Westburne International Industries Ltd.

1985 Annual Report

Company Profile

Westburne International Industries Ltd., a Canadian public company, is diversified in a broad range of markets and services through its three main subsidiaries.

The Company's oil and gas exploration and production operations are conducted primarily in Canada and the United States. Interests are also maintained in a number of prospective oil and gas areas overseas.

Westburne's construction equipment and supplies business distributes plumbing, heating, waterworks, air conditioning, electrical, electronic and telecommunications products in Canada through 206 branches and maintains 33 plumbing supply outlets in the United States.

The Company is also engaged in petroleum industry services and supplies with a fleet of drilling rigs in the Canadian, United States and international markets and a network of branches distributing oilfield supplies principally in Western Canada.

Westburne is based in Calgary, Alberta and is listed on the Toronto, Montreal, Alberta and American Stock Exchanges.

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Highlights of Fiscal 1985

Operating Revenues
Westburne's revenues reached $1.29 billion, up from $1.15 billion last year.

Net Earnings
Net earnings were $9.4 million, an increase of 6% from last year's $8.8 million.

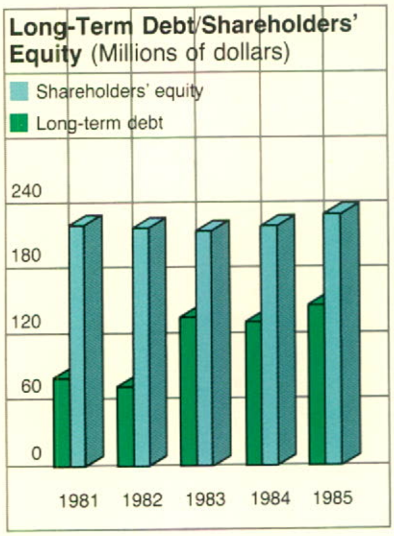
Earnings per Share
Per share earnings were $0.90 compared with $0.84.

Cash Flow
Cash flow was $30.0 million, up from $24.7 million in fiscal 1984.

Working Capital
Working capital was $157.5 million, up from $147.5 million last year.

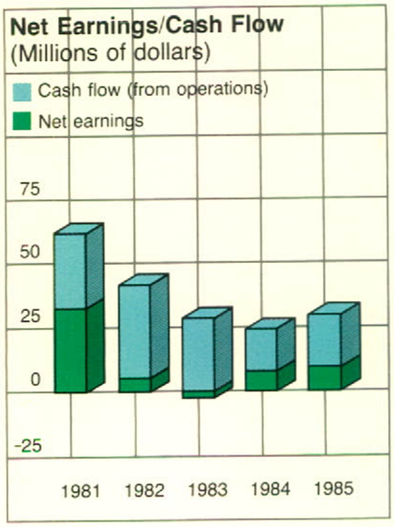
Debt-to-Equity Ratio
Long term debt increased to $146.6 million from $132.5 million while the long-term debt to equity ratio was 0.63 to 1 compared with 1984's 0.60 to 1.

Equity per Share
Equity per share increased to $22.13 from last year's $21.03.



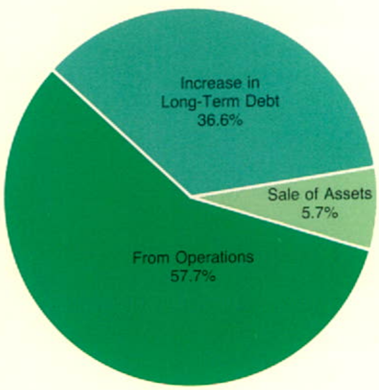
Thousands of Canadian Dollars except per share data

March 31	1985	1984
Operating Revenues	**$1,288,537**	$1,152,120
Net Earnings applicable to Common Shares	**9,386**	8,822
Earnings per Common Share	**0.90**	0.84
Cash Flow	**29,982**	24,667
Long-Term Debt	**146,617**	132,489
Shareholders' Equity	**231,422**	219,899
Equity per Common Share	**22.13**	21.03

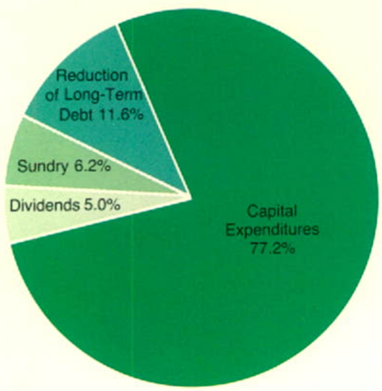


Changes in Financial Position
(as a percentage)

Sources of Funds



Application of Funds



Chairman's Message

A spirit of optimism is beginning to spread throughout the Canadian business community in response to policies announced by the new Federal Government. Chief among them is the Western Energy Accord which was introduced in March 1985. This is a comprehensive oil and natural gas agreement designed to revitalize the petroleum industry and increase investor confidence.

Perhaps the most important feature of the Accord is the removal of more than $3.4 billion in annual petroleum-related taxes including the Petroleum and Gas Revenue Tax (PGRT), the Petroleum Compensation Charge (PCC) and the Canadian Ownership Charge (COCSC). It is estimated that the industry's cash flow will rise from $9.3 billion in 1984 to at least $11.8 billion in 1987. The extra cash flow should lead to an increase in exploration and development activity not only in Western Canada but in the Atlantic region and the North. Clearly, the Federal Government expects the petroleum industry to serve as a spark that will stimulate the economy of our country — a spark that should have far-reaching effects on industry all across Canada.

With two subsidiaries that are directly involved in the oil and gas business, Westburne is in an ideal position to benefit from these major policy initiatives.

Westburne's revenues for the year ended March 31, 1985 reached a new record high of $1.29 billion versus $1.15 billion the year before. Net profits increased to $9.4 million from $8.8 million in fiscal 1984, while earnings per share were 90 cents compared with 84 cents last year. Cash flow from operations was $30.0 million compared with $24.7 million last year.

Our corporate strategy during fiscal 1985 was to expand our Canadian construction equipment and supplies division and increase the asset value of our oil and gas division while at the same time reducing the loss of our United States plumbing supply company and of our worldwide drilling operation.

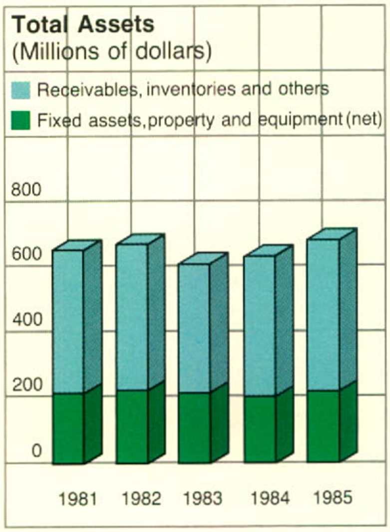
An important highlight of our performance in fiscal 1985 was the extent to which we decreased the loss of our United States plumbing supply division. This loss was reduced to $2.6 million before taxes from $9.1 million in fiscal 1984. However, we still regard this as unsatisfactory and management will continue to make the division a major focus of attention until it reaches profitability. By merchandising more aggressively and relocating some of our outlets to areas which offer greater sales potential, we have strengthened Westburne's position in the market. The United States represents a major avenue for our future development and we expect to accelerate the upturn we have now achieved.

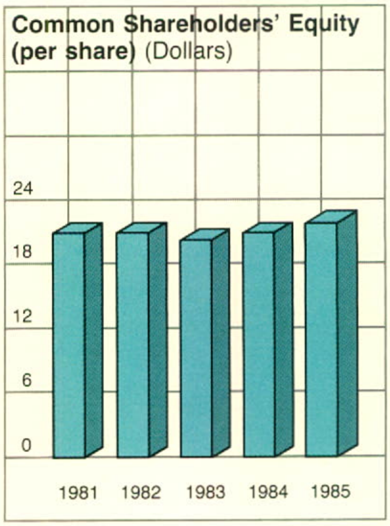
Our construction equipment and supplies division produced record revenues of $1.13 billion which are 12 percent higher than last year's $1.01 billion. To provide for our continued growth, we are expanding in several directions that offer exciting potential. We have targeted the growing trend toward automation in industry and its need for sophisticated equipment by adding an integrated family of products including robotics, programmable controllers, photoelectrics and industrial computers. Our extensive range of new products also includes personal computers, satellite dishes, telecommunication goods and cellular mobile telephones. Earnings of this division before income tax and minority interest for fiscal 1985 were $21.6 million, up from last year's $16.4 million. In Canada during the coming year, capital goods expenditures are expected to rise while interest rates should continue downward — two factors that should be of benefit to this division and result in stronger operating results for fiscal 1986.

Last fall, the Canadian petroleum industry responded quickly to the change in Federal Government and the anticipated revision in its energy policy. Exploration and development programs gained momentum until rig utilization, during the first quarter of 1985, reached the highest level of activity for this period in three years. With the signing of the Accord, further expansion of exploration and development activity in Western Canada is expected as the petroleum industry invests its enhanced cash flow.

Westburne's Canadian fleet of 22 rigs operated at maximum capacity during the final quarter of this fiscal year. However, price levels for drilling services remained depressed and our rig operations were unprofitable despite an increase in revenues. Price levels should improve if industry activity is sustained in the range of 70 to 80 percent of capacity.

In the United States, the drilling industry again experienced low activity levels. The continuing surplus of natural gas, the uncer-





tainty about tax legislation and the oversupply of rigs have kept drilling rates low. Westburne's United States fleet consists of 15 rigs. In Oklahoma, four of our rigs with deep-drilling capacity remained stacked last year. Although overall results in the United States showed a loss, with further streamlining of our operations we now anticipate a small positive cash flow for the coming year.

Our International division, with its fleet of 16 rigs, also operated at a loss last year. However, we expect to see a moderate improvement in operating results in the coming year.

Overall, Westburne's petroleum industry services and supplies division increased revenues in fiscal 1985 to $129.5 million which were eight percent higher than last year's $119.0 million. But, despite the improvement in our volume of business, operations were unprofitable and the loss increased due to the write-off of a long-term receivable amounting to $2.2 million. Pre-tax, the loss for the year was $9.6 million versus $7.9 million last year. In the coming year, management will give top priority to stemming these losses. Should conditions in Canada improve as expected, we will consider transferring equipment from the United States to augment our Canadian fleet. A bright spot in this division is our oilfield equipment and supply business which operates predominantly in Canada. This segment showed improved operating results as pre-tax earnings rose to $0.9 million from $0.3 million last year.

During fiscal 1985, our oil and gas division invested a total of $23.0 million in exploration and development programs and natural gas processing facilities in North America. It participated in 260 wells compared with 74 wells during the previous fiscal year. Our proven and probable reserves of crude oil and natural gas liquids increased by 16.7 percent to 8.4 million barrels. As a result of increased production, revenues for fiscal 1985 rose 11 percent to $30.7 million from $27.6 million last year and cash flow increased to $13.5 million, 15 percent higher than last year's $11.8 million. However, the increased spending for exploration and development substantially increased depreciation and depletion costs, so that our earnings before taxes and minority interests declined from last year's record of $5.9 million to $4.2 million. Since cash flow rather than earnings is of greater importance to a developing and expanding oil and gas company, we are pleased with 1985's results and we intend to continue to pursue an aggressive exploration and development program. With the change in attitude of the Federal Government and the effective dismantling of the National Energy Program of 1980, the economics for oil and gas in Canada are far better than they have been in many years, even in the face of the weakness of international oil prices. We expect to concentrate our activities in the Western Canadian provinces during fiscal 1986 and we have every reason to anticipate continued success in our operations.

We will continue, in the coming year, to strive toward further improvement in our operating results with particular emphasis on the contract drilling and the United States plumbing supply businesses. In Canada, the economic climate appears to be very promising for all three divisions.

In closing, we wish to acknowledge the retirement of three senior executives from active management effective March 31, 1985.

