MARK RESOURCES INC.

1988 ANNUAL REPORT

Discovery — realizing potential, adding value.

NOTICE OF ANNUAL MEETING

Shareholders of Mark Resources Inc. are invited to attend the Annual and Special Meeting to take place on May 16, 1989 at 3:00 p.m. in the Britannia Room, The Westin, 320 - 4th Avenue S.W., Calgary, Alberta.

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THIS REPORT

For well over a century now, from the time of the first producing oil well in Lambton County, Ontario in 1858, scores of adventurous enterprising individuals have committed themselves to the search for and discovery of petroleum – a product which is today, central to our modern, diverse and complex society.

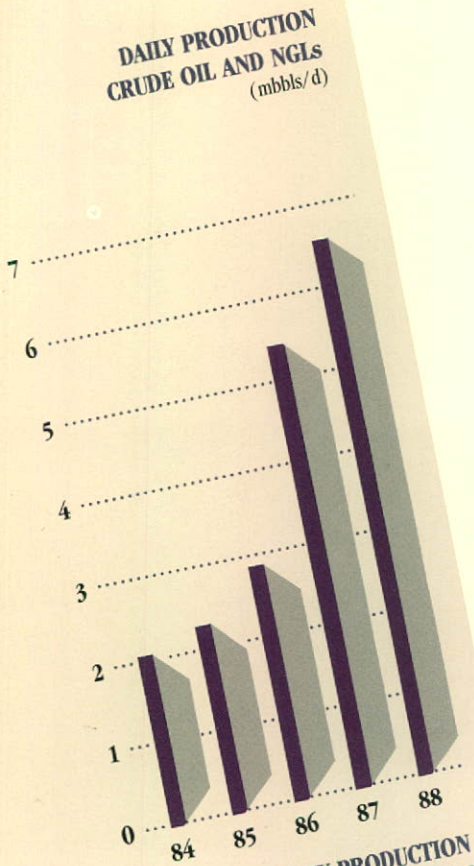
The life of the petroleum industry – together with the ongoing economic growth of our province and nation – depends upon finding and developing new and larger sources of oil and gas. The discovery of new reserves, both through exploration and acquisition, is building value for the shareholders of Mark Resources. This continues to be our key objective. It is for this reason that we have chosen "discovery" as the underlying theme of our 1988 Annual Report.

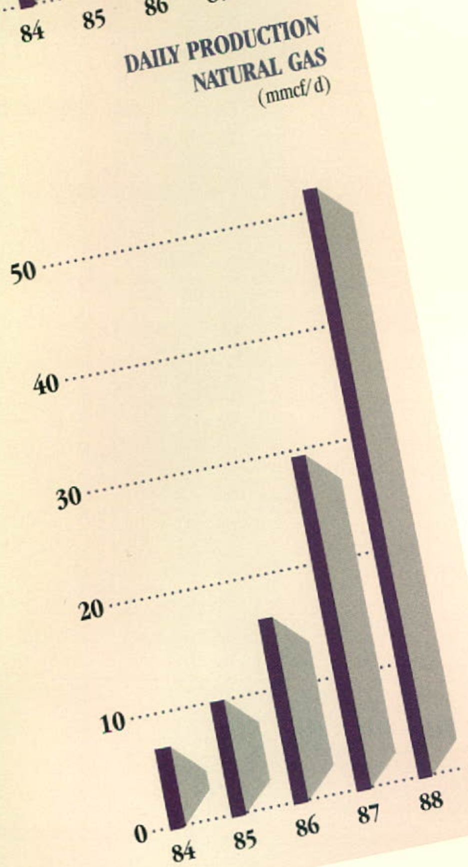
Mark Resources views exploration and discovery as the essence of its business. It is an aspect which brings excitement and disappointment, demands commitment and expertise, and is rewarded with growth and success. We are pleased to say that Mark's discovery efforts have resulted in achievement of the latter. And without doubt, we owe this achievement to our team of dedicated industry professionals.

HIGHLIGHTS

	1988	1987	% Change
FINANCIAL			
($000s except per share amounts)			
Revenues	**58,574**	57,011	+3
Cash Flow from Operations	**25,572**	29,658	−14
Per Share	**1.19**	1.49	
Capital Expenditures	**52,807**	45,270	+17
Net Earnings before Extraordinary Gains	**338**	9,489	−96
Per Share	**0.02**	0.47	
Net Earnings	**2,159**	11,497	−81
Per Share	**0.10**	0.58	
Total Assets	**444,477**	385,750	+15
Shareholders' Equity	**188,966**	167,437	+13
OPERATING			
Production			
Crude Oil and NGLs (Bbls/d)	**6,619**	5,465	+21
Natural Gas (Mmcf/d)	**52.4**	29.7	+76
Reserves — Proven and Probable			
Crude Oil and NGLs (Mbbls)	**33,908**	29,320	+16
Natural Gas (Bcf)	**586**	533	+10
Land Holdings (000s)			
Gross Acres	**6,971**	5,316	+31
Net Acres	**1,433**	1,205	+19

	1988		1987	
	Gross	**Net**	Gross	Net
Drilling Activity				
Exploration	**106**	**47.1**	81	31.7
Development	**138**	**55.2**	116	75.7
Total	**244**	**102.3**	197	107.4





TO OUR SHAREHOLDERS

It is with pleasure that I present my first Report to Shareholders and I welcome the opportunity to discuss plans for Mark's future growth and direction.

In 1988, an expanded exploration program and the acquisition of Erskine Resources Corporation contributed to increased production levels and substantial reserve growth. These factors combined with efficient operating and financial controls – a must in today's competitive and often uncertain industry environment – has produced positive results and enabled us to adapt to the realities of a modern, fast-paced, highly politicized industry.

During 1988, Mark:

- conducted an active exploration and development program
- increased daily production to record highs
- completed the acquisition of Erskine Resources Corporation
- increased crude oil and natural gas liquids reserves by 16 per cent
- increased natural gas reserves by 10 per cent
- strengthened the management team.

1988 IN REVIEW

Directions established for the Company during 1987 were continued throughout 1988 with significant results. Management's efforts to monetize the Company's reserves through maximizing production were rewarded by a 76 per cent increase in natural gas production to an average of 52.4 million cubic feet per day for the year. Although the percentage increase in crude oil and natural gas liquids production is not as high, it is nonetheless meaningful. Daily production averaged 6,619 barrels per day, up 21 per cent over 5,465 barrels per day in 1987.

Capital expenditures rose to $52.8 million from $45.3 million the previous year. These funds were spent almost exclusively in western Canada. Of the total, $26.6 million or 50 per cent was spent on land purchases, geological and geophysical data acquisition and exploratory drilling and $19.4 million was spent on development drilling and facilities installation.

The Company participated in a total of 244 wells of which 106 were exploratory and 138 were development. The reserves discovered as a result of this drilling activity exceeded 1988 production by 12 per cent on a barrel equivalent basis. The cost of finding and developing these reserve additions was $7.67 per barrel of oil equivalent.

Mark is firmly committed to operate as many properties as possible and will maintain the staff required to successfully accomplish this objective. Currently, the Company operates over 40 per cent of its production.

FINANCIAL RESULTS

Possibly the most significant result financially was the Company's ability to increase production revenue by nine per cent to $52.0 million. This was accomplished in the face of price decreases of 29 per cent in crude oil and natural gas liquids to $14.58 per barrel and six per cent in natural gas to $1.48 per thousand cubic feet.

With the substantial growth in production volumes achieved during the year, Mark incurred increased production expenses. However, the Company's per unit lifting costs, the true measure of efficiency, decreased seven per cent to $3.99 per equivalent barrel from $4.28 per equivalent barrel last year.

Higher production costs as well as increased interest costs were primarily responsible for the reduction in cash flow for the period. Cash flow from operations was $25.6 million ($1.19 per share). Net earnings were reduced to $2.16 million ($0.10 per share) in 1988.

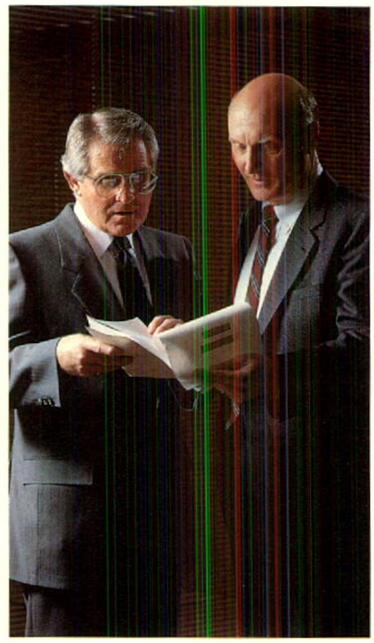
Higher bank prime rates and increases in long term debt further impacted the Company's financial results. General administration costs and the upward movement in bank interest rates are of prime concern to management. These will be monitored very closely and will be kept at levels commensurate with Mark's size and capabilities.

1989 OUTLOOK

Nineteen eighty-nine will be a year of further expansion and growth at Mark. Exploration will focus on the complete evaluation of the current land inventory and expanding this effort into new, higher reserve potential areas where higher working interests are available. Similarly, the Company will seek to participate in the U.S. and specific international projects with experienced operators.

As exhibited by the flurry of recent mergers in the industry and the drive toward rationalization of properties, there are an abundance of asset acquisition opportunities available. The Company will continue to review and pursue acquisitions in addition to its exploration and development program. Any exploration, development or acquisition investment decision will be based on sound technical evaluation and must provide acceptable rates of return based on conservative price assumptions.

With rapid increases in production levels over the past two years, it has become increasingly difficult to add to asset value with cash flow as the only source of reinvestment funds. High interest rates dictate that debt must be



Left to right:
DARYL BIRNIE
President and Chief Executive Officer
ART EASTLY
Executive Vice President and Chief Operating Officer

managed prudently and only high return, low risk projects can be financed in this manner. Although the equity market in the oil and gas sector is poor today, management believes that equity financing provides a favourable alternative source of funds and should be pursued at the right time.

Despite the difficult operating environment, there are several positive facts facing the oil and gas industry today. The OPEC Cartel has exhibited a desire, much stronger than in the past, to cooperate on production volumes in order to maintain crude oil prices at levels between $15.00 and $18.00 (U.S.) WTI. Non-OPEC producing nations have also agreed to hold production levels, or cut-back in some cases. In response to these initiatives, cautious optimism exists within the industry for viable levels of crude prices. Fueling this optimism are firming natural gas prices, which are responding to increased demand both in the U.S. and Canada.

During the year, Mark sold its gas marketing company to Unigas Corporation, a subsidiary controlled by Unicorp Canada Corporation, Mark's major shareholder. This relationship enables Mark to market its natural gas quickly and efficiently at attractive prices. Ready access to evolving markets ensures continued growth from increasing natural gas prices.

