase of $263,858,000 (76.3%). The percentage increase in cost of sales in this division was slightly less than the percentage increase in revenues resulting in a slightly higher gross margin for the year.

(ii) In the domestic drilling operations direct costs increased by $10,176,000 or 19.7%. The percentage increase in direct costs is higher than the percentage increase in revenues and is due to an increase in maintenance and other direct costs for the year. International drilling operations had a smaller decrease in direct costs than in revenues due to ongoing fixed costs such as insurance and other carrying costs on idle equipment.

(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 method based on full cost and estimated proven recoverable reserves. Depreciation and depletion for the year increased only marginally as reduced depreciation on international drilling operations due to lower activity was offset by increases in depreciation in other divisions. The increases arose as a result of depreciation on assets acquired in the year together with additional depreciation and depletion due to increased activity and the effectof changes in recoverable oil and gas reserves.

(c) Selling, general and administrative

These costs increased $38,645,000 or 57.2%. The construction equipment and supplies division selling, general and administrative costs increased by $36,651,000 which accounts for a majority of the increase. This increase is principally related to operations carried on at locations formerly operated by Nedco, Zentronics and Crane companies.

Special provision for loss on Iran operations

During the year the Company (a) incurred costs in exporting four drilling rigs previously under contract in Iran; (b) was forced to leave certain other assets such as camps, heavy transport equipment and spare parts in Iran when permission to export was not obtained; and (c) became pessimistic about the collectability of accounts receivable for services performed while under contract in Iran. Accordingly the Company made a non-recurring special provision of $14,100,000 against earnings for the quarter ended June 30, 1979 and $379,000 in the quarter ended March 31, 1980 to cover the final costs incurred. The quarters ended December 31, 1979 and March 31, 1980 included as a reduction of the $14,479,000 special provision, $8,051,000 and $1,165,000, respectively, from insurance claims under political risk insurance for the assets the Company was forced to leave in Iran. The net loss of $5,263,000 is not deductible for income tax purposes.

Other deductions (revenues)

Long term debt interest increased $2,782,000 (35.4%) over the previous year principally in the construction and supplies division due to debt required to finance the acquisition of inventories and fixed assets from Nedco, Zentronics and Crane Co. Other interest increased by $7,678,000 over the previous year due to increased levels of short term borrowings incurred to finance higher levels of accounts receivables and inventories, increased interest rates and to the financing obtained to purchase shares of Peyto Oils Ltd. in January 1980.

The increase in other revenues arose principally from rentals received during the year on the rental of a drilling rig and the gain on the sale of this rig in February 1980.

Earnings before income tax and minority interest

Earnings before income tax, minority interest and the special loss provision (net of insurance proceeds) increased $15,808,000 (35.2%) to $60,754,000 from $44,946,000 in the prior year and, after deducting the net special provision of $5,263,000, the earnings before income tax and minority interest increased $10,545,000 (23.5%) over the same period last year. After the Iranian loss and the allocation of certain intersegment items, the construction equipment and supplies division contributed earnings of $34,834,000 in 1980 (1979—$16,455,000), the petroleum industry services and supplies division of $19,369,000 (1979—$26,762,000) and the oil and gas division of $1,288,000 (1979—$1,729,000).

Income tax

The provision, as a percentage of earnings before income tax, varies from period to period and occurs as a result of geographical source of earnings, the taxability and/or non deductibility of earnings or losses in certain areas and the different income tax rules and regulations applicable thereto.

Net earnings

Net earnings after minority interest increased 7.6% to $25,801,000 from $23,968,000 in the prior year. The construction equipment and supplies division increased net earnings after minority interest by 114.7% to $17,864,000 from $8,321,000; the petroleum industry services and supplies division net earnings decreased by 47.3% from $14,548,000 to $7,671,000 and the oil and gas exploration and production division's earnings decreased 75.8% from $1,099,000 to $266,000. On a fully diluted basis, earnings per share were $3.32 compared to $3.08.

Fiscal Year Ended March 31, 1979 to Fiscal Year Ended 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 certain assets and inventories 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 Westburne 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. Westburne's operations in Iran (four drilling rigs) were shut down early in January, 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 exploration and production 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 were—

(a) Cost of sales—(i) 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 (ii) 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.

(b) Depreciation and depletion—Westburne 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.

(c) 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%.

Other deductions (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.

Earnings (before income taxes and minority interest)

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; the petroleum industry services and supplies division increased to $26,762,000 from $17,499,000 and the oil and gas exploration and production division decreased to $1,729,000 from $2,155,000.

Income taxes

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 Westburne's international drilling contracts are exempt from income tax.

(b) Westburne'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 exporation and production division earnings declined by 21.3% to $1,099,000 from $1,396,000. On a fully diluted basis, earnings per share were $3.08 compared to $2.05 (after giving retroactive effect to a 2 for 1 split of the Common Shares effective August 31, 1979).

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) (4)
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) (4)
Number of common shares outstanding (4)

1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
$ 950,667	$ 615,947	$ 482,666	$ 422,495	$ 357,946	$ 310,488	$ 235,330	$ 179,093	$ 130,636	$ 104,714
55,491	44,946	27,824	17,343	17,387	23,329	11,177	7,862	4,774	4,233
25,801	23,968	16,034	8,975	6,938	9,607	5,127	3,966	2,669	2,549
25,801	23,968	16,034	8,975	8,908	9,813	5,446	4,366	2,771	3,066
25,801	23,935	15,943	8,870	8,610	9,317	4,937	3,863	2,258	2,558
3.32	3.14	2.18	1.27	1.00	1.41	0.75	0.57	0.36	0.36
—	—	—	—	0.30	0.04	0.05	0.07	0.01	0.09
3.32	3.14	2.18	1.27	1.30	1.45	0.80	0.64	0.37	0.45
3.32	3.08	2.06	1.15	0.89	1.17	0.62	0.49	0.33	0.32
—	—	—	—	0.26	0.02	0.04	0.05	0.01	0.07
3.32	3.08	2.06	1.15	1.15	1.19	0.66	0.54	0.34	0.39
$ 45,718	$ 41,965	$ 29,059	$ 21,341	$ 18,095	$ 16,729	$ 11,397	$ 9,572	$ 5,456	$ 5,691
$ 192,173	$ 132,178	$ 84,954	$ 74,437	$ 64,264	$ 56,423	$ 48,838	$ 39,592	$ 26,310	$ 20,658
159,049	111,523	67,302	62,496	57,031	49,461	42,910	29,698	22,547	16,124
69,861	82,461	35,151	31,862	30,371	31,351	24,204	20,766	11,598	13,367
163,875	104,068	98,070	99,117	111,857	81,437	48,639	39,721	32,441	27,421
558,145	393,336	290,972	273,284	264,357	213,934	155,445	119,751	90,466	71,229
$ 115,459	$ 95,094	$ 77,945	$ 60,986	$ 51,579	$ 40,310	$ 31,472	$ 26,812	$ 22,627	$ 19,108
$14.86	$12.24	$10.53	$8.42	$7.46	$6.47	$5.06	$4.35	$3.75	$3.30
7,772,440	7,772,440	7,402,808	7,242,608	6,912,658	6,233,034	6,218,544	6,166,286	6,031,386	5,786,606

(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.

(4) After giving retroactive effect to the 2 for 1 split of the common shares effective August 31, 1979.

WESTBURNE

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