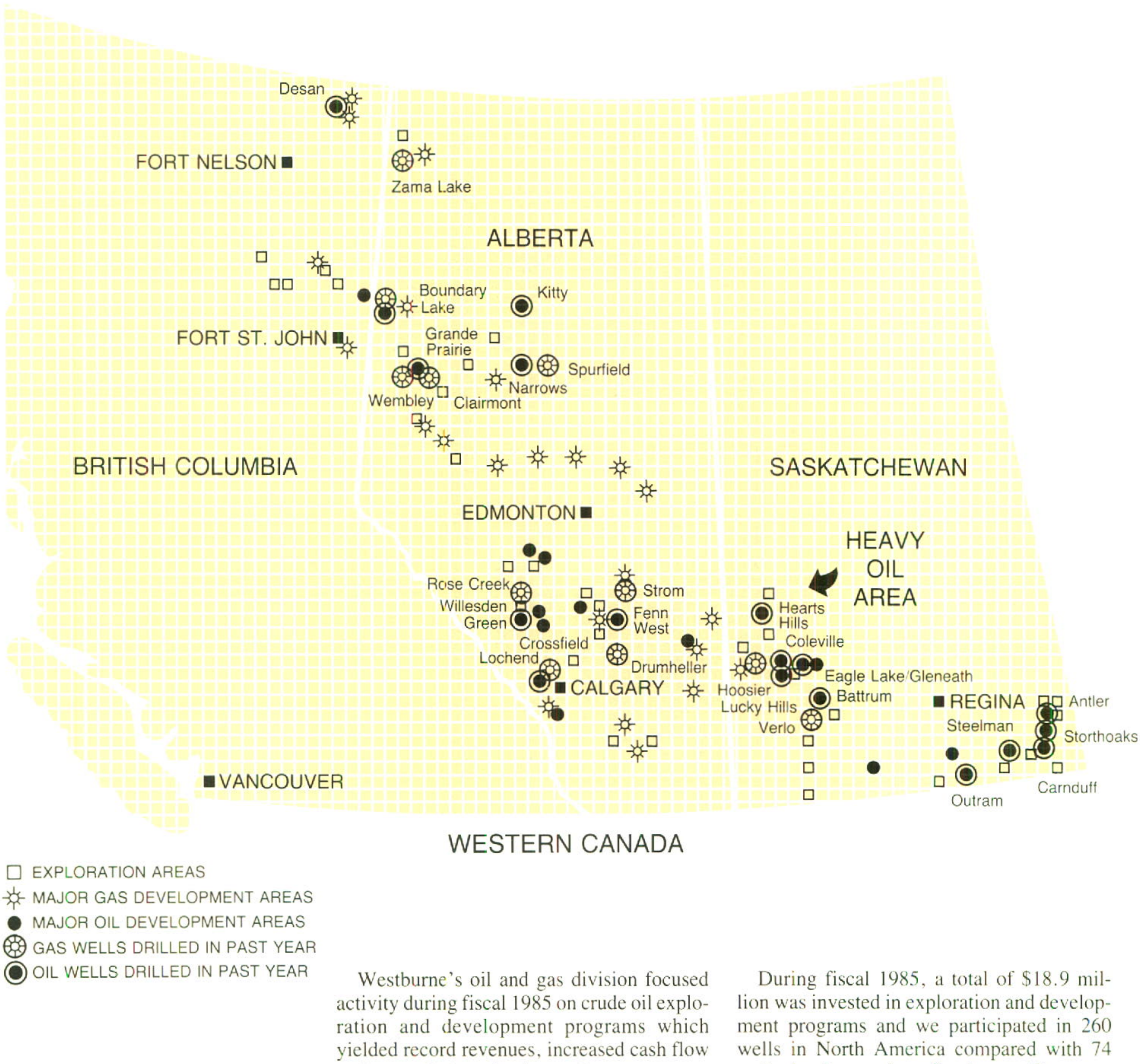
Lucien Cornez, who has been with Westburne since 1952, retired as Vice Chairman of the Company. Druval "Duvie" Westcott retired as Senior Vice President of the Company and as President of United Westburne Industries Limited; and James "Jim" Thompson has stepped down as Senior Vice President of United Westburne.

It is not possible in this report to adequately chronicle the contributions these gentlemen have made to Westburne throughout their long careers in senior management. However, much of Westburne's success has been a result of their drive, enthusiasm and knowledge. Fortunately, all three have agreed to stand for nomination as directors in fiscal 1986 and we will continue to benefit from their many years of experience.

J. A. Scrymgeour
Chairman of the Board

July 15, 1985

Oil and Gas Exploration and Production



Westburne's oil and gas division focused activity during fiscal 1985 on crude oil exploration and development programs which yielded record revenues, increased cash flow and expanded production and reserves.

Revenues for the year ending March 31, 1985 rose 11 percent to $30.7 million over the previous year's performance of $27.6 million and cash flow increased 15 percent to $13.5 million over $11.8 million last year.

Earnings before income tax and minority interest declined from last year's record performance of $5.9 million to $4.2 million. These results reflect greater expenses due to higher depletion and depreciation charges.

During fiscal 1985, a total of $18.9 million was invested in exploration and development programs and we participated in 260 wells in North America compared with 74 wells for the previous fiscal year. Our gross land position was increased by 128,000 net acres and approximately 470 miles of new seismic data was acquired. A further $4.1 million out of a total $5.5 million commitment was invested in the construction of the Diamond Valley Gas Plant (18.7 percent interest) and the related Turner Valley Unit #7 Compression Dehydration and Pipe Line Facility (23.3 percent interest) which went on stream June 1, 1985.

Drilling Activity

	Year ended March 31							
	1985				1984			
	Productive		Dry Holes		Productive		Dry Holes	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells								
Canada	24	4.28	22	5.16	11	1.84	10	1.54
United States	4	0.80	15	4.70	7	1.45	4	0.90
Foreign	—	—	1	0.01	—	—	3	0.03
	28	5.08	38	9.87	18	3.29	17	2.47
Development Wells								
Canada	186	17.20	—	—	28	3.70	6	1.18
United States	9	3.20	—	—	7	1.38	1	0.24
	195	20.40	—	—	35	5.08	7	1.42
TOTAL	223	25.48	38	9.87	53	8.37	24	3.89
Success ratio	85.4%				68.8%			

Acreage

As at March 31, 1985 Westburne owned interests in the following acreage:

	Developed Acreage		Undeveloped Acreage	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Canada	606,339	68,477	427,345	69,483
United States	43,096	10,151	173,564	27,205
Other	—	—	2,816,079	92,816
TOTAL	649,435	78,628	3,416,988	189,504

Reserves (proven and probable)

	March 31			
	Crude Oil and Natural Gas Liquids		Natural Gas	
	(Thousands of Barrels)		(Millions of Cubic Feet)	
	1985	1984	1985	1984
Canada	7,845	6,827	44,400	46,130
United States	572	385	5,608	5,273
TOTAL	8,417	7,212	50,008	51,403

Proven and probable crude oil and natural gas liquids reserves increased by 16.7 percent to 8.4 million barrels. Natural gas reserves decreased by 2.8 percent to year end levels of 50.0 bcf.

Total production (before royalties) averaged 2,259 barrels of oil and natural gas liquids per day or 7.4 percent more than 1984 production levels of 2,103 barrels per day. Production of natural gas (before royalties) showed a substantial increase from 8,977 mcf per day to 9,707 mcf per day.

Based on fiscal 1985 production levels and fiscal 1985 year end reserves, Westburne's life index for crude oil and natural gas liquids production and for natural gas production is 20 years. Based on independent engineering forecasts, total future net revenue from existing reserves is projected at $424.6 million. At March 31, 1985, the present net value discounted at 12 percent of future net revenues from production is $144.4 million compared with last year's $122.8 million.

Westburne's activity in fiscal 1985 was concentrated in Western Canada on crude and heavy oil prospects. Development drilling was directed toward delineating and maximizing recovery from identified oil reserves to improve our cash flow and reserve position. We expanded our heavy oil development program in southeastern Saskatchewan and are now operator of 31 wells in the Coleville area. An enhanced recovery scheme should be initiated within the coming year requiring additional development drilling.

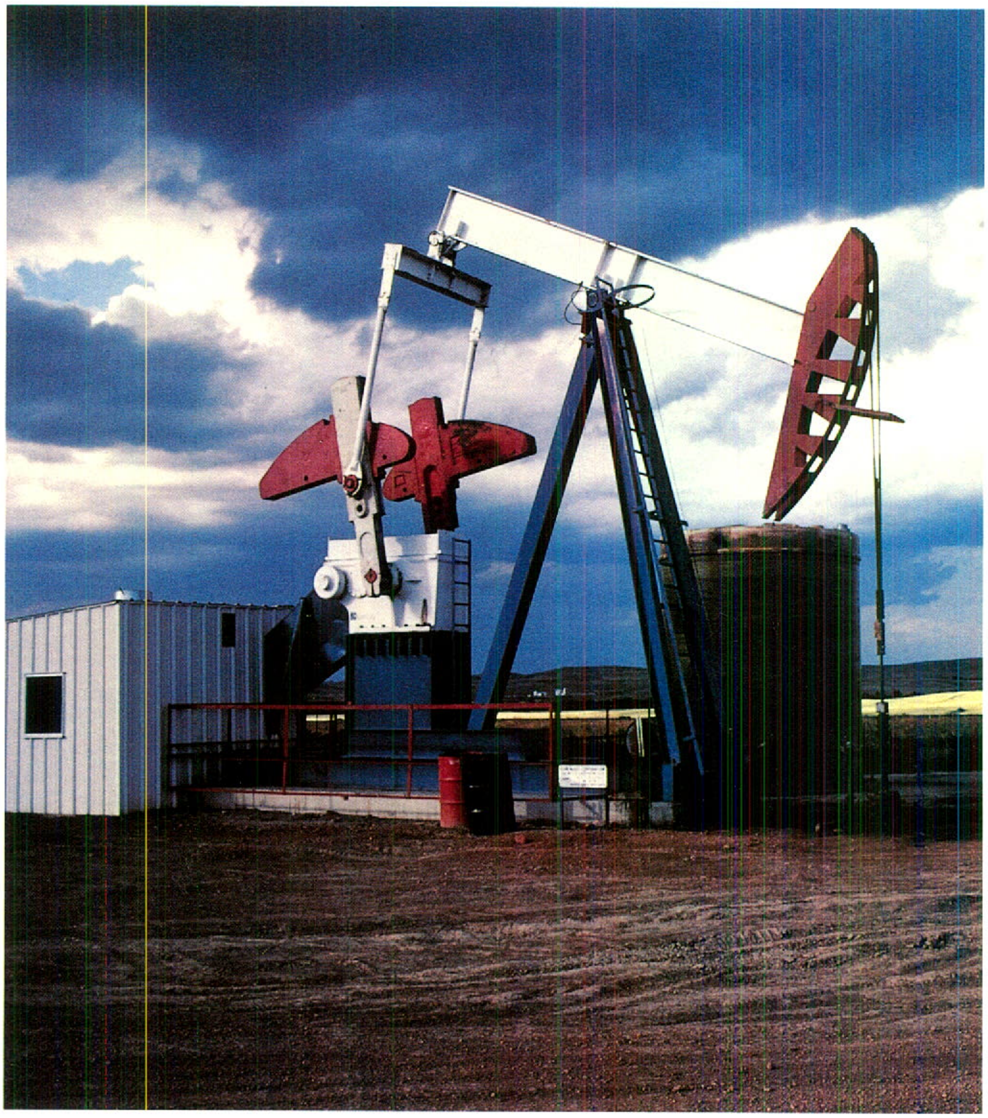
While there exists uncertainty with respect to near term oil prices, the longer term outlook remains positive for demand and for pricing of oil and gas in Canada and the United States. In addition, the improved economics provided by the Western Energy Accord and the recently announced changes in the royalty and incentive systems in Alberta has made our search for oil and gas in Canada very attractive.

In the coming year, Westburne will continue to concentrate its exploration and development activity in Western Canada while maintaining a modified drilling program in the United States.

Saskatchewan

Westburne continued delineation of the Coleville South Bakken Sand Pool during the year. A total of 17 oilwells were drilled in this important heavy oil development. The company is now operator of a total of 31 wells in the area with interests varying from 12.5 to 37.5 percent producing a total of 570 barrels of oil per day. Westburne anticipates an enhanced recovery scheme, requiring additional development drilling, will be initiated this year. Also in this region, a Sparky Sand discovery was made in the Heartshill area which will be evaluated with additional drilling to establish its significance. Westburne has interests ranging up to 50 percent in 2,560 acres.

Exploration and development activity in fiscal 1985 resulted in record revenues, increased cash flow and expanded production and reserves.



In southwest Saskatchewan, the company participated in four development wells in the Battrum Area for Roseray sand oil and in an exploratory well in the Verlo area which encountered both oil and natural gas. Information is being held confidential pending crown acreage sales. Westburne anticipates an active year in this area of the province while in southeast Saskatchewan, we will continue evaluation of new oil discoveries made in the Outram, Antler and Storthoaks areas and development oil drilling at Steelman and Carnduff. Results of these discoveries are being held confidential and additional acreage has been acquired.

Alberta

In southern Alberta, development drilling continued in the Lochend Cardium oil pool and eight wells were drilled in this low risk development. Westburne now operates 16 wells in the area and plans to drill up to seven more wells in the coming year. The company participated in the drilling of natural gas wells in the Drumheller, Crossfield and Spurfield areas during the year resulting in extensions to known gas reserves.

In northwest Alberta, a significant oil and natural gas discovery was made in the Clairmont area from the Triassic Charlie Lake formation. The company is currently drilling another well in the area and has interests of up to 25 percent in 3,840 acres in the prospect. Because of the importance of the discovery and availability of offset acreage, production results are being held confidential.

In the Boundary Lake area, an exploratory program resulted in two gas wells and one oil well in the Boundary member. Four wells were drilled in the Grande Prairie Halfway oil pool area and multizone oil and gas wells were drilled to offset the Wembley pool. Further development of these pools is anticipated during the coming year.