CORPORATE GROWTH

Since November 1986 when Mark Resources emerged from the combination of Bluesky Oil & Gas Ltd. and Precambrian Shield Resources Limited, the Company has grown to rank among Canada's top 20 publicly traded oil and gas producers. The Company's growth and success to date has been accomplished by a highly motivated and competent staff. During the year, Mr. Arthur Eastly was appointed Executive Vice President and Chief Operating Officer, and Mr. James Wilson was appointed Vice President, Finance. Mr. Daniel Tsubouchi joined Mark as Vice President, Corporate Development and Mr. Clifford Hughes joined the Company as General Counsel and Secretary. In addition, 28 employees from Erskine Resources joined the Company and are already playing a significant role. The dedication and loyalty of the officers and staff of Mark are greatly appreciated.

Management believes that through delegation of responsibility and authority, and by maintaining open communication throughout the organization, a working environment has been created that promotes and preserves initiative, dedication and, ultimately, success.

The Board of Directors of Mark has played a contributory role in the Company's progress. They are interested, active and dedicated, and on behalf of the employees and shareholders, we thank them.

It is with regret we announce the resignation from the Board of Directors of Mr. George S. Mann, Chairman of the Board of Unicorp Canada Corporation, Mr. Vernon L. Horte, President, V.L. Horte and Associates and Mr. Klaus Hebben, Chairman, CAL Futures Limited. Their counsel and advice have played a significant role in the forward progress of the Company.

Two new Board members are welcomed: Mr. Arne R. Nielsen, retired Chairman of the Board of Mobil Oil Canada Corporation, and Mr. Michael R. Kordyback, Executive Vice President of Unicorp Canada Corporation.

D. Birnie

Daryl E. Birnie
President and Chief Executive Officer
March 16, 1989

TURNER VALLEY

Discovery in the oilpatch has been associated with the "wildest and most carefree kind of delirium," together with, "producing a product so clean and pure it was immediately used to power vehicles at the well site."

These quotes refer to the initial oil discovery at Turner Valley — the beginning of Alberta's long romance with crude oil. Even before the advent of Turner Valley, however, men had committed copious time, effort and money towards the discovery of the elusive but highly prized "black gold".

The finding and development of major oil fields such as Turner Valley is the result of the undaunted optimism and commitment of a handful of individuals. However, it was William Stuart Herron who persuaded some Calgary businessmen to finance the drilling of the first well. Herron convinced his guests of the potential energy wealth lying beneath the earth's surface by setting a match to a gas seepage and casually frying up a pan of eggs. Unconventional perhaps, but as it turned out, an effective message.

This pioneering spirit, together with the excitement and satisfaction of discovery, are two timeless elements of the oil industry. They are the elements that spur the efforts of Mark Resources in its highly focused search for crude oil and natural gas.

MANAGEMENT OVERVIEW

OIL AND GAS OVERVIEW

The 1980s have seen Canada's petroleum industry come through a significant evolution. What began as a tightly regulated environment in the early 1980s is now an industry which operates under progressively freer market forces.

With the phase out of the National Energy Program and the Petroleum and Gas Revenue Tax in 1984, the 1987 revoking of the natural gas stockpiling regulations, and the signing of the Free Trade Agreement in December 1988, the oil and gas industry can now move forward in a much less regulated environment.

THE INDUSTRY TODAY

For the industry, 1988 was a year during which prices dropped from the 1987 level achieved in the wake of dramatic decreases in 1986. In addition, external sources of financing have been difficult to obtain as equity markets for the industry have continued to be poor since the October 1987 stock market crash.

The industry, and Mark in particular, has responded favorably during this period by rationalizing corporate activity and streamlining administrative and operational functions. Operations have been reviewed to ensure the lowest possible finding costs, operating costs and administrative costs. Mark has emerged from the process stronger and revitalized – prepared to take on the challenges of the future.

TOMORROW'S ENERGY DEVELOPMENTS

The industry in general now finds itself in a better position with regard to capitalization and reasonable debt load. Mark has taken advantage of this situation by actively pursuing expanded exploration and development programs and attractive acquisition opportunities during the past year. The Company is now pursuing its growth objectives to achieve steady increases in asset value and cash flow.

Despite the recovery of oil prices at year end 1988, uncertain long-term pricing expectations continue to face the upstream sector of the industry. The prevailing view anticipates that the near-term price of oil will generally range between U.S.$15 and $18 WTI. Even in this price environment, the western Canadian sedimentary basin remains an area of opportunity where conventional oil and gas reserves can be discovered and developed profitably.

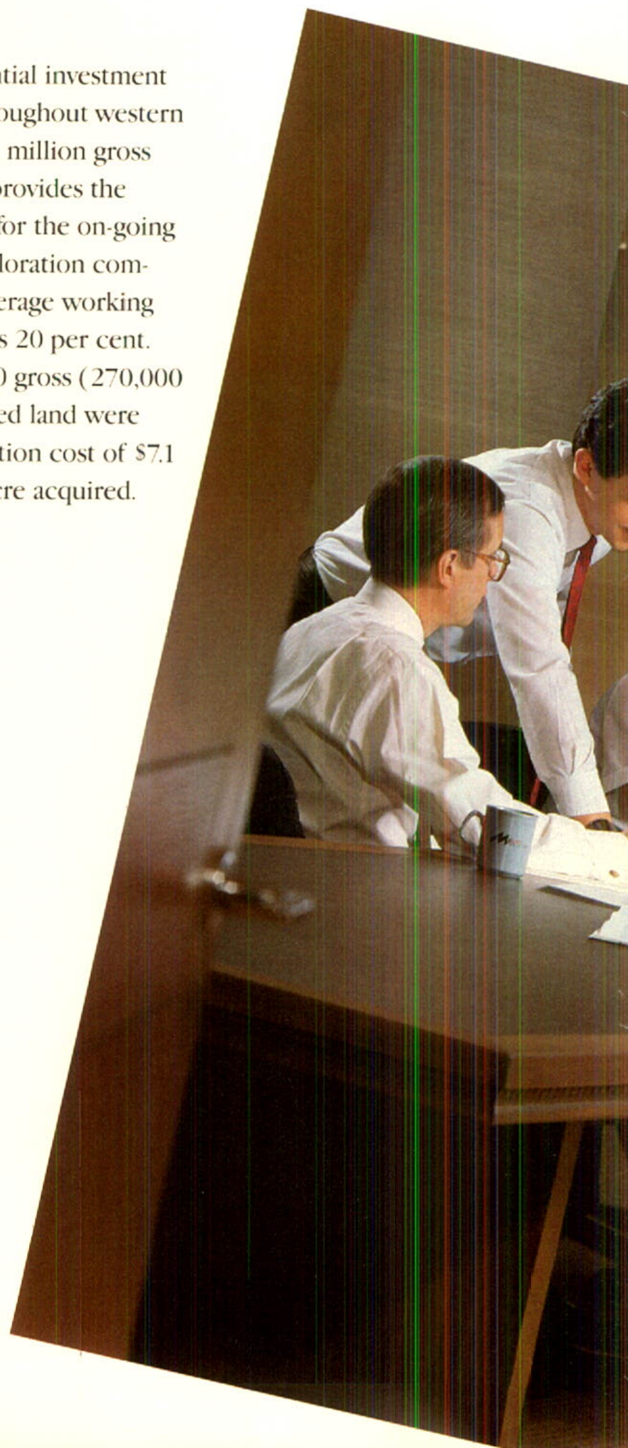
Natural gas prices are expected to increase in the 1990s as growing demand from both the U.S. and Canada exerts upward pressure on price. Dissipation of the gas bubble due to increased consumer demand, new applications, heightened environmental concerns and new legislative initiatives are the major factors supporting this firming trend. Each of these factors supports Mark's current natural gas exploration focus, and production and marketing strengths, and serves as the basis for long-term optimism for strong natural gas markets and pricing.

In summary, Mark's outlook is a positive one. While short-term price volatility and fluctuations cannot be ignored, Mark has demonstrated its ability to successfully manage its operating environment. Management's decisions are made within the context of the Company's fundamental growth parameters. Mark's large crude oil and natural gas asset base and proven exploration capability, coupled with a forward thinking management team, leaves the Company well-positioned to grow, prosper and become one of Canada's future leading energy explorers and producers.

ASSET BASE

Land

Mark has a substantial investment in undeveloped land throughout western Canada. This base of 5.0 million gross (1.0 million net) acres provides the resource base required for the on-going success of an active exploration company. The Company's average working interest in this acreage is 20 per cent. During the year, 446,000 gross (270,000 net) acres of undeveloped land were added for a total acquisition cost of $7.1 million or $26.30 per acre acquired.



LAND HOLDINGS (thousands of acres)
As at December 31, 1988

	Developed		Undeveloped		Total		Net Undeveloped Value
	Gross	Net	Gross	Net	Gross	Net	($000's)
Alberta	1,045	197	2,900	598	3,945	795	$ 28,702
Saskatchewan	672	244	739	270	1,411	514	8,255
British Columbia	203	21	898	54	1,101	75	1,805
Manitoba	7	1	1	—	8	1	13
United States	14	6	492	53	506	59	945
	1,941	**469**	**5,030**	**975**	**6,971**	**1,444**	**$39,720**

Net realizable value for undeveloped acreage has been estimated by independent land evaluators for Canadian properties and by the Company's land department staff for U.S. properties.

Reserves

Reserve levels for crude oil and natural gas liquids increased significantly during 1988 to 33.9 million barrels, up 16 per cent over 1987. Based on total 1988 production of 2.4 million barrels of crude oil and natural gas liquids, reserves replacement of 2.9 barrels for every one barrel produced was achieved during the year. Proven reserves of crude oil and natural gas liquids at the end of 1988 represent 74 per cent of total liquid reserves, down approximately one per cent from 1987. Significant to the reserves increase were the acquisitions of Erskine and one additional property in the Hutton area

Left to right:
PETER BOULANGER *Vice President, Production*
CLIFF HUGHES *General Counsel and Secretary*
JIM GOOD *Vice President, Exploration*
DARYL BIRNIE *President and Chief Executive Officer*
ART EASTLY *Executive Vice President and Chief Operating Officer*
JIM WILSON *Vice President, Finance*
DAN TSUBOUCHI *Vice President, Corporate Development*

of Alberta which Mark now owns 100 per cent. These two transactions increased Mark's percentage of "operated" crude oil and natural gas liquids production to 32 per cent.

Natural gas reserves for 1988 were up 9.8 per cent over 1987 with year end reserves of natural gas totalling 586 billion cubic feet. A total of 19.2 billion cubic feet were produced during 1988 and were replaced at a rate of 3.7 billion cubic feet for each one billion cubic feet produced. Reserve replacement was balanced between the acquisition of Erskine reserves and Mark's own internally generated exploration program. Proven reserves as a percentage of total gas reserves stands at 84 per cent for the year ended 1988, up one per cent from 1987.