British Columbia

Westburne participated in the drilling of three Pekisko oil wells in the Desan area of northeast British Columbia. Because of terrain conditions, transportation problems into the area have delayed further development. The B.C. Government is completing an all-weather road into the area which will help alleviate current production problems. The company has a 7.75 percent interest in 18,000 acres in this new discovery area.

United States

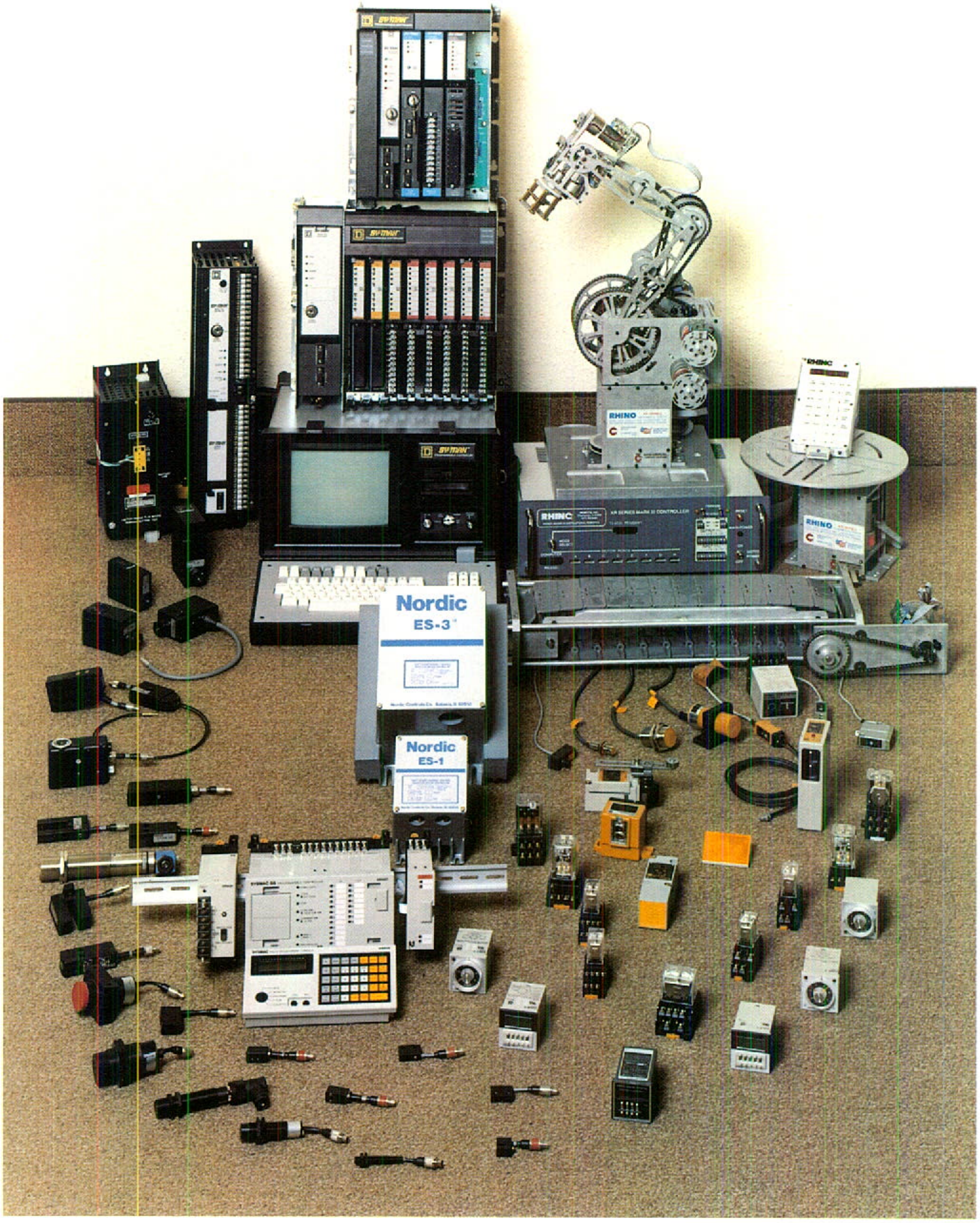
Westburne Exploration Inc., our United States oil and gas exploration and production operation, participated in 28 wells during fiscal 1985. Nine of these were development wells of which four were successfully completed as oil wells and five as gas wells. Nineteen exploration wells were drilled and four were completed as oil wells with 15 dry holes. Overall, our success ratio was 46 percent.

Our drilling program was conducted in the following regions: 12 wells were drilled in the Rocky Mountain area, five in West Texas -New Mexico, four in Pennsylvania, five in the Gulf Coast area and two in Oklahoma. The latter two wells were the first in a ten-well program we have initiated in Cimarron County, Oklahoma on a large block of 72,000 acres known as the Prothro Ranch Prospect. Westburne has a 50 percent interest in the first 10 exploratory wells drilled on this prospect and will have a 25 percent interest in any subsequent drilling. The primary objective of this program is the Morrow Gas Sand at a depth of 5,500 feet with several other potential oil and gas zones at shallower depths.

During fiscal 1986, we intend to participate in a total of 24 wells in the United States of which 19 will be exploratory and five will be development wells. Of these 24 wells, 11 will be drilled in the Rocky Mountain area, eight in Oklahoma on the Prothro Ranch and five will be drilled in the Gulf Coast.

Construction Equipment and Supplies

Westburne is diversifying into high-tech equipment such as cellular mobile telephones (below), robotics, industrial computers and photoelectrics to broaden its customer and product base.



Westburne experienced a year of solid growth in our construction equipment and supplies division achieving record revenues and substantially improved earnings.

Revenues of $1.13 billion for fiscal 1985 increased over last year's performance of $1.01 billion while pre-tax earnings rose to $21.6 million compared with $16.4 million in the previous fiscal year.

Improved earnings are directly attributable to our reduced losses in the United States plumbing supply division. Aggressive product merchandising, relocation of outlets to areas offering greater sales potential and revised operating procedures have established the United States division in a stronger market position. Losses of $8.6 million in fiscal 1983 and $9.1 million in fiscal 1984 decreased to $2.6 million this year indicating this operation is now on the road toward profitability.

Increased revenues for fiscal 1985 reflect our continued penetration of established markets in Canada and the United States and our diversification into areas offering long-term growth such as high-tech products and services in Canada.

During the year, we opened six new branches in Eastern Canada where improved economic conditions spurred an upturn in the construction industry. In the West, where construction activity remained stagnant, we expanded into the home renovation market and opened three exclusive plumbing supply showrooms during fiscal 1985 with plans for an additional three in the coming year.

Poor economic conditions in the West outweighed our improved performance in the central and eastern provinces which served to slightly reduce pre-tax earnings by five percent to $24.2 million from $25.5 million in Canada last year.

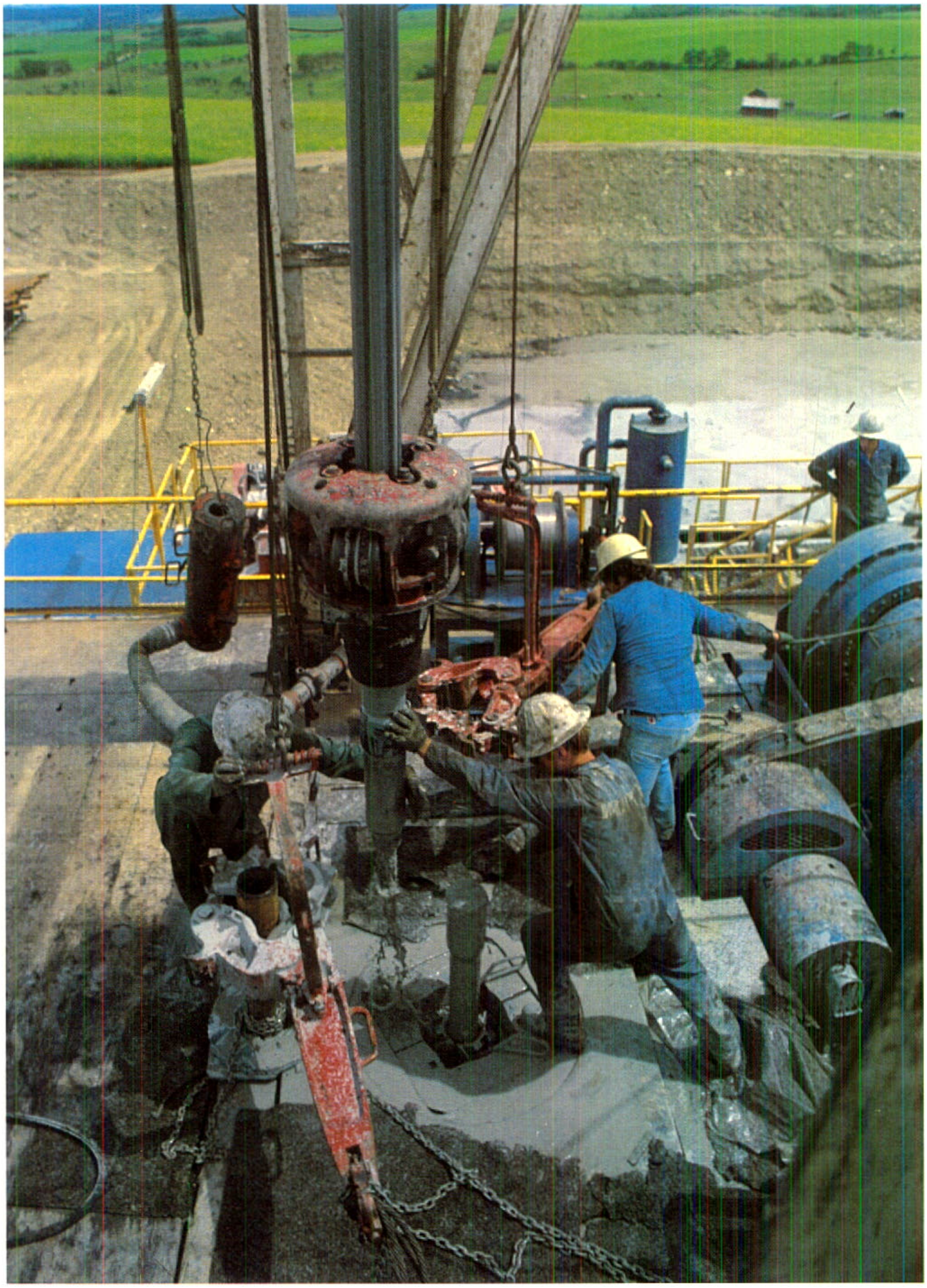
To ensure Westburne's continued growth and profitability, we have defined new markets for our sales and service capabilities.

With the growing trend toward factory automation in North America and the subsequent need for sophisticated equipment, we have introduced a comprehensive family of products which include robotics, programmable logic controllers, photoelectrics and the industrial computer. To compliment our traditional telecommunications markets, we have also branched into satellite systems, cellular mobile telephones and data equipment.

In the coming year, we will continue to develop our presence in new and traditional markets. Our results during fiscal 1985 demonstrate our ability to meet clearly-defined objectives for growth.

Three exclusive plumbing supply showrooms, targeting the home renovation market, were opened in fiscal 1985 with plans for an additional three in the coming year.

Petroleum Industry Services and Supplies



Westburne's fleet of drilling equipment includes helicopter-transportable rigs such as 202H (below) in Southeast Asia and conventional land rigs in Western Canada.

Contract Drilling Services

A gradual upturn in Western Canada's contract drilling activity in 1984 gained additional momentum during the winter drilling season as the exploration industry responded to policy changes promised by the newly-elected Federal Government. On March 28, 1985, the Government demonstrated its commitment to revitalizing Canada's petroleum industry when a comprehensive oil and natural gas agreement was reached with the main producing provinces of Alberta, Saskatchewan and British Columbia.

The Western Energy Accord effectively frees oil, and later this year, natural gas from government pricing structures and the petroleum industry from a network of federal regulations and discriminatory income tax legislation. The anticipated enhancement to the industry's annual cash flow is expected to be about $2.5 billion by 1987. This will spur exploration and production drilling activity in Canada. During 1984, a total of 9,149 wells were drilled and it is estimated this figure will reach 11,000 wells in 1985.

Furthermore, on June 24, 1985, the Alberta Government announced a number of changes to its existing royalty and incentive systems to benefit the oil and gas industry in the province. When fully implemented, the new programs could enhance industry's cash flow by an additional $400 million annually.

Westburne's contract drilling operations in Canada achieved a 36 percent increase in operating days during fiscal 1985 and our fleet of 22 rigs operated at maximum capacity during the final quarter ended March 31, 1985. Prices began to improve during the winter drilling season as utilization for the industry climbed to 74 percent compared with 61 percent for the same period one year ago.

Operations in the United States and international areas remain depressed. Various factors such as unstable world oil prices resulting from overproduction by certain oil exporting nations, oversupply of drilling rigs worldwide and a short-term surplus of natural gas in the United States continued to impact negatively on the industry and our ability to bid profitably on contracts in these areas during fiscal 1985.

However, the natural gas surplus that has affected the United States drilling industry so severely is now forecast to diminish as early as the 1986-87 winter season and demand for drilling services should improve at that time. We believe that when supply and demand begin to move toward a balance, the drilling industry should experience sharp growth after the extended period of low exploration activity.

In our international operations, we have adopted a more aggressive marketing stance. We believe we have achieved a competitive edge in countries with developing energy industries where we can provide, in addition to drilling services, a broad range of programs such as classroom and on-site training, technical support and management programs.

Despite the difficult environment in which our contract drilling divisions operated during fiscal 1985, Westburne will continue to maintain a strong presence in the markets we serve. The energy industry is, and has always been, a long range business. Demand for oil and natural gas will inevitably improve and already we see in Canada the first steps towards the return to growth and a healthier industry.

Oilfield Equipment and Supplies

The overall improvement in Canada's petroleum industry and our expanded service to this market contributed to increased earnings for Westburne's oilfield equipment and supplies operations in fiscal 1985.

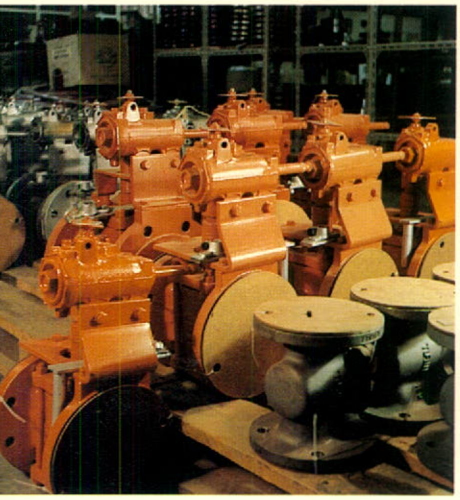
This business segment can supply more than 13,000 items to service the exploration and production, contract drilling and the petrochemical process industries through a network of eight branches across Canada and one in the United States at Houston, Texas.

To maximize our distribution capabilities in Western Canada, we expanded from one to three branches serving the province of Saskatchewan and opened a branch operation in the Desan-Helmut region of northeastern British Columbia for the winter drilling season. A branch has also been established at Elk Point in northeastern Alberta to service heavy oil exploration and development activity in this area.

During fiscal 1985, the continued emphasis on crude and heavy oil development in Western Canada impacted significantly on our operations. Increased field activity and the resulting demand for equipment and supplies diminished the market surplus inventory problem while improving price margins.

We fully anticipate an increase in field activity and investment by our customers in the Western provinces and the North and we are confident that the momentum we have also gained in other areas such as our St. John's, Newfoundland and Houston, Texas operations will carry through into the new fiscal year.

Contract drilling services are augmented with oilfield equipment and supply distribution (below) and specialized support programs such as classroom and on-site training.



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

1985 Fiscal Year

Results of Operations

In fiscal 1985 net earnings increased to $9.4 million from $8.8 million in 1984 and a restated loss of $1.9 million in 1983. The restatement for fiscal 1983 is the result of a retroactive change in accounting policy in respect of the Company's oil and gas activities. See Notes 1(e) and 15 of the Notes to Consolidated Financial Statements. Cash flow from operations increased to $30.0 million from $24.7 in 1984 and $28.9 million in 1983.

The increase in earnings in fiscal 1985 is the result of substantially reduced losses before income taxes in the United States segment of the construction equipment and supplies division. The improvement in the operations of this segment was due principally to higher gross margins, together with a reduction in selling, general and administrative costs of approximately $0.5 million. Earnings before income tax in the oil and gas division decreased during the year due to increased depletion as a result of increased capital expenditures during the year. In addition, the petroleum industry services and supplies division experienced increased losses from those of 1984 mainly as a result of the write off of a long-term receivable. See the table showing earnings contributions (before income taxes and minority interest) in the Consolidated Business Segments Information of the Consolidated Financial Statements.

Revenues in fiscal 1985 were $1.29 billion, an increase of 12% from 1984 compared with 1984's increase of 7% from 1983. Revenues in the construction equipment and supplies division increased $125.1 million in 1985 due to increases in volume and prices in both Canada and the United States. The petroleum services and supplies division revenues increased by $10 million, or 8%, compared with a 17% decrease in 1984 from revenues in 1983. The increase in 1985 revenues of this division is attributable to all segments thereof except international drilling, the revenues of which continued to decline to $12.4 million from $19.7 million in 1984 and $44 million in 1983. Contract drilling operations in 1985 continued to be affected by the worldwide oversupply of equipment and depressed prices in the industry. The oilfield supplies segment revenues increased by 14%, a continuation of the turnaround in 1984 compared with 1983. The revenues in the oil and gas division increased 11% from 1984 due to increased prices and production.

Cost of sales was $1.06 billion in 1985, an increase of 12% from 1984, compared with an 8% increase in 1984 over 1983. Cost of sales in the construction equipment and supplies division increased 12% over 1984, the same as the increase in sales, thereby maintaining gross margins. The Canadian and United States contract drilling cost of sales increased $6.9 million in 1985 compared with an increase in sales of $8.4 million resulting in only a $1.5 million increase in gross profit due to a very competitive market for drilling contracts in fiscal 1985.

The cost of sales in the international contract drilling segment decreased $4 million from 1984 due to lower activity, a decrease of 25% compared with a 37% decrease in revenue for the year. The oilfield supplies segment cost of sales increased by approximately 15% as did sales for the year, resulting in gross margins comparable to those of the last two years. In the oil and gas division cost of sales increased 16% and sales only 11%, reflecting higher production costs for the year.

General and administrative expenses increased $9.9 million in fiscal 1985, an increase of 6% over 1984, when such expenses increased 3% over 1983. The increase in 1985 is attributable to the construction equipment and supplies division and results from additional staff and costs due to the increased volume of sales.

Depreciation and depletion for fiscal 1985 increased $2.6 million or 16% compared with a 26% decrease in 1984 from the previous year. Depreciation in the petroleum industry service and supplies division is provided on an activity basis on contract drilling equipment. In 1985 depreciation expense was approximately the same as in 1984 and reflected the reduced activity overall in the contract drilling operations. Depreciation and depletion in the oil and gas division is provided on a unit of production method on a country-by-country basis. In 1985 oil and gas depreciation and depletion increased by $2.1 million due to increased spending for exploration and development in the year and to increased production.

Interest expense increased $5.4 million in fiscal 1985 compared with a decrease of $7.4 million in 1984. The increase is attributable mainly to increased borrowings in the construction equipment and supplies division incurred to finance the increased sales in the year and to slightly higher interest rates during the year. This compares with reduced borrowings and reduced rates applicable in 1984 compared with the previous year.

Interest and other income in fiscal 1985 is $2.7 million compared with $4.8 million in 1984, which was comparable to 1983. Included in fiscal 1985 are an insurance recovery of $1.7 million relating to termination of an international drilling contract offset by the write-off of a long-term receivable of $2.2 million and the write-down of $1 million of an investment in an affiliated company.

Net earnings of $9.4 million in fiscal 1985 are after a provision for income taxes of $5.6 million while in 1984 net earnings of $8.8 million were after income tax of $4.5 million. In 1983 there was an income tax recovery of $5.4 million. See Note 12 of the Notes to Consolidated Financial Statements which sets forth details of income taxes payable or recoverable.

Reference is made to Note A of the Supplemental Financial Information to the Consolidated Financial Statements for a reconciliation of the financial data in this Item to United States generally accepted accounting principles and for a discussion of the differences between Canadian and United States generally accepted accounting principles which are applicable to the Company's financial statements.

Financial Condition

Working capital increased to $157.5 million at March 31, 1985 from $147.5 million at March 31, 1984. The current ratio was 1.54 to 1 at March 31, 1985, 1.56 to 1 at March 31, 1984 and 1.60 to 1 at March 31, 1983. The ratio of long-term debt to equity was 0.63 to 1 compared to 0.60 to 1 at March 31, 1984 and 0.63 to 1 at March 31, 1983. During the year the Company converted $70 million in principal amount of long-term debt with a repayment schedule to a revolving term-loan with no current repayment requirements. Also a revolving demand operating loan of the oil and gas division in the principal amount of $6.7 million was reclassified as a revolving long-term loan with no repayment requirements. At March 31, 1985, the Company had unused lines of credit with financial institutions in excess of $200 million.

Long-term debt instruments of a subsidiary of the Company contain covenants which restrict the distribution of funds to the Company by way of dividends, loans or advances. At March 31, 1985, approximately $54.3 million, of consolidated net assets were subject to such restrictions, compared with approximately $62.9 million at March 31, 1984. In the opinion of management, these restrictions do not have a material effect on the liquidity of the Company, since all other subsidiaries in the aggregate generate substantial cash flow which can be distributed to the Company.

Inflation and Changing Prices

Virtually all of the revenues and costs of the Company are affected by inflation, and the Company is continually seeking ways to cope with its impact. In general, to the extent permitted by competitive factors, the Company passes on increased costs by gradually increasing sales prices. However, the Company has not prepared a detailed analysis of the effect of inflation on operations and is, therefore, not in a position to quantify the impact of the same. Revenues, costs and the current value of reserves in place fluctuate with inflationary trends and market conditions. The real value of the funds borrowed to acquire or develop these reserves declines on a relative basis during inflationary periods.

1984 Fiscal Year

Results of Operations

Net earnings increased to $8.8 million in fiscal 1984 from a restated loss of $1.9 million in 1983 and restated earnings of $6.1 million in 1982. The restatement of prior year's earnings was the result of a retroactive change in accounting policy in respect of the Company's oil and gas activities. The Company previously followed a worldwide full cost method with respect to oil and gas activities and, effective for the year ended March 31, 1984, implemented retroactively a change to country-by-country full cost. See Notes 1(e) and 15 of the Notes to Consolidated Financial Statements. Cash flow from operations decreased to $24.7 million from $28.9 million in 1983 and $42.7 million in 1982, due primarily in each case to decreased activity in the petroleum industry services and supplies division.

The increase in earnings in fiscal 1984 was principally attributable to a $10.6 million write down of oil and gas properties in 1983 on restatement to country-by-country full cost. Earnings before restatement increased only slightly from last year. Two divisions, the construction equipment and supplies division and the oil and gas division, had significant increases in earnings, which were offset by a decline in earnings in the petroleum industry services and supplies division. See the table showing earnings contributions (before income taxes and minority interest) in the Consolidated Business Segments Information of the Consolidated Financial Statements.

The decline in restated earnings in 1983 was attributable to several factors, the most significant of which were:

1. A sharp decrease in earnings from Canadian operations and increased loss from United States operations in the construction equipment and supplies division;
2. Reduced earnings in the petroleum industry services and supplies division resulting from losses in the Canadian and United States operations;
3. A $2.3 million provision for a loss on an investment in an affiliated company; and
4. The aforesaid $10.6 million write down of oil and gas properties on restatement to country-by-country full cost.

The 82% decline in restated earnings in 1982 was attributable to several factors including:

1. A $5.6 million write down of oil and gas properties on restatement to country-by-country full cost.
2. A $14.7 million loss on termination of a four-rig drilling contract in Algeria. The Company had also incurred operating losses in Algeria during the year and for this reason had accelerated the date of termination. These losses were not deductible for income tax purposes. The four rigs formerly under contract in Algeria were exported to Houston and stacked without work.
3. Higher interest expenses in the construction equipment and supplies division due to higher rates and increased borrowings to finance accounts receivable and inventories.
4. Decreased earnings in the Canadian segments of the petroleum industry services and supplies division as a result of a sharp decline in expenditures by the oil and gas industry on exploration and development.

Revenues in fiscal 1984 were $1.15 billion, an increase of 7% from 1983, compared with 1983's decrease of 17% from 1982. The construction equipment and supplies division's revenues increased $94.6 million in 1984 due to increases in both Canada and the United States. Westburne's petroleum industry services and supplies division's revenues decreased by $24 million, or 17%, in 1984, such decreases occurring principally in the contract drilling segment. Activity in the United States contract drilling segment continued to decline in 1984 to 27% of Westburne's available rig capacity from 34% in 1983 and 83% in 1982. Revenues in the international contract drilling operations also continued to decline from $76 million in 1982 to $44 million in 1983 to $19.7 million in 1984. All Westburne's contract drilling operations continued to be affected by a worldwide oversupply of equipment and depressed prices in the contract drilling industry. The oilfield supplies segment revenues increased by 17% in 1984, which was a turnaround from the decreasing revenues of the two prior years.

Cost of sales increased $73 million, or 8%, in fiscal 1984 compared with a decrease of 16% in 1983. In the construction equipment and supplies division, cost of sales increased $80.3 million, an increase of 10.6% on increased revenues of 10.4% for the year. The Canadian and United States contract drilling segment cost of sales decreased $2.4 million on a decrease in revenues of $9.3 million, resulting in a decrease in gross profits of $6.9 million. This decrease in gross profits was mainly the result of a reduction of contract drilling revenues due to reduced activity and lower prices without a comparable offsetting reduction in cost of sales for the current year. The cost of sales in the international contract drilling segment decreased $16.3 million due to reduced activity but was only a 50.8% reduction compared to a 55.1% reduction in sales for the year. The cost of sales in the oilfields supplies segment increased by approximately 17%, the same as the increase in sales, thereby maintaining gross margins from 1983 but resulting in lower gross margins when compared with 1982.