Based on forecasted 1989 liquids production of 7,900 barrels per day, the Company's reserves life index of crude oil and natural gas liquids is 8.7 years for proven reserves and 11.8 years for proven and probable reserves. The reserve life index for natural gas, assuming 1989 production levels of 63.5 million cubic feet per day, is currently 21.1 years for proven reserves and 25.3 years for total proven and probable natural gas reserves.

As at December 31, 1988, the present value of the Company's reserves was $402 million, discounted at 12 per cent after tax. The crude oil pricing assumptions used to evaluate the Company's reserves were based on U.S. $16.50 WTI per barrel in 1989, escalating to $44.00 per barrel in the year 2000, and increasing by five per cent per annum thereafter. Natural gas pricing during the same period for Alberta system supply ranged from $1.50 per thousand cubic feet in 1989 to $5.18 per thousand cubic feet in the year 2000 and similarly escalated by five per cent per annum thereafter.

RESERVES RECONCILIATION

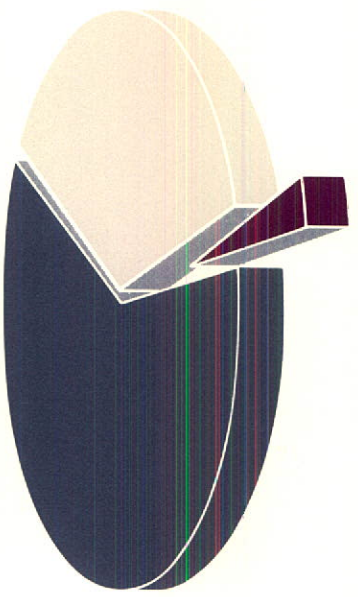
	Oil & NGLs (mbbls)		
	Proven	**Probable**	**Total**
December 31, 1987	22,213	7,107	29,320
Discoveries/ extensions	891	336	1,227
Acquisitions	3,795	1,940	5,735
Revisions	749	(700)	49
	27,648	8,683	36,331
Production	(2,423)	—	(2,423)
December 31, 1988	25,225	8,683	33,908

	Natural Gas (bcf)		
	Proven	**Probable**	**Total**
December 31, 1987	438.4	94.6	533.0
Discoveries/ extensions	27.0	3.6	30.6
Acquisitions	33.6	2.4	36.0
Revisions	9.3	(4.1)	5.2
	508.3	96.5	604.8
Production	(19.2)	—	(19.2)
December 31, 1988	489.1	96.5	585.6

PRESENT VALUE OF RESERVES
(before tax basis)

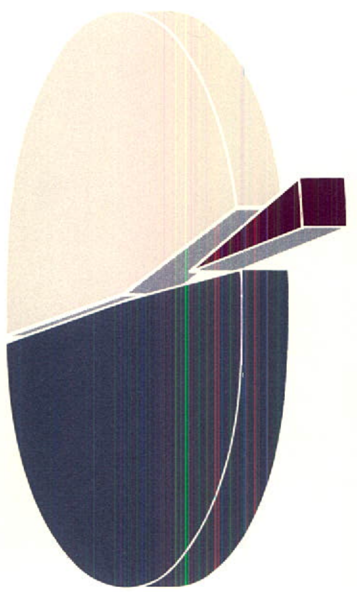
	Discounted at			
	0%	**10%**	**15%**	**20%**
	(millions of dollars)			
Proven	$ 1,722	$ 615	$ 437	$ 332
Probable	264	60	35	22
Total	**$1,986**	**$675**	**$472**	**$354**

BREAKDOWN OF GAS RESERVES



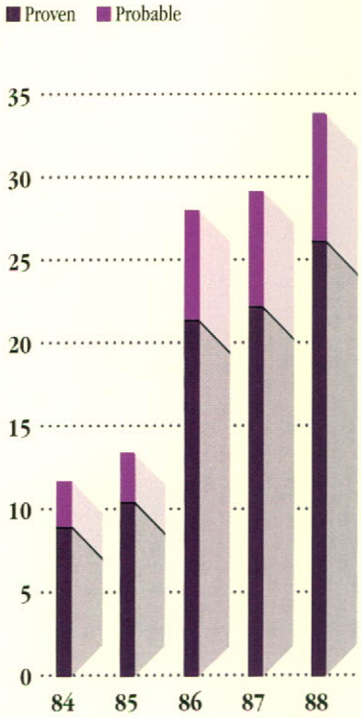
Uncontracted (25%)
Contracted and Onstream (70%)
Contracted and Shut-in (5%)

GAS SALES BY CONTRACT TYPE

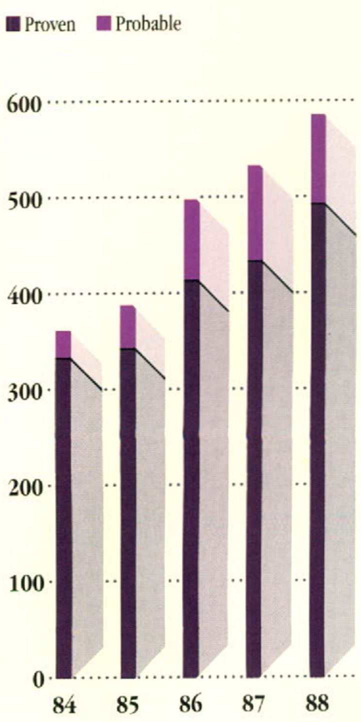


System Gas (46%)
Term Direct Sales (49%)
Spot (5%)

RESERVES
CRUDE OIL AND NGLs
(mmbbls)



RESERVES
NATURAL GAS
(bcf)



NATURAL GAS MARKETING

At year end, the Company had firm markets for every property capable of producing, and all with the exception of two, were selling natural gas. Transportation arrangements have delayed commencement of sales from Antelope and Success until approximately April 1st.

While the securing of new markets has been management's focus in prior years, our current concerns center around two related areas. The first of these relates to the wellhead price. The second issue relates to securing transportation arrangements on pipeline systems which are operating at or near capacity.

During 1988, natural gas prices remained at very low levels making several projects economically unattractive. Starting in the fourth quarter, however, prices offered for direct sales gas contracts began to strengthen, signalling what we believe to be the beginning of a trend toward higher well head prices. We expect this trend to accelerate as supplies tighten over the next year or two.

The industry's need for incremental transportation is being addressed by the major pipeline companies with expansions which will add 1.0 billion cubic feet per day of capacity by 1991. Expanded transportation capacity and access to United States markets, arising from the Free Trade Agreement, will result in increasing sales volumes and higher netbacks at the wellhead in future years.

FINANCIAL POSITION

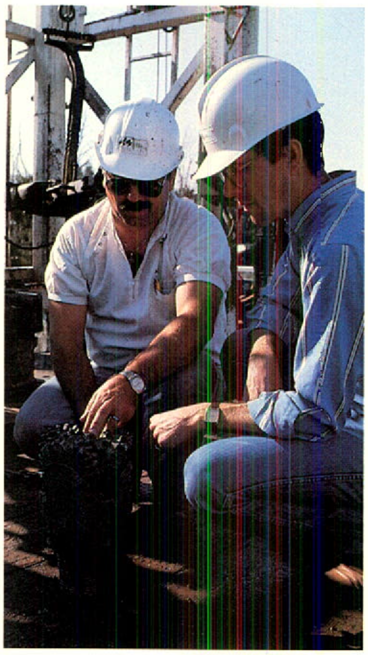
The Company's large and growing production base provides the economic size and financial stability needed to pursue its ongoing program of growth. On both the corporate and operating level, Mark has the financial strength to invest in new exploration and development projects or to finance further acquisitions to increase the Company's revenue and asset base. At year end, long term debt stood at $126 million with total assets of $444 million, a favorable long term debt to total asset ratio of .28:1.

CORPORATE PHILOSOPHY AND STRATEGIES

Our mission is to build value for shareholders by increasing assets and cash flow. To accomplish this, philosophies and strategies have been based on a continual appraisal of the Company's oil and gas operations, financial assets, investment capabilities, management experience, current views on pricing and product markets, and an assessment of economic, fiscal and regulatory regimes. Many of the key factors which form the basis for our strategic planning are severely affected by the volatility of our operating environment. Recognizing this, management has adopted a proactive and forward thinking approach to its business endeavours. By skillfully adapting to changing industry and global factors through shifting priorities and reacting to opportunities, the fundamental mission of the Company remains attainable.

It is useful to review the foundations upon which we pursue our activities. The insight gained from this glimpse of our operating philosophy will establish a clear perspective on Mark's current position in the industry and its future potential. The key components of our corporate philosophy are:

- to focus skills and efforts in areas of expertise and on common goals and objectives.
- to strive to be highly cost efficient so that as assets and cash flow increase, shareholder value is maximized.
- to maintain operatorship of our properties. We believe that assuming the responsibility for doing the job will promote a highly motivated and competent, professional organization.
- to provide a working environment that will generate initiative, creative thinking and energy. Discovery of oil and gas and the resultant growth in assets is closely tied to our ability to analyze, seek out and find new reserves through a well-disciplined and thoughtful approach to our business.
- to keep our investors informed through clear communication of the Company's operating and financial performance and growth objectives.



Left to right:
MARTY KING
Field Drilling Superintendent
PETER BOULANGER
Vice President, Production

STRATEGY

Management's role is to reshape and further build upon the existing asset base. The Company has been successful in the past in achieving its stated objectives. We continue to operate with specific strategies:

- to concentrate on oil and gas exploration, development and production primarily in western Canada. Our regional emphasis will shift towards the deeper segment of the western Canadian Basin and will provide exposure to discoveries with the potential for significant reserve additions.
- to explore in specific geographic areas where the Company has proven technical expertise.
- to make exploration, development or acquisition investment decisions based on sound technical evaluations and conservative price forecasts.
- to maintain a substantial land base upon which to build a successful internally generated exploration program.
- to continue to review and pursue corporate and asset acquisitions.
- to fund exploration and development activities primarily through cash flow and equity financings.

Left to right:
DON PARKER
Manager, Development Projects & Geology
RANDY FORD
Manager, Drilling/Completions

1989 OBJECTIVES

Our focus for 1989 activity is built upon the following objectives:

- to achieve crude oil and natural gas reserve increases which will more than replace production.
- to maximize the value of our current exploratory land and maintain the level by adding higher reserve potential acreage.
- to maintain general administration costs per barrel of oil equivalent of production at current levels.

Mark's size, stature and expanding asset base provides some unique opportunities for growth for management and staff and enhanced value for the shareholder. We look forward to the challenge of building a senior oil and gas company.

THE "DOODLEBUGGERS"

With its romance and capacity to reap attractive rewards, it is not surprising that the petroleum industry has, in the past, attracted a number of crafty souls claiming to have an easy answer to finding oil.

Of all the methods proposed, the science of geophysics, in particular, has struggled to gain a credible reputation. As one geophysicist wrote, "Never before has a science or its exponents had to fight as hard a struggle for recognition as geophysics."

New geophysical techniques were greeted with scepticism. There were enough quacks and so-called "doodlebug artists" to make everyone leery of new inventions and suggestions.

However, along with the doodlebug artists came the legitimate innovators with inventions such as electrical and seismic geophysical methods — methods which have advanced to the forefront of today's technology.

The petroleum geophysical industry not only survived; it is today, an integral component of the exploration for crude oil and natural gas.

The science of geophysics owes much to those individuals who were willing to persist in their search for qualified scientific methods . . . the same persistence exhibited by Mark as it pursues its growth objectives.

REVIEW OF OPERATIONS

Mark Resources has, since its inception, assumed an active and enthusiastic role in the process of discovery as it relates to oil and gas. The Company's dedication to the exploration for and production of petroleum products has led to considerable success – success which has enabled the Company to grow and prosper with each ensuing year.

In 1988, the Company conducted a very active exploration and development program, drilling a record number of wells and increasing crude oil and natural gas production substantially. Direct capital investment in 1988 increased by 17 per cent, reaching a total of $48.1 million.

The Company participated in the drilling of 244 (102.3 net) wells during the year, 138 of which were development wells and 106 were exploratory.

Drilling of exploratory wells resulted in 24 (7.9 net) oil wells, 24 (10.7 net) gas wells and 58 (28.5 net) dry holes. Mark was able to increase its average working interest in exploratory wells to 44 per cent in 1988, up from 39 per cent in 1987. Development drilling resulted in 34 (10.4 net) oil wells, 91 (41.5 net) gas wells and 13 (3.3 net) dry and abandoned. On a total well basis, Mark's working interest averaged 42 per cent.

Crude oil and natural gas liquids production increased 21 per cent during 1988 to average 6,619 barrels per day as compared to the previous year production of 5,465 barrels per day.

New production at Battle Creek, Utikuma and Provost represented 32 per cent of the annualized increase over 1987. The acquisition of Erskine accounted for 17 per cent of the 1988 increase. Natural gas liquids represented 16 per cent of total 1988 liquids production, increasing 74 per cent over 1987 production levels to almost 1,100 barrels per day.

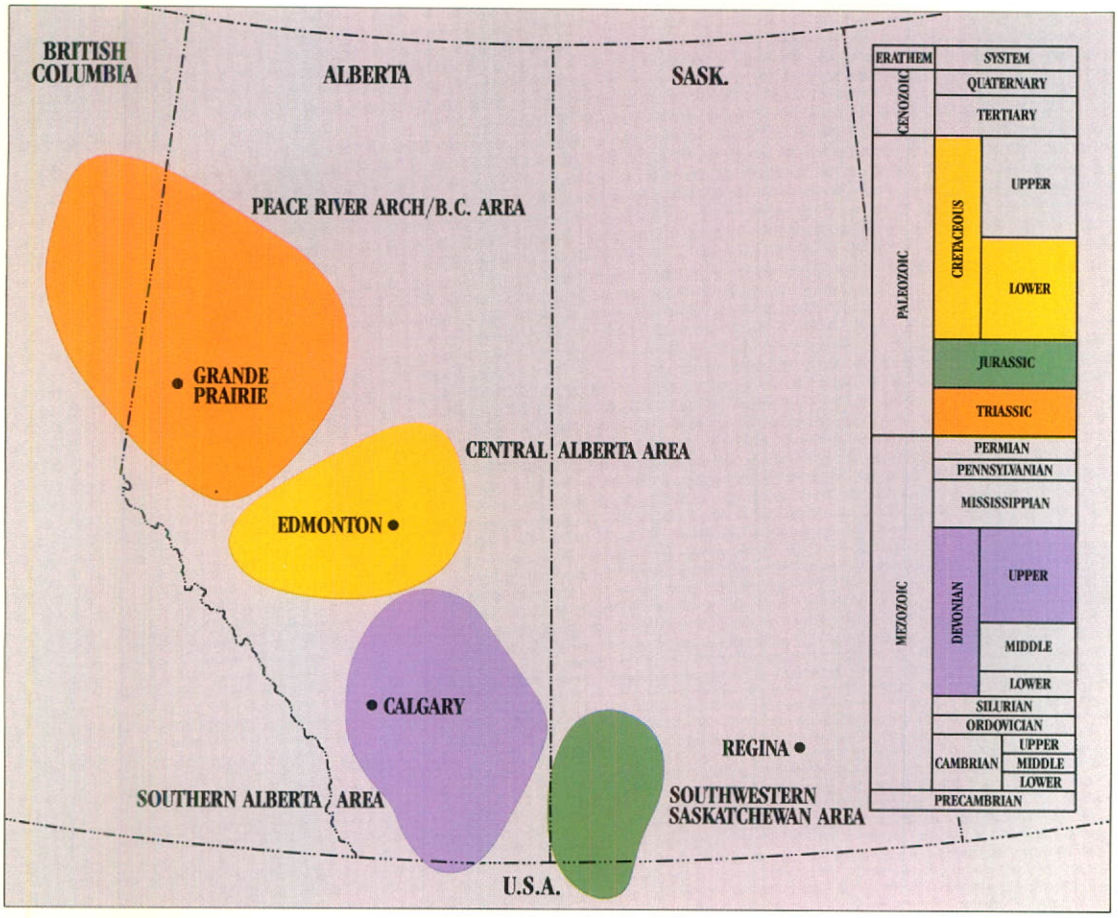
Natural gas production in 1988 averaged 52.4 million cubic feet per day, a 76 per cent increase over 1987. During 1988, Mark drilled an additional 71 wells and installed compressor facilities at Bigstick to double capacity to 16 million cubic feet per day (8 million net).

New production during the year from Bigstick, together with the acquisition of Erskine and increased takes from Hoadley, the Deep Basin and Pine Creek were primarily responsible for increased 1988 production levels. Production capability at year end stood at 80 million cubic feet per day.

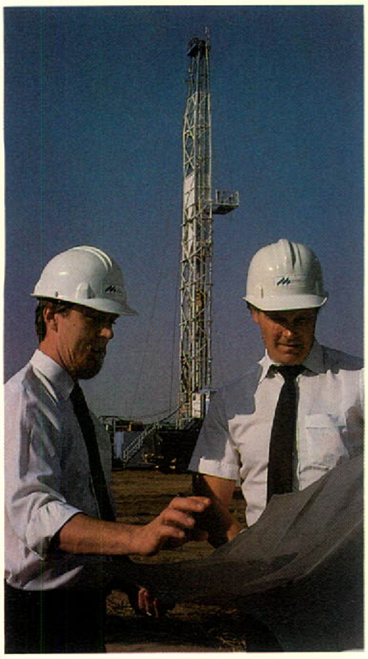
The Company's 1988 production of crude oil and natural gas liquids represented 53 per cent of gross revenues compared to 47 per cent contributed by 1988 natural gas production and nominally related processing income.

DRILLING ACTIVITY

		1988		1987		1986	
		Gross	Net	Gross	Net	Gross	Net
Exploratory wells	— Oil	24	7.9	28	8.8	8	2.9
	— Gas	24	10.7	21	12.7	9	3.2
	— Dry	58	28.5	32	10.2	19	7.2
		106	47.1	81	31.7	36	13.3
Development wells	— Oil	34	10.4	36	8.9	18	2.4
	— Gas	91	41.5	76	64.4	9	4.1
	— Dry	13	3.3	4	2.4	3	0.8
		138	55.2	116	75.7	30	7.3
Total wells	— Oil	58	18.3	64	17.7	26	5.3
	— Gas	115	52.2	97	77.1	18	7.3
	— Dry	71	31.8	36	12.6	22	8.0
		244	102.3	197	107.4	66	20.6
Success ratio		70.9%	68.9%	81.7%	88.3%	66.7%	61.2%



AREAS OF EXPLORATION FOCUS IN WESTERN CANADA



Left to right:
CLEM BENTEAU
Manager, Exploration
JIM GOOD
Vice President, Exploration

EXPLORATION STRATEGY

The Company's exploration initiative is undergoing a gradual shift in emphasis toward plays and projects with larger reserve potential than it has pursued historically. This has been necessitated by the substantial increases in annual production that have occurred over the past two years. A change such as this requires time to generate new geological concepts and acquire new geophysical data and mineral rights, prior to actually drilling exploratory wells. Some of the new plays will be drilled in 1989 and, as this new exploratory emphasis is manifest in the Company's drilling program, continued growth in oil and gas reserves is expected.

To fuel this expanded exploration program, Mark acquired 1,400 miles of new seismic data during 1988. This data was used to evaluate the Company's land holdings and to define drillable locations. In specified areas, 3-D seismic was shot, providing state of the art resolution of the subsurface.

During 1989, Mark plans to participate in the drilling of up to 85 exploration wells in newly identified and selectively targeted areas complementing the Company's new exploration focus. Four main areas of the western Canadian Basin have been identified where the Company currently has land holdings and the technical expertise to effectively explore.

These general areas are:

Northwestern Alberta/British Columbia This area offers oil and gas potential in formations down to the Triassic and Devonian. Twenty-three per cent of the Company's proposed drilling is targeted to this area.

Central Alberta Intermediate drilling depths give higher reserve levels per drilling spacing unit in formations of Lower Cretaceous, Mississippian and Devonian ages. This is primarily a gas exploration area and approximately 30 per cent of Mark's 1989 exploration drilling budget will be allocated here.

Southern Alberta Relatively shallow drilling with year round access to Cretaceous and Devonian objectives make this an attractive area. Mark has a number of quality plays in its portfolio and anticipates drilling up to ten wells in this area in 1989, 12 per cent of the Company's planned exploration activity for the year.

Southwestern Saskatchewan During the past 18 months, Mark has been successful in exploring for Jurassic oil. A number of new opportunities have been identified, both for oil and gas, and these will be drilled during 1989. Seventeen per cent of Mark's drilling will be in this area.

During 1989, Mark anticipates shooting in excess of 1,200 miles of seismic with allocations being primarily in the above four exploration areas.

UNITED STATES

In the United States, Mark has entered into a joint venture to evaluate the oil and gas potential of a number of prospects in West Texas. Mark's share of the exploration costs of these projects will be 50 per cent. In Montana and North Dakota, Mark is actively looking at both oil and gas prospects and will actively explore for and develop those that are economically significant.

INTERNATIONAL

Mark believes that as part of its growth strategy, exposure to select large reserve prospects, such as those typically found outside of the western Canadian Sedimentary Basin, is necessary. As a consequence, the Company evaluates international opportunities on an ongoing basis.