General and administrative expenses increased $4.5 million in fiscal 1984, an increase of 3% compared to 1983, and in 1983 increased 1.6% compared with 1982. General and administrative expenses increased $5.8 million over 1983 in the construction equipment and supplies division and $1.3 million over 1983 in the oil and gas division. These increases were partially offset by a decrease of more than $2 million in the petroleum industry services and supplies division.

Depreciation and depletion for fiscal 1984 decreased $5.8 million or 26%, compared to a decrease of 12% the previous year. Depreciation in the petroleum industry services and supplies division is provided on an activity basis on contract drilling equipment so that depreciation has decreased as a result of the decreased activity in the last two years. The abovementioned change in accounting policy in the oil and gas division in 1984 provides for depreciation and depletion on a unit of production method on a country-by-country basis. As a result of higher reserves based on engineering reports dated April 1, 1984, and the lower depletion base as a result of the change in accounting policy, depreciation and depletion on oil and gas properties in 1984 decreased $3.4 million compared with 1983.

Interest expense decreased $7.4 million in fiscal 1984 compared with a decrease of $10.4 million in 1983. The decreases were attributable to reduced borrowings in the construction equipment and supplies division and reduced interest rates through most of both years.

Interest and other income of $4.8 million for fiscal 1984 was comparable to that of the prior year; however, the 1983 amount was reduced by a $2.3 million provision for loss on an investment in an affiliated company. The decrease in interest income in 1984, compared to 1983 before the provision for the loss, resulted from reduced funds available for investment and lower interest rates paid on such investments.

Net earnings for fiscal 1984 were after a provision for income taxes of $4.5 million while in 1983 there was a recovery of $5.4 million in respect of income taxes. The income tax recovery in 1983 does not change as a result of the restatement of earnings. See Note 12 of the Notes to Consolidated Financial Statements which sets forth the details of income taxes payable or recoverable.

Financial Condition

Working capital increased to $147.5 million at March 31, 1984 from $142.5 million at March 31, 1983 and $79.9 million at March 31, 1982. In August 1982 the Company converted $70.0 million of current bank loans to long-term bank loans. The current ratio was 1.56 to 1 at March 31, 1984 compared to 1.60 to 1 at March 31, 1983, and the ratio of long-term debt to shareholders' equity was 0.60 to 1 compared to 0.63 to 1 at March 31, 1983, after the reduction in shareholders' equity on the retroactive write down of oil and gas properties to country-by-country full cost.

Consolidated Balance Sheet

(Thousands of Canadian Dollars)

Assets	March 31, 1985	March 31, 1984
Current assets		
Cash and short-term deposits	**$ 25,389**	$ 28,672
Accounts receivable	**207,072**	177,514
Inventories	**206,817**	196,022
Prepaid expenses and consumable supplies	**8,598**	8,960
	447,876	411,168
Investments (Note 2)	**9,596**	13,272
Fixed assets, at cost (Notes 3 and 15)	**368,477**	339,549
Less accumulated depreciation and depletion	**154,149**	137,481
	214,328	202,068
Other (Note 4)	**6,452**	4,323
	$678,252	$630,831
Liabilities		
Current liabilities		
Bank loans, secured (Notes 5 and 6)	**$125,912**	$106,967
Accounts payable	**157,118**	137,640
Income taxes payable	**353**	2,053
Dividends payable	**523**	587
Long-term debt due within one year	**6,570**	16,475
Deferred income taxes	**(82)**	(95)
	290,394	263,627
Long-term debt, less amount due within one year (Notes 5 and 7)	**146,617**	132,489
Deferred income taxes	**16,257**	19,306
Minority interest (Note 8)	**9,956**	9,891
Unamortized deferred currency translation loss (Note 1(c)	**(16,394)**	(14,381)
	446,830	410,932
Shareholders' Equity		
Common shares (Note 9)	**90,589**	90,589
Contributed surplus	**5,326**	5,326
Retained earnings (Note 10)	**131,358**	123,984
Cumulative foreign currency translation adjustment (Note 1(c))	**4,149**	—
	231,422	219,899
	$678,252	$630,831

Signed on behalf of the Board

Director

Director

Consolidated Statement of Earnings

(Thousands of Canadian Dollars except per share data)

	Year Ended March 31, 1985	1984	1983 (Restated)
Operating revenues			
Construction equipment and supplies	**$ 1,133,342**	$ 1,008,224	$ 913,594
Petroleum industry services and supplies	**124,507**	116,303	138,476
Oil and gas production	**30,688**	27,593	25,591
	1,288,537	1,152,120	1,077,661
Cost and expenses			
Cost of sales			
Construction equipment and supplies	**938,849**	834,906	754,606
Petroleum industry services and supplies	**112,520**	103,014	111,232
Oil and gas production	**8,936**	7,926	7,039
Depreciation and depletion	**19,442**	16,791	22,649
Selling, general and administrative	**163,776**	153,853	149,339
	1,243,523	1,116,490	1,044,865
Write down of oil and gas properties (Note 15)	**—**	—	10,624
	1,243,523	1,116,490	1,055,489
Earnings from operations	**45,014**	35,630	22,172
Other expenses and revenues (Note 11)	**28,791**	21,215	28,816
Earnings (loss) before income taxes and minority interest	**16,223**	14,415	(6,644)
Income taxes (Note 12)			
Current	**8,596**	7,341	(1,157)
Deferred	**(3,036)**	(2,864)	(4,260)
	5,560	4,477	(5,417)
Earnings (loss) before minority interest	**10,663**	9,938	(1,227)
Minority interest	**1,277**	1,116	686
Net earnings (loss) for the year	**$ 9,386**	$ 8,822	$ (1,913)
Earnings (loss) per common share	**$0.90**	$0.84	$(0.18)
Common shares outstanding	**10,457,218**	10,457,218	10,457,218

Consolidated Statement of Retained Earnings

(Thousands of Canadian Dollars)

	Year Ended March 31,		
	1985	1984	1983
			(Restated)
Balance at beginning of year	**$123,984**	$117,819	$123,930
Add (deduct)			
Net earnings (loss) for the year (Note 15)	**9,386**	8,822	(1,913)
Change of minority interest in subsidiary companies	**80**	(43)	(15)
Dividends — common shares	**(2,092)**	(2,614)	(4,183)
Balance at end of year	**$131,358**	$123,984	$117,819

Auditors' Report

The Shareholders
Westburne International Industries Ltd.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. as at March 31, 1985 and 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended March 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended March 31, 1985 in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for foreign currency translation as explained in Note 1(c) and after giving retroactive effect to the change in accounting for oil and gas activities as disclosed in Note 1(e), on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Calgary, Alberta
May 28, 1985

Consolidated Statement of Changes in Financial Position

(Thousands of Canadian Dollars)

	Year Ended March 31,		
	1985	**1984**	**1983**
			(Restated)
Source of funds			
Earnings (loss) before minority interest	**$ 10,663**	$ 9,938	$ (1,227)
Depreciation and depletion	**19,442**	16,791	22,649
Deferred income taxes	**(3,036)**	(2,864)	(4,260)
Other	**2,913**	802	1,143
Write down of oil and gas properties	**—**	—	10,624
Funds from operations	**29,982**	24,667	28,929
Long-term debt	**18,978**	12,016	79,318
Sale of fixed assets	**2,963**	3,086	2,757
	51,923	39,769	111,004
Application of funds			
Capital expenditures	**32,427**	14,204	23,418
Reduction in long-term debt (adjusted for foreign currency translation)	**4,850**	17,201	18,354
Dividends — common shares	**2,092**	2,614	4,183
Investments	**(511)**	(337)	2,261
Other	**3,124**	1,090	128
	41,982	34,772	48,344
Increase in working capital	**9,941**	4,997	62,660
Working capital at beginning of year	**147,541**	142,544	79,884
Working capital at end of year	**$157,482**	$147,541	$142,544
Changes in working capital			
Increase (decrease) in:			
Cash and short-term deposits	**$ (3,283)**	$ 15,081	$ 1,254
Accounts receivable	**29,558**	1,843	(39,392)
Inventories	**10,795**	21,410	(12,816)
Income taxes recoverable	**—**	(6,139)	1,897
Prepaid expenses and consumable supplies	**(362)**	237	(5,099)
(Increase) decrease in:			
Bank loans	**(18,945)**	(11,812)	91,487
Other payables	**(17,727)**	(5,194)	23,129
Long-term debt due within one year	**9,905**	(10,429)	2,200
Increase in working capital	**$ 9,941**	$ 4,997	$ 62,660

Consolidated Business Segments Information

(Thousands of Canadian Dollars)

Revenue Contribution

	Year Ended March 31				
	1985	1984	1983	1982	1981
Construction equipment and supplies					
Canada	**$ 974,404**	$ 862,609	$ 786,532	$ 897,026	$ 767,400
United States	**158,938**	145,615	127,062	143,782	128,008
	1,133,342	1,008,224	913,594	1,040,808	895,408
Petroleum industry services and supplies					
Contract drilling					
Canada	**30,515**	24,095	25,427	31,659	74,589
United States	**12,592**	10,572	18,556	54,557	28,003
International	**12,405**	19,754	43,995	75,981	62,309
Oilfield supplies	**74,024**	64,627	55,245	80,563	103,071
	129,536	119,048	143,223	242,760	267,972
Oil and gas exploration and production					
Canada	**23,998**	22,105	20,602	15,148	15,135
United States	**6,690**	5,488	4,989	5,305	3,168
	30,688	27,593	25,591	20,453	18,303
Intersegment items	**(5,029)**	(2,745)	(4,747)	(11,140)	(13,075)
	$1,288,537	$1,152,120	$1,077,661	$1,292,881	$1,168,608

Earnings Contribution

(Before income taxes and minority interest) (1)

	Year Ended March 31,				
	1985	1984	1983	1982	1981
Construction equipment			(Restated)	(Restated)	
and supplies					
Canada	**$ 24,232**	$25,508	$ 9,758	$ 28,558	$37,965
United States	**(2,636)**	(9,066)	(8,602)	(4,402)	(2,510)
	21,596	16,442	1,156	24,156	35,455
Petroleum industry services and supplies					
Contract drilling					
Canada	**(2,970)**	(2,263)	(1,762)	3,264	15,205
United States	**(6,658)**	(5,384)	(2,284)	14,602	7,042
International (2)	**(824)**	(545)	7,216	(12,356)	(2,466)
Oilfield supplies	**854**	270	(578)	4,401	5,489
	(9,598)	(7,922)	2,592	9,911	25,270
Oil and gas exploration and production (Note 15)					
Canada	**4,972**	7,924	6,581	1,994	1,877
United States	**(739)**	(1,906)	(10,665)	(4,590)	445
International	**(11)**	(82)	(4,090)	(3,572)	(610)
	4,222	5,936	(8,174)	(6,168)	1,712
Intersegment items	**3**	(41)	(2,218)	146	240
	$ 16,223	$14,415	$ (6,644)	$ 28,045	$62,677

(1) Westburne has allocated interest and corporate general and administrative expenses to industry segments because it believes that this allocation best reflects the decentralized and autonomous management of Westburne.

(2) Includes $1,750,000 insurance recovery on termination of an international drilling contract and $935,000 realization of account receivable previously written off.