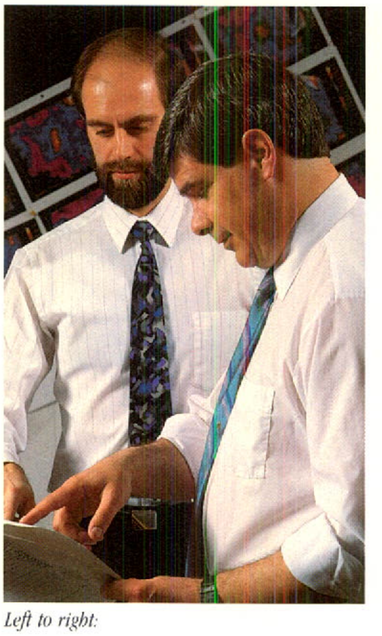
Colombia, South America

Mark has an interest in a concession in the Middle Magdalena Valley in Colombia, South America, where a large structure has been identified. Negotiations are underway to find a joint venture partner to drill the evaluating wells on this structure.

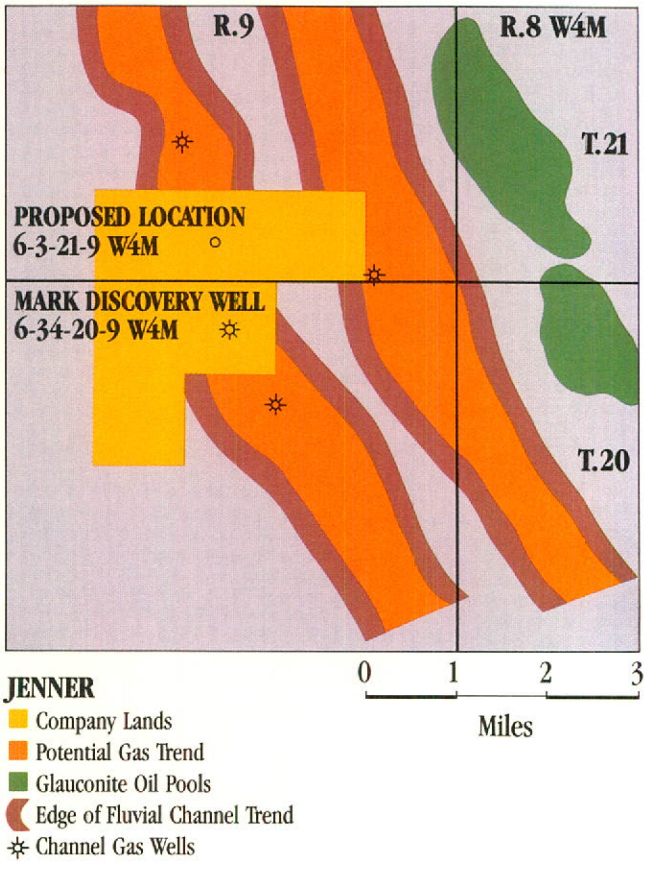
EXPLORATION PROPERTY REVIEW

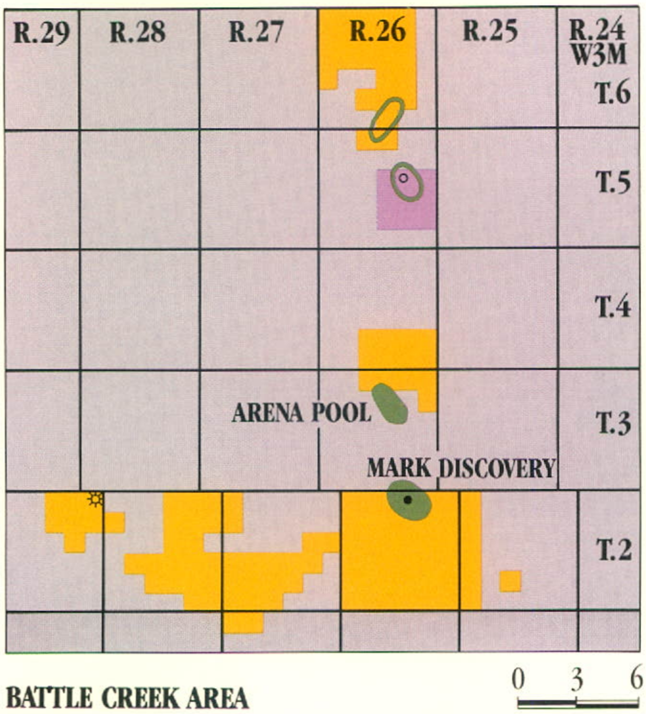
JENNER

In the Jenner area of southeastern Alberta, Mark has a 50 per cent interest in 3,840 acres. During 1988, the Company drilled a successful multizone gas discovery. Gross reserves assigned to the well are 4 billion cubic feet. Based on the geological analysis of the area, a channel pattern was mapped and a follow-up well will be drilled in 1989. Mark is the operator of the property.



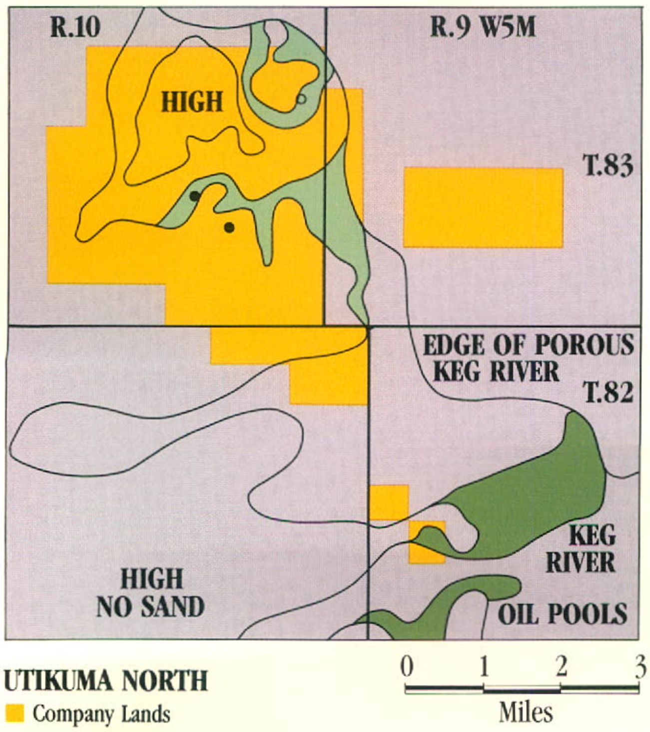
Left to right:
GRIFF WITCHER
Manager, Land
KEN THRASHER
Manager, Geophysics





BATTLE CREEK AREA

- Company Lands
- Farmin Acreage
- Structural Closure — Shaunavon
- ○ Location
- ☼ Second White Specks Gas Well



UTIKUMA NORTH

- Company Lands
- Potential Area for Keg River
- • Keg River/Slave Point Oil Wells
- Keg River Oil Pools
- ○ 1989 Location

BATTLE CREEK

To follow up the 1987 discovery of Shaunavon zone oil, the Company drilled six development wells resulting in three producing wells averaging 150 barrels of oil per day each. The western and northern boundaries of the field were defined by this drilling. Three further locations have been identified for 1989 drilling. Mark has 55 per cent of this play.

Follow-up exploratory wells, testing seismic anomalies analogous to the discovery well, were unsuccessful. A large regional seismic program has been completed with several new leads resulting. Land acquisition is underway and several wells will be drilled in 1989.

Mark will also follow up a shallow gas play in the area on which three wells were completed.

UTIKUMA

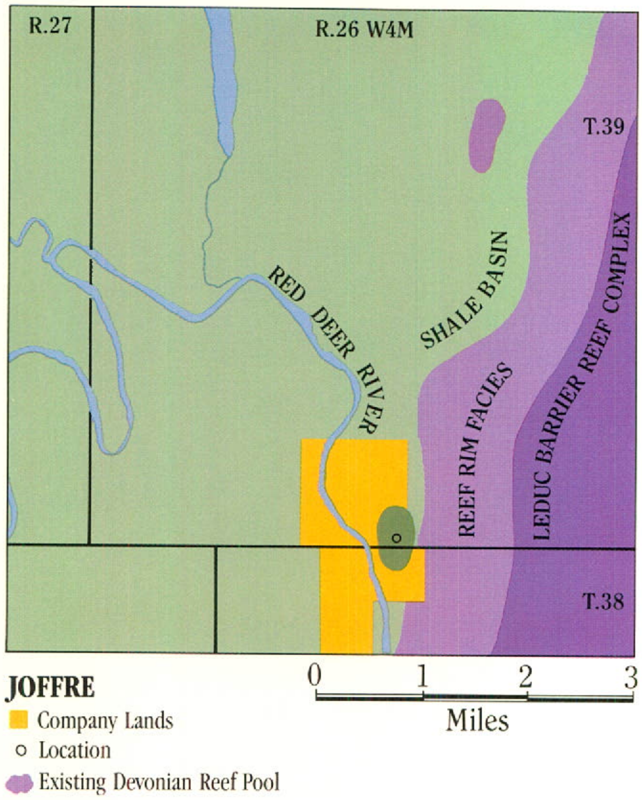
The Utikuma North area, prospective for oil from the Keg River and Slave Point formations, continues to provide attractive exploration opportunities for the Company. A 3-D seismic program shot during early 1988 provided detailed information on the prospective horizons. A well drilled early in 1989 encountered a thick porous sand that was water filled, and the well was consequently abandoned. However, the thick section of sand makes offsetting this location in a structurally higher position an attractive exploration opportunity. Reserve potential exists for 500,000 to 750,000 barrels of recoverable oil per 160 acres.

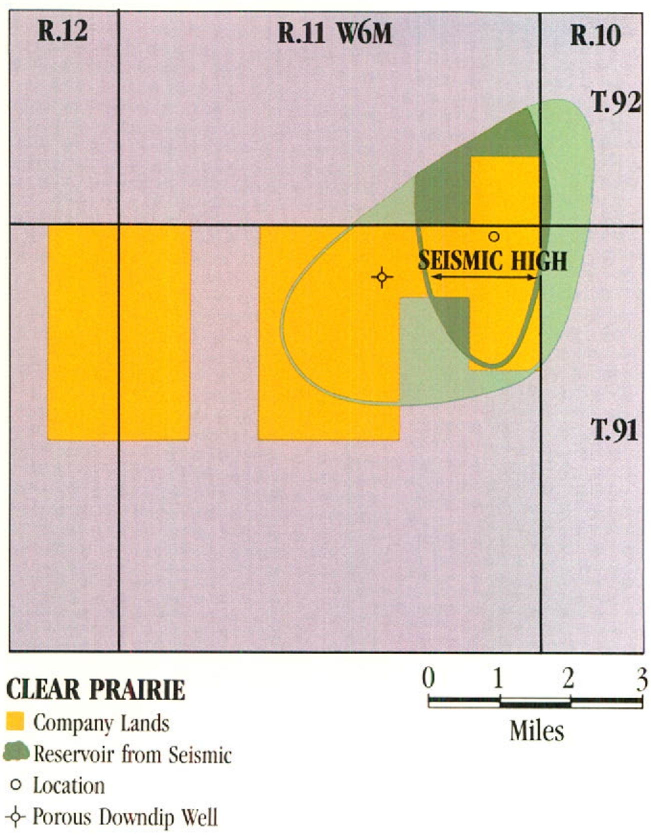
JOFFRE

In the Red Deer area of central Alberta, Mark will be drilling an earning well under a farmin agreement to evaluate the significant oil potential of a Devonian reef anomaly. The anomaly was detailed with a 3-D seismic program shot this winter. With the drilling of the exploratory well, Mark will earn a 100 per cent working interest before payout and a 50 per cent interest after payout.

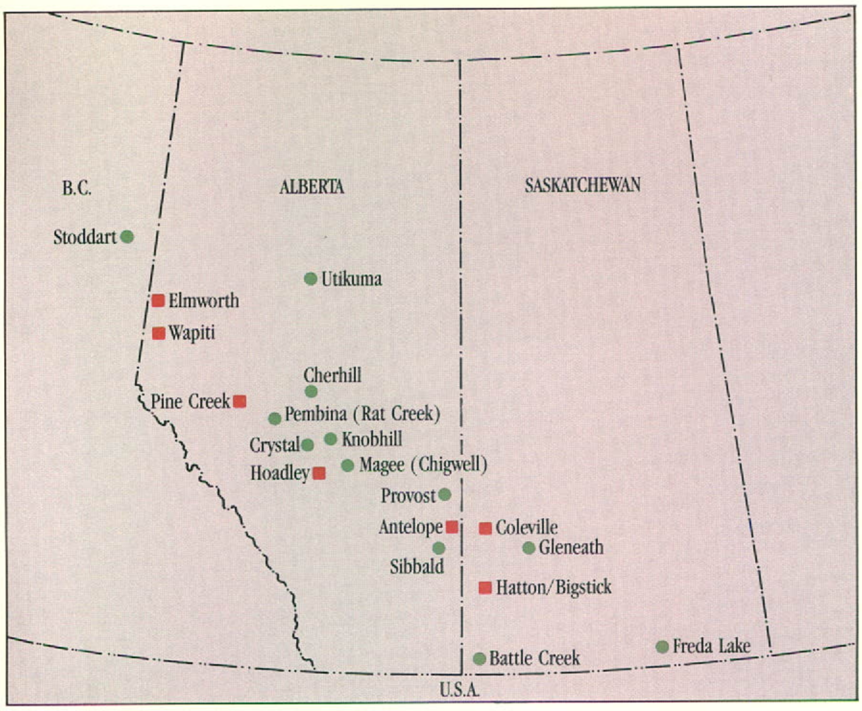
CLEAR PRAIRIE

In the Clear Prairie area on the Peace River Arch, a structural anomaly has been identified and is currently being detailed with seismic. Mark anticipates drilling this area late in 1989. The location is prospective for both oil and gas, with reserve levels expected to be 250,000 barrels per 160 acres and 5 billion cubic feet per 640 acres. Mark holds a 50 per cent interest in the four prospective sections with a higher interest in additional offsetting acreage.





PRODUCTION PROPERTY REVIEW



MAJOR PRODUCING AREAS IN WESTERN CANADA

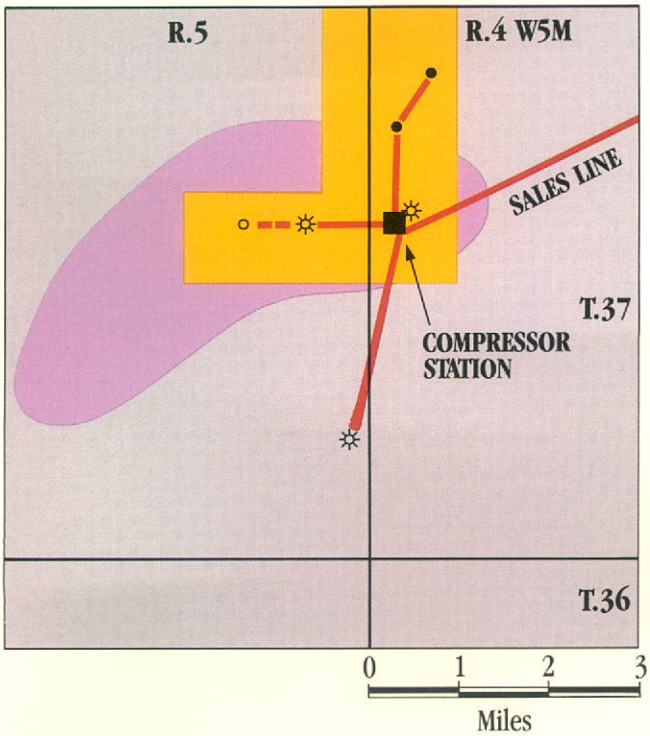
- Oil Production
- Gas Production

JENNER

The Company drilled a successful dual zone gas well in the Jenner field during 1988. The Company's working interest in the well is 50 per cent. For 1989, the Company has budgeted an offset location to the well and plans to install surface production facilities. Reserve potential, based on assigned reserves to the existing well, could result in the addition of a total of three billion cubic feet net to the Company. The reserves are high deliverability sweet gas with low on-stream development costs.

GARRINGTON

During 1988, Mark installed processing and compression facilities capable of six million cubic feet per day at Garrington. Production of previously shut-in gas reserves commenced late in the year. The facility is also designed to process solution gas. Mark owns an interest in one gas well and two oil wells tied into the plant. For 1989, net daily production of gas is expected to average in excess of one million cubic feet together with liquids recovery of 43 barrels. In addition to these wells, Mark owns adjacent acreage where a second gas well has been planned for the third quarter of 1989. The Company's interest in the well is 75 per cent with recoverable potential in excess of 15 billion cubic feet.



GARRINGTON

- Company Lands
- Pool Outline
- Gathering System
- ○ 1989 Location
- ✲ Gas Wells
- ● Oil Wells

PROVOST

The Company developed its new Cummings oil pool discovered late in 1987. During 1988, Mark successfully drilled an additional six oil wells which were placed on production. Net production from this area averaged 95 barrels of oil per day during 1988 and is forecast to be approximately 44 per cent above this level in 1989.

SUCCESS

Production facilities were installed in the last quarter of 1988 for tie-in of new reserves at Success. Production will commence early in 1989 and is expected to average in excess of 1.3 million cubic feet per day net to Mark during the year. This gas is expected to serve the intra-provincial market of Saskatchewan.

ANTELOPE

In late 1988, the Company installed facilities to produce new gas reserves discovered in the area. The reserves will be produced under an existing long-term contract to eastern Canada. The 100 per cent owned reserves are of high deliverability and in immediate proximity to existing pipelines, resulting in low development cost. For 1989, it is estimated that the Company's share of production will average two million cubic feet per day. Two more locations have been budgeted for 1989 and, if successful, could double the Company's production base in the area in 1990.

PRODUCING FIELD SUMMARY

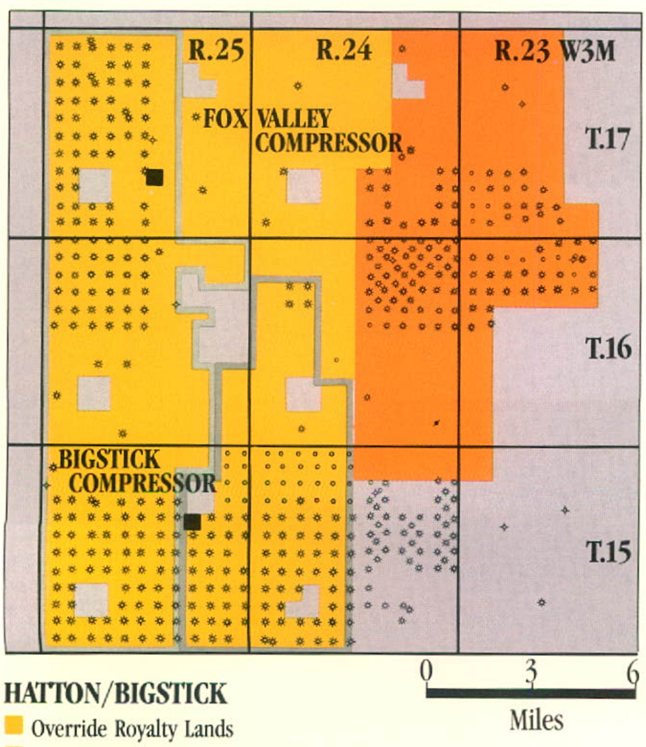
	1988	% of Total	1987	% of Total	1986	% of Total
Oil and Natural Gas Liquids (bbls/d)						
Alberta						
Elmworth/Wapiti	**208**	3%	237	4%	36	1%
Hayter/Provost	**365**	6%	111	2%	50	2%
Hoadley/Crystal	**614**	9%	475	9%	216	7%
Magee/Chigwell	**277**	4%	352	6%	72	2%
Pembina "P" Pool	**695**	11%	570	10%	487	17%
Pembina — Other	**420**	6%	246	5%	123	4%
Sibbald	**360**	5%	423	8%	339	12%
Utikuma/Nipisi	**455**	7%	458	8%	69	2%
Other	**1,977**	30%	1,581	29%	827	29%
	5,371	81%	4,453	81%	2,219	76%
Saskatchewan						
Battle Creek	**201**	3%	0	0%	0	0%
Manitou/Macklin	**170**	3%	191	3%	190	7%
Other	**444**	6%	335	7%	287	9%
	815	12%	526	10%	477	16%
British Columbia						
Stoddart	**209**	3%	284	5%	26	1%
Other	**129**	2%	13	0%	18	1%
	338	5%	297	5%	44	2%
United States	**95**	2%	189	4%	175	6%
Total Daily Oil and NGL Production	**6,619**	100%	5,465	100%	2,915	100%
Natural Gas (mcf/d)						
Alberta						
Drumheller	**744**	1%	477	2%	135	1%
E. Central Alberta	**2,491**	5%	989	3%	549	3%
Elmworth	**6,291**	12%	3,993	13%	627	4%
Eta Lake	**962**	2%	1,255	4%	485	3%
Goodfare	**416**	1%	403	1%	585	4%
Hoadley/Crystal	**5,815**	11%	2,484	8%	2,401	15%
Keg River	**1,253**	2%	754	3%	147	1%
Mikwan	**714**	1%	319	1%	0	0%
Morningside/Magee	**1,436**	3%	1,904	6%	658	4%
Pembina	**436**	1%	33	0%	0	0%
Pine Creek	**1,451**	3%	261	1%	289	2%
Pipe (Lakedell)	**1,305**	2%	0	0%	0	0%
Wapiti	**2,826**	5%	1,930	7%	194	1%
Other	**10,117**	20%	5,011	18%	3,250	19%
	36,257	69%	19,813	67%	9,320	57%
Saskatchewan						
Coleville	**4,164**	8%	2,266	8%	0	0%
Hatton/Bigstick	**8,361**	16%	4,421	15%	4,744	29%
Other	**114**	0%	164	0%	0	0%
	12,639	24%	6,851	23%	4,744	29%
British Columbia						
Fireweed	**478**	1%	151	1%	0	0%
Stoddart	**503**	1%	606	2%	121	1%
Wilder	**456**	1%	129	0%	0	0%
Yoyo	**1,209**	2%	661	2%	181	1%
Other	**476**	1%	549	2%	170	1%
	3,122	6%	2,096	7%	472	3%
United States	**349**	1%	912	3%	1,846	11%
Total Daily Natural Gas Production	**52,367**	100%	29,672	100%	16,382	100%

HATTON/BIGSTICK, SASKATCHEWAN

Left to right:
DARYL COOK
Manager, Production
GLEN SCHMIDT
Manager, Engineering

Production operations increased during 1988 on the Bigstick block, with additional wells drilled and facilities constructed. During the year, a total of 71 wells were drilled and compression facilities capable of eight million cubic feet per day were installed. Production from the Bigstick block commenced in January 1988 and with the additional wells and compression provided new production of 3.8 million cubic feet per day, net to Mark. During the year, production was directed to a combination of markets, including direct and system sales. At the end of 1988, the Company was selling a total of 14.3 million cubic feet per day net from the Hatton/Bigstick property.