Consolidated Business Segments Information (Continued)

(Thousands of Canadian Dollars)

Assets Employed

	Year Ended March 31,				
	1985	**1984**	**1983**	**1982**	**1981**
			(Restated)	**(Restated)**	**(Restated)**
Construction equipment and supplies					
Canada	**$349,145**	$308,085	$293,082	$328,072	$298,267
United States	**73,983**	67,484	55,877	52,874	51,963
	423,128	375,569	348,959	380,946	350,230
Petroleum industry services and supplies					
Contract drilling					
Canada	**31,417**	34,449	34,841	45,358	56,129
United States	**28,171**	30,234	34,294	35,064	26,122
International	**43,637**	43,392	49,186	70,813	78,283
Oilfield supplies	**22,615**	23,677	22,273	20,862	26,912
	125,840	131,752	140,594	172,097	187,446
Oil and gas exploration and production (Note 15)					
Canada	**92,608**	93,828	88,917	85,143	84,260
United States	**29,749**	22,774	20,662	24,750	21,131
International	**1,790**	1,537	1,256	2,258	4,918
	124,147	118,139	110,835	112,151	110,309
Intersegment and corporate items	**5,137**	5,371	4,630	4,463	5,268
	$678,252	$630,831	$605,018	$669,657	$653,253

Capital Expenditures

	Year Ended March 31,				
	1985	**1984**	**1983**	**1982**	**1981**
Construction equipment and supplies					
Canada	**$ 5,346**	$ 3,001	$ 3,490	$ 6,655	$ 7,460
United States	**360**	256	1,386	1,483	910
	5,706	3,257	4,876	8,138	8,370
Petroleum industry services and supplies					
Contract drilling					
Canada	**1,686**	1,180	995	4,359	15,248
United States	**564**	407	2,326	17,056	4,973
International	**967**	248	706	4,629	2,618
Oilfield supplies	**416**	150	130	436	129
	3,633	1,985	4,157	26,480	22,968
Oil and gas exploration and production					
Canada	**13,661**	5,413	3,981	4,414	6,377
United States	**9,087**	3,084	6,840	9,535	10,775
International	**225**	461	3,499	909	1,177
	22,973	8,958	14,320	14,858	18,329
Intersegment and corporate items	**115**	4	65	66	146
	$32,427	$14,204	$23,418	$49,542	$49,813

Consolidated Business Segments Information (Continued)

(Thousands of Canadian Dollars)

Depreciation and Depletion

	Year Ended March 31,				
	1985	1984	1983	1982	1981
Construction equipment and supplies					
Canada	**$ 3,823**	$ 3,761	$ 3,564	$ 3,590	$ 3,038
United States	**455**	405	336	248	133
	4,278	4,166	3,900	3,838	3,171
Petroleum industry services and supplies					
Contract drilling					
Canada	**1,719**	1,728	1,663	1,584	4,412
United States	**1,774**	1,578	2,093	3,108	1,193
International	**1,401**	1,192	3,449	5,969	4,731
Oilfield supplies	**171**	148	155	162	104
	5,065	4,646	7,360	10,823	10,440
Oil and gas exploration and production					
Canada	**6,164**	5,359	6,997	6,594	6,402
United States	**3,847**	2,537	3,237	3,657	1,214
International	**—**	—	1,061	739	610
	10,011	7,896	11,295	10,990	8,226
Intersegment and corporate items	**88**	83	94	105	122
	$19,442	$16,791	$22,649	$25,756	$21,959

Notes to the Consolidated Financial Statements

March 31, 1985

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 (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.

(b) The Board of Directors has determined that the Company's operations can be divided into three business segments as follows:

(i) Wholesale distribution of 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.

For details, see consolidated business segments information, which is an integral part of these financial statements.

(c) Effective April 1, 1984 the Company implemented a change in its foreign currency translation policy in accordance with new recommendations of the Canadian Institute of Chartered Accountants; prior years were not restated. The change in policy has no material effect on the financial statements for the year ended March 31, 1985.

Under the new policy assets and liabilities of self-sustaining foreign subsidiaries are translated at exchange rates prevailing at the balance sheet date. Income and expenses are translated at average exchange rates prevailing during the year. Gains and losses on translation are deferred and included as a separate component of shareholders' equity.

Non self-sustaining (integrated) foreign subsidiary operations and foreign denominated assets and liabilities of Canadian subsidiary operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Income and expenses, except depreciation and depletion, are converted at average exchange rates for the year. Exchange gains or losses are included in the determination of net earnings except for unrealized gains or losses on long-term monetary items which are deferred and amortized over the remaining terms of the related items.

During the current year the Company, for quarterly reporting purposes, had classified two foreign drilling subsidiaries as self-sustaining foreign subsidiaries. At year end these were reclassified as non self-sustaining (integrated) foreign operations.

For fiscal years prior to April 1, 1984, foreign subsidiary financial statements are translated as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the balance sheet date, non current assets and other liabilities at the exchange rates prevailing on the dates when acquired or incurred, and income and expenses, except depreciation and depletion, at the average exchange rate for the year. Unrealized foreign currency translation gains or losses are excluded in determining net earnings for the year.

(d) Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

(e) The Company previously followed the worldwide full cost method of accounting with respect to its oil and gas activities with one pool of assets. Effective for the year ended March 31, 1984, the Company implemented retroactively a change to the country-by-country full cost method of accounting with respect to its oil and gas activities. Costs capitalized continue to include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells and overhead related to exploration and development activities.

Costs capitalized are being depleted on a unit of production method based on estimated proven reserves by country, as determined by independent engineering reports. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on the approximate relative energy content of each product where applicable. No depletion is provided on costs capitalized in a country until reserves are proven and production commences in that country. Capitalized costs of leases and permits abandoned in countries with no proven reserves are written off to earnings in the year of abandonment. The Company employs a ceiling test annually whereby capitalized costs would be written off should they exceed the present values of future net revenues from estimated production of proven recoverable reserves.

Proceeds from disposal of properties are normally deducted from capitalized costs with no recognition of any gain or loss.

The retroactive change in accounting for oil and gas activities has had no effect on assets, earnings and retained earnings prior to April 1, 1979. (See Note 15 for the adjustments to prior years.)

(f) Investments are valued at the lower of cost or market except for a 50% interest in an affiliated company which is accounted for on the equity method.

(g) 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 — unit of production country-by-country full cost based on estimated proven recoverable oil and gas reserves.

Other equipment — mainly 20% to 30% per annum on a 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 country-by-country 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.

(h) 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. Investments

A U.S. Corporation, in which Westburne had acquired a minority interest in 1983 at a cost of $2,300,000, purchased a business as a going concern. It was discovered that material facts had been withheld by the vendor of that business and on May 6, 1985 a Statement of Claim was filed by the U.S. Corporation seeking rescission of its purchase and reimbursement of funds invested together with interest and damages. It is the present opinion of Westburne that the likelihood of the U.S. Corporation recovering, under its Statement of Claims, is such that no loss provision is necessary with respect to Westburne's investment.

3. Fixed Assets

	March 31, 1985		March 31, 1984	
	Cost	Net Book Value	Cost	Net Book Value
Land	**$ 4,510,000**	**$ 4,510,000**	$ 4,038,000	$ 4,038,000
Buildings	**31,689,000**	**19,764,000**	29,822,000	18,743,000
Drilling rigs	**94,049,000**	**57,610,000**	93,565,000	59,039,000
Drill string	**21,819,000**	**7,700,000**	21,724,000	8,665,000
Oil production equipment	**27,636,000**	**15,358,000**	20,283,000	11,780,000
Other equipment	**49,522,000**	**18,707,000**	48,261,000	19,039,000
Oil and mineral leases and development expenditures (Note 15)	**139,252,000**	**90,679,000**	121,856,000	80,764,000
	$368,477,000	**$214,328,000**	$339,549,000	$202,068,000

The Company has fifty-three drilling rigs of which seventeen with a net book value of approximately $28,000,000 did not operate during the year. Taking into consideration the cyclical nature of the drilling industry, it is the opinion of management of the Company that no adjustment to the carrying value of these assets should be made at this time.

4. Other Assets

Included in other assets is the unamortized excess of cost of investments in shares of subsidiaries over net assets at date of acquisition amounting to $3,766,000, which arises from the accounting for acquisitions of subsidiaries on a purchase basis.

Management is of the opinion that the amount of $3,258,000 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 40 years.

5. Assets Pledged

The Company has pledged certain of its accounts receivable as security for bank loans.

6. Short-Term Borrowings

The Company has formal arrangements with domestic and foreign banks in respect of short-term borrowings. Details of short-term borrowings follow:

	March 31, 1985	March 31, 1984
Maximum amount of borrowings at any month end during the year	**$144,821,000**	$117,794,000
Average amount of short-term borrowings during the year	**$131,200,000**	$108,000,000
Average interest rate at end of year	**11.08%**	11.80%
Approximate average interest rate during the year	**11.65%**	10.58%

7. Long-Term Debt

	March 31, 1985	March 31, 1984
Senior Notes		
9.90% notes repayable in equal annual installments of $3,847,000 U.S. on August 1, each year to 1993 (1985 — $34,612,000 U.S.; 1984 — $38,459,000 U.S.)	**$ 47,315,000**	$ 49,093,000
Bank loans	**97,595,000**	89,219,000
Mortgages, secured debentures, conditional sales contracts, etc. Maturing from 1985 to 2005 with interest rates ranging from 7% to 15.5%	**8,277,000**	10,652,000
Total long-term debt	**153,187,000**	148,964,000
Less amount due within one year	**6,570,000**	16,475,000
	$146,617,000	$132,489,000

The bank loans include:

(a) A $70,000,000 revolving term facility with interest at maximum of prime, expiring November 2, 1986, with option to renew for a seven year term.

(b) A $18,750,000 revolving term loan with interest at prime, maturing in August 1985 and renewable annually at the option of the bank.

(c) A $2,116,000 demand operating loan with interest at prime, maturing in August 1985 and renewable annually at the option of the bank.

(d) A U.S. $3,335,000 (Cdn $4,559,000) demand operating loan with interest at prime, maturing in August 1985 and renewable at the option of the bank.

(e) A $2,170,000 demand loan with interest at prime plus 1%, maturing in 1985 and renewable annually at the option of the bank.

The Company's bankers have indicated that no principal repayments on bank loans will be required in the next year and no provision has been made in the debt maturities table for repayment of these bank loans.

The aggregate maturities on long-term debt outstanding as at March 31, 1985 for the succeeding five years are as follows:

1986	—	$6,570,000
1987	—	$6,458,000
1988	—	$6,459,000
1989	—	$5,964,000
1990	—	$5,572,000

Various restrictions relating to the pledging of assets, the ratio of debt to equity, the level of minimum working capital and the issuance of additional long-term debt are imposed by the Senior Notes and the $70,000,000 revolving term facility.

8. Minority Interest

Amounts making up minority interest are as follows:

	March 31, 1985	March 31, 1984
Preferred shares	**$1,207,000**	$1,419,000
Common shares and contributed surplus	**643,000**	696,000
Retained earnings	**8,106,000**	7,776,000
	$9,956,000	$9,891,000

9. Share Capital

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

Common Shares

	March 31, 1985		March 31, 1984	
	Shares	**Amount**	**Shares**	**Amount**
Issued at beginning and end of year (1)	10,457,218	$90,589,222	10,457,218	$90,589,222

(1) Exclusive of 1,237,960 shares held by wholly-owned subsidiaries.

10. Retained Earnings

Long-term debt agreements impose various restrictions upon the payment of dividends by a subsidiary.

11. Other Expenses (Revenues)

	Year Ended March 31,		
	1985	**1984**	**1983**
Interest — long-term debt	**$16,444,000**	$14,110,000	$13,073,000
Other interest	**15,029,000**	11,945,000	20,370,000
Interest and other investment income	**(3,669,000)**	(5,063,000)	(7,204,000)
(Gain) loss on assets (1)	**2,737,000**	223,000	2,577,000
Insurance recovery (2)	**(1,750,000)**	—	—
	$28,791,000	$21,215,000	$28,816,000

(1) (Gain) loss on assets includes in 1985 a write down of $2,233,000 of a long-term receivable and a write down of $1,026,000 on an investment in an affiliated company; and in 1983 a write down of $2,276,000 on an investment in an affiliated company.

(2) The insurance recovery relates to termination of an international drilling contract.

12. Income Taxes

Income tax expenses for the three years ended March 31, 1985 have varied from applying Canadian Federal and Provincial tax rates as follows:

	Year Ended March 31,					
	1985		1984		1983	
	Amount	%	Amount	%	(Restated) Amount	%
Average Canadian income tax and rates	**$ 7,949,000**	**49.0**	$ 7,063,000	49.0	$(3,256,000)	(49.0)
Difference in effective rate on (earnings) losses of foreign subsidiaries	**555,000**	**3.4**	300,000	2.1	(2,125,000)	(32.0)
Provincial tax credits on oil and gas income, capital gains reduction and other	**(2,170,000)**	**(13.3)**	(2,447,000)	(17.0)	(4,967,000)	(74.7)
Inventory inflation allowance	**(2,415,000)**	**(14.9)**	(2,125,000)	(14.7)	(2,324,000)	(35.0)
Write down of oil and gas properties to country-by-country full cost	**—**	**—**	—	—	5,206,000	78.4
Increase due to amortization of excess cost of subsidiary allocated to oil and gas properties	**1,641,000**	**10.1**	1,686,000	11.7	2,049,000	30.8
	$ 5,560,000	**34.3**	$ 4,477,000	31.1	$(5,417,000)	(81.5)

Deferred income taxes are provided for on timing differences in the recognition of revenues and expenses for income tax and financial statement purposes, primarily relating to depreciation and depletion and to losses of subsidiary companies.

13. Commitments and Contingent Liabilities

(a) The Company has entered into lease agreements for premises and equipment and for various other assets. At March 31, 1985, future total minimum lease payments are:

1986	—	$10,644,000
1987	—	9,324,000
1988	—	6,309,000
1989	—	4,794,000
1990	—	3,843,000
Thereafter	—	8,726,000
		$43,640,000

Rent expense for the year ended March 31, 1985 was $9,628,000.

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 management of the Company, the outcome of these contingencies will not have a materially adverse effect upon the Company's financial position.