Effective February 1, 1989, the Company purchased an additional 25 per cent interest in the Bigstick property, increasing its position to 75 per cent. For 1989, a further 112 well program is planned and two additional compressors, each designed for 8 million cubic feet per day, will be installed. With the finalization of the 1989 program, projected production from the Hatton/Bigstick is forecast to average in excess of 18 million cubic feet per day net for the year. By year end 1989, production is expected to reach a net 27 million cubic feet per day. This level of increased production would represent an increase of over 89 per cent above 1988 production. Gas sales from this area are approximately 50 per cent system (Provincial Gas), and 50 per cent direct markets.



HATTON/BIGSTICK
Override Royalty Lands
Working Interest Lands
Direct Sales Contracted Lands
"ProvGas" Contracted Lands
Gas Wells
1989 Locations

PINE CREEK

New gas production was placed on stream during the year through newly completed plant facilities. Net production for the year averaged 1.5 million cubic feet per day with accompanying liquids of 63 barrels per day. During the year, the Company operated a successful development gas well. A second well is planned for early 1989. Pending the completion of the additional drilling, the wells are expected to be tied into the new plant for production in 1990 to an existing long term export contract.

LEDUC

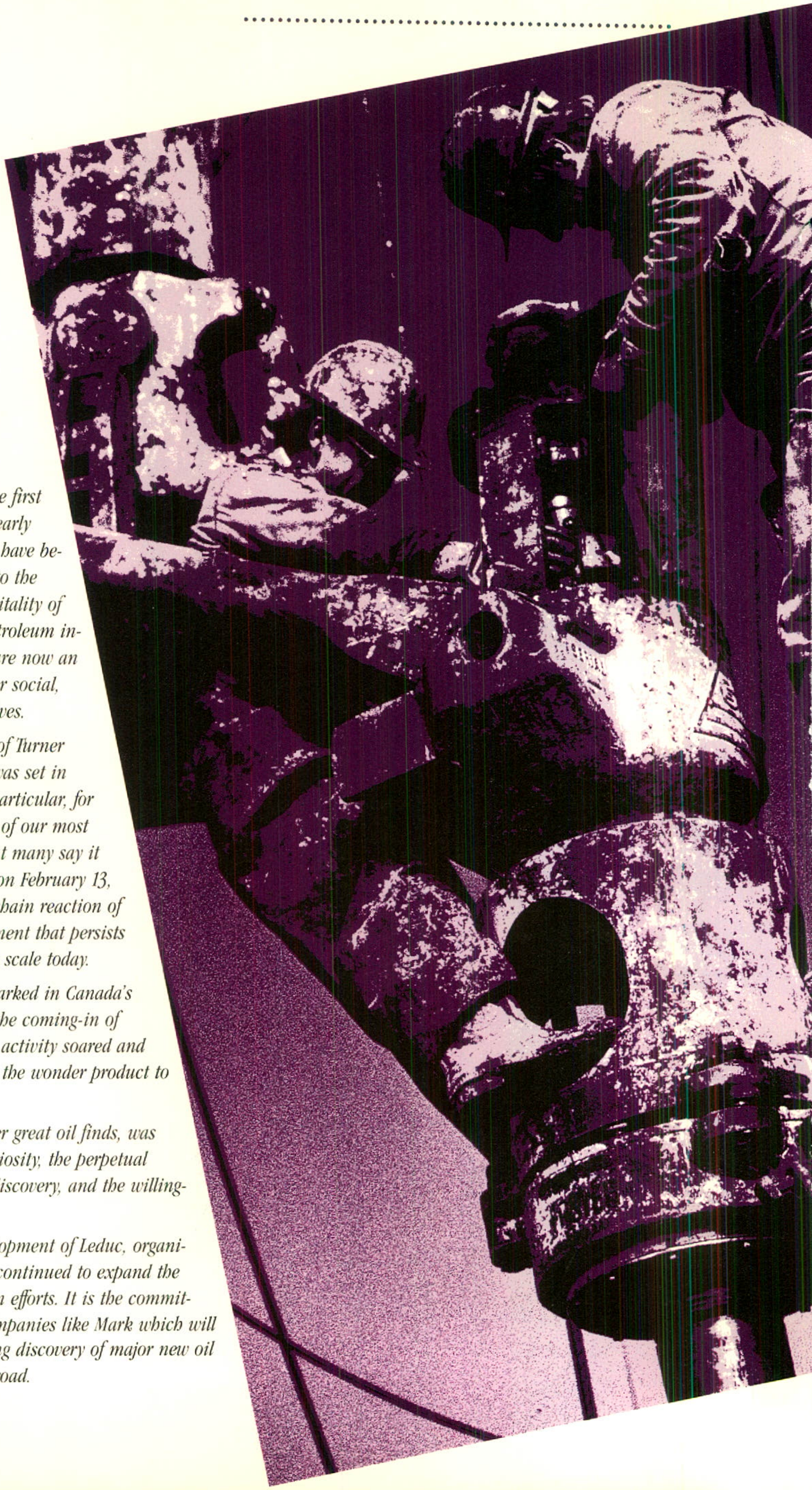
From the time of the first major discoveries in the early 20th century, oil and gas have become commodities vital to the economic and business vitality of a modern nation. The petroleum industry and its activities are now an integral component of our social, economic and political lives.

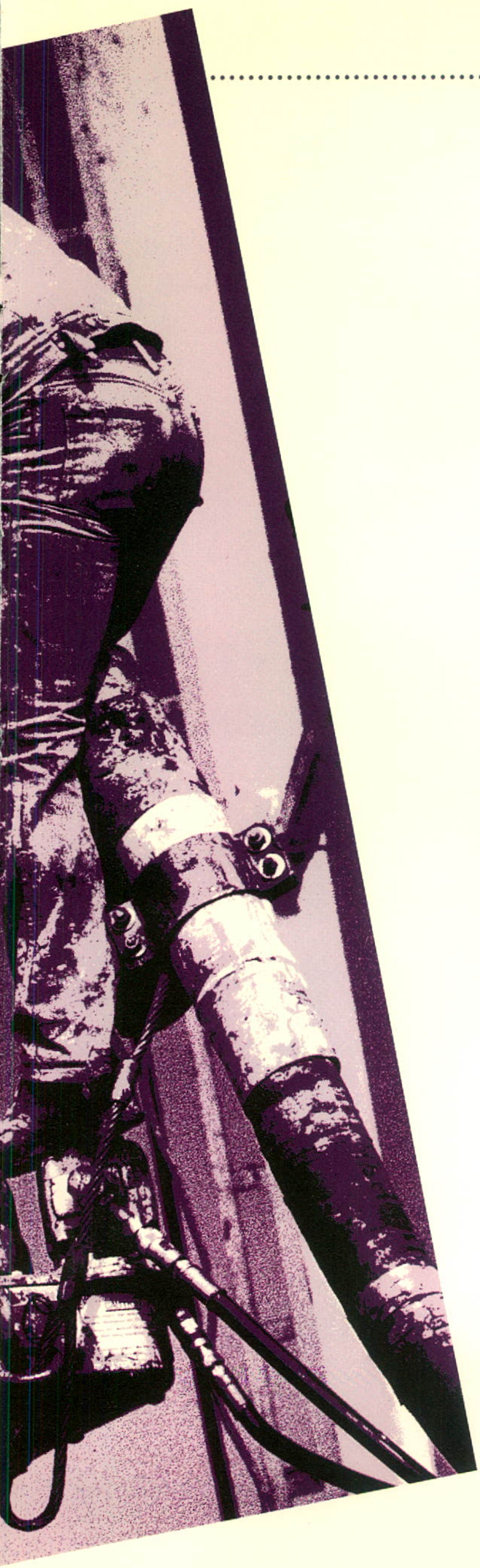
With the discovery of Turner Valley in 1914, the stage was set in Canada, and Alberta in particular, for what was to become one of our most prominent industries. But many say it was the Leduc discovery on February 13, 1947 which sparked the chain reaction of exploration and development that persists on an even more feverish scale today.

A milestone was marked in Canada's economic progress with the coming-in of Leduc No. 1. Exploration activity soared and the rush was on to bring the wonder product to a waiting world.

Leduc, as with other great oil finds, was the result of undying curiosity, the perpetual spirit of adventure and discovery, and the willingness to persist.

Following the development of Leduc, organizations of all sizes have continued to expand the scope of their exploration efforts. It is the commitment and tenacity of companies like Mark which will contribute to the on-going discovery of major new oil fields in Canada and abroad.





FINANCIAL REVIEW

The Company's strong financial base provided the flexibility to fund an expanded exploration and development program and complete an acquisition during a year when cash flow for reinvestment was limited. Reserve additions through discoveries and acquisitions are adding value for the shareholder. The highlights of the Company's year are characterized by the following:

- production revenue increased nine per cent to $52.0 million
- per unit lifting costs were reduced by seven per cent to $3.99 per barrel of oil equivalent
- general administration expense remained unchanged from 1987 levels of $4.4 million
- Erskine was acquired in October 1988, through a common share exchange offer valued at $11.5 million
- extraordinary gain on sale of gas marketing subsidiary amounted to $1.6 million
- flow-through share issues throughout 1988 raised $14.6 million
- capital expenditure program increased by 17 per cent to $52.8 million
- long-term liabilities, excluding the effect of debt assumed under the Erskine acquisition, reduced by $4 million

OPERATING RESULTS

For the year ended December 31, 1988, Mark Resources increased oil and gas production revenue to $52.0 million from $47.5 million in 1987, a nine per cent increase. Substantial increases in oil and gas production have been offset by reduced commodity prices. The Company's average oil and natural gas liquids prices decreased by 29 per cent from $20.43 per barrel in 1987 to $14.58 per barrel in 1988. Likewise, there has been a reduction of six per cent in the Company's natural gas prices from $1.57 per thousand cubic feet in 1987 to $1.48 per thousand cubic feet in 1988.