14. Pension and Retirement Plans

The Company has several separate pension plans covering substantially all of its employees. The total pension expense for the plans was: 1985 — $269,000; 1984 — $312,000; 1983 — $614,000; 1982 — $1,290,000 and 1981 — $1,459,000. Annually, the Company makes the maximum tax deductible contribution to the plans.

A comparison of accumulated benefits and net assets for the various Company's pension plans based on actuarial valuation reports at the dates indicated is presented below:

Actuarial present value of accumulated plan benefits:

	Reports at January 1, 1984	Reports at January 1, 1985	TOTAL
Vested	$27,956,000	$17,050,000	$45,006,000
Non-vested	967,000	108,000	1,075,000
	$28,923,000	$17,158,000	$46,081,000
Net assets available for benefits	$32,369,000	$17,846,000	$50,215,000

The assumed rate of return used in determining the actuarial present value of vested and non-vested accumulated plan benefits is 7% per annum, compounded annually. Net assets are stated at market value.

15. Change in Accounting Policy — Country-By-Country Full Cost

The change in accounting policy in respect of oil and gas activities to full cost method country-by-country from full cost method with one worldwide pool of assets required a restatement of oil and gas assets and net earnings for each of the years ended March 31, 1983, 1982, and 1980. If the previous policy had continued to be followed, net earnings for the year ended March 31, 1984 would have decreased by $602,000. The following tables set forth the effect of the changes on fixed assets and earnings as reported in prior years:

(a) **Fixed assets**

(Thousands of Canadian Dollars)	March 31, 1983	1982	1980	Total
Reduction in oil and mineral leases and development expenditures	$13,478	$ 7,361	$ 2,627	$23,466
Less accumulated depletion thereon	2,854	1,772	87	4,713
Net write down for country-by-country full cost	$10,624	$ 5,589	$ 2,540	$18,753

(b) **Net earnings**

(Thousands of Canadian Dollars except per share data)	Year Ended March 31, 1983	1982	1980
Net earnings previously reported	$ 8,711	$11,675	$25,801
Deduct write down of oil and gas properties to country-by-country full cost	10,624	5,589	2,540
Net earnings (loss) as restated	$(1,913)	$ 6,086	$23,261
Earnings per common share previously reported	$ 0.83	$ 1.12	$ 3.32
Reduction due to write down of oil and gas properties to country-by-country full cost	1.01	0.54	0.33
Earnings (loss) per common share as restated	$ (0.18)	$ 0.58	$ 2.99

Supplemental Financial Information

The following data are provided to comply with certain requirements of the United States Securities and Exchange Commission (SEC):

A. Summary of Differences Between Canadian and United States Accounting Principles (Audited)

The Company follows accounting principles generally accepted in Canada and differences exist between those generally accepted in Canada and those applicable in the United States in the following respects.

(a) The Company employs the country-by-country full cost method of accounting for its oil and gas properties. See Note 1(e) of the Notes to the Consolidated Financial Statements. The country-by-country full cost method of accounting requires a write down of costs when no proved reserves exist in a country and leases and permits are surrendered or when capitalized costs in a country exceed the limitation based on the value of proved reserves. Under United States generally accepted accounting principles ("GAAP") there exists a difference in calculating the limitation on capitalized costs and further write downs of $2,260,000 at March 31, 1983 and $3,958,000 at March 31, 1985 in addition to the amounts written off as explained in Note 15 of the Notes to the Consolidated Financial Statements.

(b) The arm's-length negotiations over the price per share paid for the acquisition of Peyto Oils Ltd. in fiscal 1980 and 1981 resulted in a valuation for oil and gas properties that was substantially higher than the valuation permitted under SEC accounting rules. Pursuant to these rules the difference between these valuations would be attributable to goodwill instead of fixed assets (oil and gas properties). Such difference is being amortized on a straight-line basis.

(c) Under United States GAAP and the provisions of the Financial Accounting Standards Board ("F.A.S.B.") Statement No. 52, assets and liabilities of foreign operations where the foreign currency is the functional currency would be translated from foreign currencies into Canadian dollars at the exchange rate on the balance sheet date. The entire resulting translation adjustment (including all long-term monetary items) would be shown as a separate item in the shareholders' equity section of the balance sheet. See Note 1(c) of the Notes to the Consolidated Financial Statements.

During the current year the Company would have been required under United States GAAP to reclassify two foreign drilling subsidiaries such that their functional currency would be designated as the Canadian dollar. Also, monetary assets and liabilities of these two subsidiaries would be translated from foreign currencies into Canadian dollars at the exchange rate on the balance sheet date, and as the reclassification is not being applied retroactively, the non-monetary assets would be translated at the exchange rate at March 31, 1984 and the historic rate for additions thereafter. Under United States GAAP exchange gains and losses on translation from April 1, 1984 for these two foreign subsidiaries would be included in the determination of net income. As a result, for the year ended March 31, 1985, $1,952,000 loss on exchange would be charged to net earnings.

(d) The Company has recognized future tax reductions resulting from loss carry-forwards incurred by its United States subsidiaries in the construction equipment and supplies business. Under United States GAAP such recognition of future tax reductions is not permitted until the carry-forwards are actually realized, unless such realization is assured beyond any reasonable doubt at the time the loss carry-forwards arise.

The effect on the consolidated balance sheet due to differences between accounting principles generally accepted in Canada and those accepted in the United States is summarized as follows:

	As reported under Canadian accounting principles	Increase (decrease)	Under United States accounting principles
March 31, 1985			
Fixed assets including oil and gas properties	$368,477,000	$(13,589,000)	$354,888,000
Accumulated depreciation and depletion	154,149,000	(1,248,000)	152,901,000
Goodwill	—	13,589,000	13,589,000
Deferred income taxes	16,257,000	10,858,000	27,115,000
Unamortized deferred foreign currency translation loss	16,394,000	(16,394,000)	—
Cumulative foreign currency translation adjustment included in shareholders' equity (FASB No. 52)	4,149,000	4,814,000	8,963,000
Retained earnings	131,358,000	(30,818,000)	100,540,000
March 31, 1984			
Fixed assets including oil and gas properties	$339,549,000	$ (7,426,000)	$332,123,000
Accumulated depreciation and depletion	137,481,000	1,345,000	138,826,000
Other assets	4,323,000	42,000	4,365,000
Goodwill	—	15,281,000	15,281,000
Deferred income taxes	19,306,000	10,858,000	30,164,000
Unamortized deferred foreign currency translation loss	14,381,000	(14,381,000)	—
Cumulative foreign currency translation adjustment included in shareholders' equity (FASB No. 52)	—	10,571,000	10,571,000
Retained earnings	123,984,000	(24,908,000)	99,076,000

The effect on earnings of the above differences between accounting principles generally accepted in Canada and those accepted in the United States is summarized as follows:

	Year Ended March 31,		
	1985	**1984**	**1983**
			(Restated)
Earnings (loss) — Canadian accounting principles	**$ 9,386,000**	$ 8,822,000	$ (1,913,000)
Foreign currency translation (FASB No. 52)	**(1,952,000)**	(783,000)	(907,000)
Country-by-country full cost method	**(3,958,000)**	—	(2,260,000)
Deferred income tax	**—**	(4,171,000)	(6,687,000)
Earnings (loss) — United States accounting principles	**$ 3,476,000**	$ 3,868,000	$(11,767,000)
Earnings (loss) per common share — United States accounting principles	**$0.33**	$0.37	$(1.12)

B. Long-Term Debt Restrictions (Audited)

Long-term debt instruments of a subsidiary contain covenants which restrict the distribution of funds to Westburne by way of dividends, loans, or advances. At March 31, 1985, the total net assets subject to restriction were $54,294,000.

C. Selected Quarterly Financial Information (Unaudited)

(Thousands of Canadian Dollars except per share data)

	June 30, 1984	Sept. 30, 1984	Dec. 31, 1984	Mar. 31, 1985	Full year
Year ended March 31, 1985:					
Operating revenues	$303,952	$327,305	$338,711	$318,569	$1,288,537
Costs and expenses	300,110	323,289	334,436	317,161	1,274,996
Net earnings (loss)	2,287	4,188	3,702	(791)	9,386
Cash flow from operations	6,164	8,495	9,668	5,655	29,982
Net earnings (loss) per common share	0.22	0.40	0.35	(0.07)	0.90

(Thousands of Canadian Dollars except per share data)

	June 30, 1983	Sept. 30, 1983	Dec. 31, 1983	Mar. 31, 1984	Full year
Year ended March 31, 1984:					
Operating revenues	$272,690	$301,124	$306,237	$272,069	$1,152,120
Costs and expenses	269,707	294,585	299,478	278,775	1,142,545
Net earnings (loss)	2,341	3,587	4,614	(1,720)	8,822
Cash flow from operations	7,610	8,698	10,787	(2,428)	24,667
Net earnings (loss) per common share	0.22	0.35	0.44	(0.17)	0.84

D. Oil and Gas Producing Activities (Unaudited)

In 1983, the Company adopted the FASB Statement No. 69 "Disclosures About Oil and Gas Producing Activities". The information required by FASB No. 69 is discussed below and detailed in Tables A through F.

The reserve quantity valuation estimates included in the following tables have been based upon reports of McDaniels and Associates Ltd., Lee Keeling and Associates Inc., and Ryder Scott Company Petroleum Engineers.

Estimated quantities of proved developed reserves of crude oil (including natural gas liquids) and natural gas are disclosed net after royalty. Proved reserves are estimated quantities of reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are expected to be recovered from existing wells with existing equipment and operating methods. Values are computed by applying current prices and costs adjusted only for fixed and determinable contractual escalation and for prices established by the Federal/Provincial Energy Pricing and Taxation Agreements. Future net revenues are discounted at a rate of 10%.

The estimated impact of major factors affecting annual changes in proved reserves is described below:

(1) "New Field Discoveries and Extensions" represents proved reserves added from drilling exploratory and development wells;

(2) "Change in Prices of Oil and Gas, Net of Related Lifting Costs" represents the approximate effect of changes from one period to the next in the prices and lifting costs;

(3) "Accretion of Discount" is computed by applying 10% to the standardized measure of discounted net cash flows before income taxes as of the beginning of the year in recognition of the increase resulting from the impact of the passage of time on the discounted cash flow approach to the valuation of the proved reserves;

(4) "Provision for Income Taxes" has been calculated using the income tax rates as calculated after making provision for the tax base for oil and gas properties, non-deductible Crown royalties and taxes, resource allowance and provincial tax credits.

The Company emphasizes the estimates included in the following tables are by their nature inexact and are subject to changing economic, operating and contractual conditions. Some of the amounts may not agree with amounts reported under similar headings presented elsewhere in this report due to categorization of costs by FASB No. 69. United States reserve values have been converted to Canadian dollar equivalents at rates in effect during the respective reporting periods.

Table A — Estimated quantities of oil and gas reserves

	Canada		United States		Total	
	Oil (bbls.)	Gas (mcf)	Oil (bbls.)	Gas (mcf)	Oil (bbls.) (1)	Gas (mcf)
Proved developed and undeveloped reserves:						
Balance March 31, 1982	4,555,000	30,604,000	271,000	3,747,000	4,826,000	34,351,000
Revision of previous estimates	257,000	4,701,000	23,000	(467,000)	280,000	4,234,000
Purchase of reserves	—	—	—	—	—	—
Extensions, discoveries and other additions	234,000	272,000	10,000	724,000	244,000	996,000
Production	(475,000)	(2,290,000)	(94,000)	(636,000)	(569,000)	(2,926,000)
Balance March 31, 1983	4,571,000	33,287,000	210,000	3,368,000	4,781,000	36,655,000
Revision of previous estimates	744,000	3,761,000	53,000	2,212,000	797,000	5,973,000
Purchase of reserves	—	—	—	—	—	—
Extensions, discoveries and other additions	302,000	2,775,000	184,000	415,000	486,000	3,190,000
Production	(518,000)	(1,759,000)	(69,000)	(723,000)	(587,000)	(2,482,000)
Balance March 31, 1984	5,099,000	38,064,000	378,000	5,272,000	5,477,000	43,336,000
Revision of previous estimates	1,072,000	(732,000)	(24,000)	511,000	1,048,000	(221,000)
Purchase of reserves	—	—	190,000	36,000	190,000	36,000
Extensions, discoveries and other additions	296,000	1,074,000	121,000	418,000	417,000	1,492,000
Production	(548,000)	(2,282,000)	(117,000)	(631,000)	(665,000)	(2,913,000)
Balance March 31, 1985	5,919,000	36,124,000	548,000	5,606,000	6,467,000	41,730,000
Proved developed reserves:						
Balance March 31, 1982	4,555,000	30,604,000	271,000	3,747,000	4,826,000	34,351,000
Balance March 31, 1983	4,571,000	33,287,000	210,000	3,368,000	4,781,000	36,655,000
Balance March 31, 1984	5,099,000	38,064,000	378,000	5,272,000	5,477,000	43,336,000
Balance March 31, 1985	5,919,000	36,124,000	534,000	5,602,000	6,453,000	41,726,000

(1) Includes natural gas liquids (2,161,000 bbls. at March 31, 1985).

Table B — Capitalized costs relating to oil and gas producing activities

(Thousands of Canadian Dollars)

	Canada	United States	Other	Total
March 31, 1985				
Proved properties	$116,269	$40,826	$ —	$157,095
Unproved properties	5,793	1,096	3,051	9,940
	$122,062	$41,922	$3,051	$167,035
Accumulated depreciation and depletion	$ 45,154	$14,509	$1,261	$ 60,924
March 31, 1984				
Proved properties	$104,538	$28,082	$ —	$132,620
Unproved properties	4,895	1,826	2,798	9,519
	$109,433	$29,908	$2,798	$142,139
Accumulated depreciation and depletion	$ 39,002	$ 9,332	$1,261	$ 49,595

Table C — Costs incurred in oil and gas property acquisition, exploration and development activities

(Thousands of Canadian Dollars)

	Canada	United States	Other	Total
Year Ended:				
March 31, 1985				
Capitalized costs incurred:				
Property acquisition costs				
Unproved	$ 1,554	$ 544	$ —	$ 2,098
Proved	93	2,513	—	2,606
Exploration costs	2,493	4,072	225	6,790
Development costs	9,091	1,921	—	11,012
	$13,231	$ 9,050	$ 225	$22,506
March 31, 1984				
Capitalized costs incurred:				
Property acquisitions costs				
Unproved	$ 1,193	$ 91	$ —	$ 1,284
Proved	—	—	—	—
Exploration costs	1,324	1,507	461	3,292
Development costs	2,818	1,418	—	4,236
	$ 5,335	$ 3,016	$ 461	$ 8,812
March 31, 1983 (Restated)				
Capitalized costs incurred:				
Property acquisition costs				
Unproved	$ 450	$ 644	$ —	$ 1,094
Proved	—	—	—	—
Exploration costs	1,391	974	3,499	5,864
Development costs	2,040	5,074	—	7,114
	$ 3,881	$ 6,692	$ 3,499	$14,072

Table D — Results of operations for producing activities

(Thousands of Canadian Dollars except per barrel data)

	Canada	United States	Other	Total
Year Ended:				
March 31, 1985				
Oil and gas sales	$23,192	$ 7,125	$ —	$30,317
Production (lifting) costs	6,569	2,047	—	8,616
Depreciation and depletion	6,164	3,847	—	10,011
Earnings before income taxes	10,459	1,231	—	11,690
Income tax expense	2,003	—	—	2,003
Earnings from producing activities	$ 8,456	$ 1,231	$ —	$ 9,687
Depreciation and depletion per barrel	$ 6.64	$ 17.33	$ —	$ 8.71
March 31, 1984				
Oil and gas sales	$21,400	$ 5,724	$ —	$27,124
Production (lifting) costs	5,831	1,561	82	7,474
Depreciation and depletion	5,359	2,537	—	7,896
Earnings (loss) before income taxes	10,210	1,626	(82)	11,754
Income tax expense (recovery)	2,910	(469)	—	2,441
Earnings (loss) from producing activities	$ 7,300	$ 2,095	$ (82)	$ 9,313
Depreciation and depletion per barrel	$ 6.61	$ 13.35	$ —	$ 7.89
March 31, 1983 (Restated)				
Oil and gas sales	$19,813	$ 5,501	$ —	$25,314
Production (lifting) costs	5,294	1,467	—	6,761
Depreciation and depletion	6,997	10,832(1)	4,090	21,919
Earnings (loss) before income taxes	7,522	(6,798)	(4,090)	(3,366)
Income tax expense (recovery)	1,512	(1,013)	—	499
Earnings (loss) from producing activities	$ 6,010	$(5,785)	$(4,090)	$ (3,865)
Depreciation and depletion per barrel	$ 8.16	$ 54.16(1)	$ —	$ 20.74

(1) Includes a $10,624,000 write down of oil and gas properties to country-by-country full cost.

Table E — Standardized measure of discounted future net cash flows relating to proved oil and gas reserves

	(Thousands of Canadian Dollars)		
	Canada	United States	Total
March 31, 1985			
Future cash inflows	$271,773	$43,446	$315,219
Future costs			
Production	86,882	12,133	99,015
Development costs	8,125	302	8,427
Future net cash flows before income taxes	176,766	31,011	207,777
Future income taxes	53,128	—	53,128
Future net cash flows	123,638	31,011	154,649
10% discount factor	62,607	12,261	74,868
Standardized measure of discounted future net cash flows	$ 61,031	$18,750	$ 79,781
March 31, 1984			
Future cash inflows	$239,227	$37,630	$276,857
Future costs			
Production	102,739	9,067	111,806
Development costs	12,624	39	12,663
Future net cash flows before income taxes	123,864	28,524	152,388
Future income taxes	43,792	—	43,792
Future net cash flows	80,072	28,524	108,596
10% discount factor	39,610	10,602	50,212
Standardized measure of discounted future net cash flows	$ 40,462	$17,922	$ 58,384
March 31, 1983			
Future cash inflows	$195,251	$21,254	$216,505
Future costs			
Production	81,344	5,542	86,886
Development costs	15,335	135	15,470
Future net cash flows before income taxes	98,572	15,577	114,149
Future income taxes	35,976	—	35,976
Future net cash flows	62,596	15,577	78,173
10% discount factor	32,037	4,631	36,668
Standardized measure of discounted future net cash flows	$ 30,559	$10,946	$ 41,505

Table F — Changes in standardized measure of discounted future net cash flow related to proved oil and gas reserves

	(Thousands of Canadian Dollars) Year Ended March 31		
	1985	1984	1983
Standardized measure before income taxes at beginning of year	**$ 80,511**	$ 59,205	$ 65,716
Revision to reserves proved in prior years			
Revision of quantity estimates	**10,125**	14,869	6,067
Change in prices of oil and gas, net of lifting costs	**15,540**	8,465	1,000
Accretion of discount	**8,051**	5,921	6,572
	33,716	29,255	13,639
New field discoveries and extensions, net of future production and development costs	**9,121**	10,617	5,396
Development costs incurred during period which reduced future development costs	**1,993**	1,343	1,649
Purchases of reserves	**2,770**	—	—
Sales of reserves	**(63)**	—	—
Production, net of lifting costs	**(21,699)**	(19,732)	(18,553)
Changes in production rates and other	**(376)**	(177)	(8,642)
Standardized measure before income taxes	**105,973**	80,511	59,205
Provision for income taxes	**26,192**	22,127	17,700
Standardized measure at end of year	**$ 79,781**	$ 58,384	$ 41,505

Ten Year Summary

(Thousands of Canadian Dollars except per share data)

Year ended March 31	1985	1984	1983
			(Restated)
Operating			
Operating revenues			
Construction equipment and supplies	**$1,133,342**	$1,008,224	$ 913,594
Petroleum industry services and supplies	**124,507**	116,303	138,476
Oil and gas production	**30,688**	27,593	25,591
	1,288,537	1,152,120	1,077,661
Net earnings (loss) applicable to common shares	**9,386**	8,822	(1,913)
Per common share outstanding (2) (6)			
Basic earnings (loss)	**0.90**	0.84	(0.18)
Fully diluted earnings (loss)	**0.90**	0.84	(0.18)
Cash flow from operations	**29,982**	24,667	28,929
Dividends			
Per common share (3)	**$0.20**	$0.25	$0.40
Financial			
Receivables	**$ 207,072**	$ 177,514	$ 175,671
Inventories	**206,817**	196,022	174,612
Working capital	**157,482**	147,541	142,544
Capital expenditures (4)	**32,427**	14,204	23,418
Fixed assets, net of depreciation and depletion	**214,328**	202,068	207,741
Total assets	**678,252**	630,831	605,018
Long-term debt	**146,617**	132,489	135,315
Redeemable preferred shares	**—**	—	—
Common shareholders' equity	**231,422**	219,899	213,734
Equity per common share (5) (6)	**22.13**	21.03	20.44
Number of common shares outstanding (6)	**10,457,218**	10,457,218	10,457,218

(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) Includes $0.625 special dividend in 1979.
(4) Includes acquisition of Peyto Oils Ltd. in 1981 and 1980.
(5) Based on common shares outstanding at year end.
(6) After giving retroactive effect to the 2 for 1 split of the common shares effective August 31, 1979.

1982	1981	1980	1979	1978	1977	1976
(Restated)	(Restated)	(Restated)				
$1,040,808	$ 895,408	$752,784	$426,118	$341,222	$311,436	$274,665
231,620	254,897	189,295	183,140	135,345	105,698	78,353
20,453	18,303	8,588	6,689	6,099	5,361	4,928
1,292,881	1,168,608	950,667	615,947	482,666	422,495	357,946
6,086	33,044	23,261	23,935	15,943	8,870	8,610
0.58	3.39	2.99	3.14	2.18	1.27	1.30
0.58	3.39	2.99	3.08	2.05	1.14	1.10
42,672	62,801	45,718	41,965	29,059	21,067	20,631
$0.70	$0.70	$0.70	$1.00	—	—	—
$ 215,063	$ 215,864	$192,173	$132,178	$ 84,954	$ 74,437	$ 64,264
187,428	174,537	159,049	111,523	67,302	62,496	57,031
79,884	102,011	69,861	82,461	35,151	31,296	29,667
49,542	84,539	71,098	21,196	14,563	13,953	43,038
220,353	211,487	161,335	104,068	98,070	99,117	111,857
669,657	653,253	555,605	393,336	290,972	273,284	264,357
72,658	79,898	101,728	86,498	50,793	62,271	84,051
—	—	—	—	1,215	1,725	1,952
219,845	221,155	112,919	95,094	77,945	60,986	51,579
21.02	21.15	14.53	12.23	10.53	8.42	7.46
10,457,218	10,458,818	7,772,440	7,772,440	7,402,808	7,242,608	6,912,658

Directors and Officers

Directors

*S. ABRAMOVITCH,
President,
Westburne International
Industries Ltd.,
Montreal, Quebec

C. ATKINSON-BARNETT, (1)
Private Investor
Toronto, Ontario

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President,
‡Westburne Exploration Inc.
Denver, Colorado

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

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Vice Chairman,
Westburne International
Industries Ltd.,
Montreal, Quebec

W. J. CUMMER,
Private Investor
Hamilton, Bermuda

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Partner of MacKimmie
Matthews,
Barristers & Solicitors,
Calgary, Alberta

†J. D. MITCHELL,
President,
Fowler, Bauld and Mitchell
Ltd., Architects
Halifax, Nova Scotia

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

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

L. R. ROBERTS,
Vice President —
Finance,
Westburne International
Industries Ltd.,
Calgary, Alberta

J. P. SAILLANT,
President,
‡Saillant Inc.
Plumbing & heating supplies,
Quebec, Quebec

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

J. L. THOMPSON, (2)
Senior Vice President,
‡United Westburne
Industries Limited,
Hamilton, Ontario

*D. W. WESTCOTT, (2)
President,
‡United Westburne
Industries Limited,
Vancouver, British Columbia

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

Officers

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Chairman of the Board

L. CORNEZ, (2)
Vice Chairman of the Board

S. ABRAMOVITCH,
President

D. W. WESTCOTT, (2)
Senior Vice President —
Equipment and Supplies

P. D. WILLIAMS,
Executive Vice President (3)
Senior Vice President —
Exploration and Production

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

L. R. ROBERTS,
Vice President — Finance

W. J. E. GILLETT,
Vice President — Controller

D. M. GRAVES,
Vice President — Administration

J. E. FORSYTH, (3)
Vice President — General Counsel

D. B. MUIR,
Secretary — Treasurer

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

(1) Elected May 1985
(2) Retired from active management of Company on March 31, 1985
(3) Appointed May 1985

Corporate Information

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, N.Y.

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)

Form 10-K
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1985 as filed with the U.S. Securities and Exchange Commission may be obtained without charge by writing to the Secretary of the Company, 300, 535 - 7th Avenue S.W., Calgary, Alberta, Canada T2P 0Y4.

Annual General Meeting
The Annual General Meeting of Shareholders of Westburne International Industries Ltd. will be held in Calgary, Alberta in the Alberta Room of the Palliser Hotel at 9:30 a.m., August 22, 1985.

Price Range of Common Shares
Two fiscal years ended March 31, 1985

	Toronto Stock Exchange		American Stock Exchange	
	High	Low	High	Low
	(Canadian Dollars)		(U.S. Dollars)	
1983				
2nd Quarter	18⅝	13⅝	15¾	11¼
3rd Quarter	19¾	16⅞	16⅜	13½
4th Quarter	16⅝	14¼	13¾	10⅜
1984				
1st Quarter	16⅜	13⅞	13½	10⅞
2nd Quarter	17	14¾	13½	11½
3rd Quarter	16	12	12⅜	9
4th Quarter	14½	10⅞	10⅜	8¼
1985				
1st Quarter	14⅞	11½	10⅞	8⅝

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Westburne International Industries Ltd.
1985 Annual Report