The rate for determining royalty tax credits was reduced in 1988 from 95 per cent to 75 per cent of royalties paid to the Province of Alberta. The maximum amount that Mark and its 87 per cent owned subsidiary, Precambrian Shield Resources, were entitled to in 1988 was $6.0 million. With lower royalties paid because of the fall in commodity prices and the reduced tax credit rate, Alberta Royalty Tax Credits received in 1988 amounted to $5.8 million compared to $6.2 million in 1987.

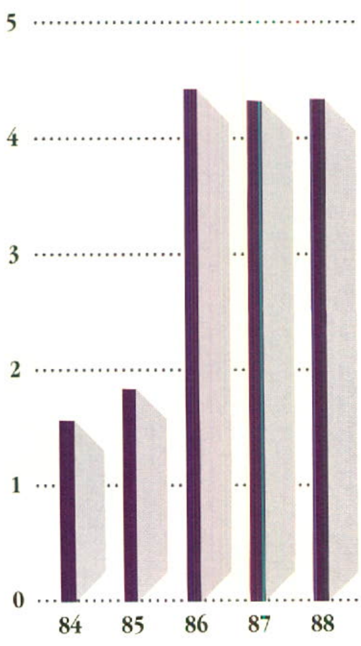
Interest, other income and gains amounted to $837,000 in 1988 compared to $3.3 million in 1987. During the year, gains of approximately $500,000 were realized on the sale of U.S. oil and gas properties. Lower cash balances for reinvestment and reduced outstanding accounts receivable contributed to the reduction in interest income compared to the prior period. Other income in 1987 included foreign exchange gains on the repayment of U.S. dollar denomination debt and $1.2 million from the gain on the sale of the Company's U.S. mineral property. Overall, total revenue for 1988 increased by three per cent to $58.6 million.

Production expenses increased to $17.0 million in 1988 compared to $13.2 million in 1987 due to substantial increases in oil and gas production levels. Per unit lifting costs have actually decreased by seven per cent from $4.28 in 1987 to $3.99 in 1988 on a barrel of oil equivalent basis. This reduction of per unit costs results from increased and more efficient gas production together with cost conscious operating procedures in the field.

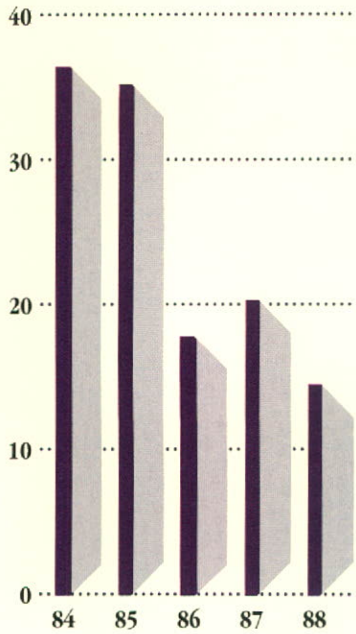
Total general administration costs have increased from $8.7 million in 1987 to $9.8 million in 1988 due to increased costs related to increased production, exploration and development and acquisition activities. After reductions for overhead recoveries and capitalized general administration costs related to exploration and development programs, the Company's 1988 general administration expense of $4.4 million is virtually unchanged from the previous year.

Left to right:
CLIFF HUGHES
General Counsel and Secretary
JIM WILSON
Vice President, Finance

GENERAL ADMINISTRATION
($ millions)



WEIGHTED AVERAGE WELLHEAD PRICES CRUDE OIL AND NGLs
(per bbl)



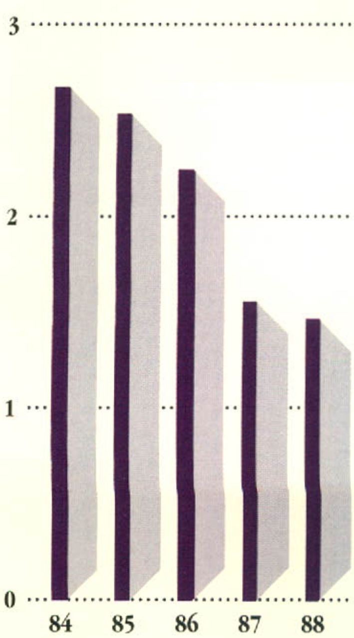
PRODUCTION REVENUE ANALYSIS

	1988	1987	1986	1985	1984
			(thousands of dollars)		
Oil and NGL sales	**$34,853**	$40,755	$19,002	$30,077	$28,077
Natural gas sales	**27,793**	17,013	13,514	9,834	7,424
Other gas related income	**2,574**	1,284	75	(541)	(500)
Gross production revenue	**65,220**	59,052	32,591	39,370	35,001
Crown royalties and other government payments	**9,662**	8,035	4,871	6,368	5,506
Other royalties	**3,579**	3,512	2,578	2,955	2,485
Net production revenue	**$51,979**	$47,505	$25,142	$30,047	$27,010

UNIT PRICE SUMMARY

	Gross Revenue	Royalties	Net Revenue	Operating Costs	Operating Income
Oil and NGLs (per bbl)					
1988	$14.58	$2.91	$11.67	$4.48	$ 7.19
1987	$20.43	$4.18	$16.25	$4.72	$11.53
1986	$17.86	$3.92	$13.94	$5.70	$ 8.24
Natural Gas (per mcf)					
1988	$1.48	$0.33	$1.15	$0.35	$0.80
1987	$1.57	$0.30	$1.27	$0.37	$0.90
1986	$2.26	$0.50	$1.76	$0.45	$1.31

WEIGHTED AVERAGE WELLHEAD PRICES NATURAL GAS
(per mcf)



Interest costs for 1988 amounted to $10.5 million as compared to $9.3 million in 1987. The increase is related to bank prime rates, which rose from a low of 9.75 per cent at the beginning of the year to a high of 12.25 per cent at year end, together with an increase in the level of long term debt resulting from the acquisition of Erskine.

Depletion and depreciation expense is related to production and is not commodity price sensitive. For 1988, this charge to earnings amounted to $25.0 million compared to $15.8 million in 1987, due to the increased rate at which reserves are being produced.

Cash flow for the year was $25.6 million ($1.19 per share), 14 per cent lower than the $29.7 million ($1.49 per share) recorded in 1987. Higher depletion and depreciation expense, together with reduced cash flow, resulted in lower net earnings at $338,000 ($0.02 per share) for 1988.

In 1988, the Company realized an extraordinary gain of $1.6 million ($0.08 per share) on the sale of its interest in its gas marketing subsidiary, PSR Gas Ventures Inc.

CAPITAL EXPENDITURES

Capital expenditures for the year ended December 31, 1988 were $52.8 million compared to $45.3 million in 1987. Exploration costs incurred in 1988 for land purchases, geological and geophysical and exploration drilling were $26.6 million compared to $22.6 million in 1987, an 18 per cent increase. Expenditures for development drilling and production facilities increased from $18.4 million in 1987 to $19.4 million in 1988. Capitalized general administration costs of $3.8 million amounted to 7.6 per cent of total capital expenditures.

Under the federal government's Canadian Exploration and Development Incentive Program, the Company earned $4.5 million for incurring eligible exploration and development costs. The rates for earning these incentives were reduced from 33-1/3 per cent of qualified expenditures to 25 per cent on October 1, 1988. After June 30, 1989, this incentive rate is scheduled to be reduced to 16-2/3 per cent for the remainder of the program which terminates on December 31, 1989.

As in 1987, Mark received $8.0 million under a financing agreement to continue the development of natural gas reserves located in the Bigstick area of southwestern Saskatchewan.

NET ASSET VALUES

	1988	1987	1986
	($000's except per share amounts)		
Present value of oil and gas reserves discounted			
at 12% after-tax *(1)*	$ 401,511		
at 20% pre-tax *(1)*		$ 326,000	$ 323,930
Undeveloped acreage *(2)*	39,720	38,724	32,693
Working capital *(3)*	(1,410)	1,685	8,007
Other assets *(3)*	2,450	2,357	1,839
	442,271	368,766	366,469
Long-term debt *(3)*	126,225	105,677	90,206
Deferred revenue *(3)*	4,978	5,627	17,492
Minority interest *(4)*	24,661	17,530	38,601
Preferred shares *(3)*	—	—	1,516
	155,864	128,834	147,815
Net asset value	**$286,407**	**$239,932**	**$218,654**
Net asset value per share	**$ 12.51**	**$ 11.61**	**$ 12.19**

(1) *Reserve values were determined by independent engineering consultants except for U.S. reserves which were valued by the Company's engineering staff.*

(2) *Canadian undeveloped acreage values were determined by independent land evaluators while values for U.S. undeveloped acreage have been determined by the Company's land department staff.*

(3) *Book value.*

(4) *Based on similar net asset value calculations for Precambrian.*

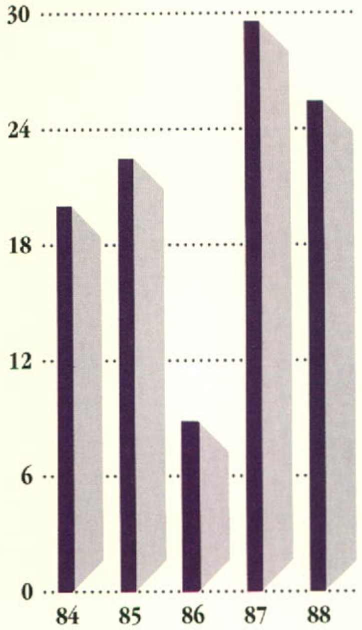
SUMMARY OF PRICE FORECASTS FOR 1988 RESERVE VALUES

	Light Crude Oil		Natural Gas
	WTI Cushing, Oklahoma	F.O.B. Edmonton	Alberta System Gas
	($US/bbl)	($Cdn/bbl)	($Cdn/mmbtu)*
1989	16.50	19.39	1.50
1990	17.50	20.63	1.69
1991	19.00	22.44	1.89
1992	23.00	27.33	2.13
1993	26.00	30.98	2.37
1994	28.00	33.40	2.67
1995	30.00	35.83	3.03
1996	32.00	38.26	3.33
1997	34.00	40.69	3.63
1998	37.00	44.34	4.09
1999	40.50	48.60	4.63
2000	44.00	52.87	5.18
	Thereafter +5% per year		

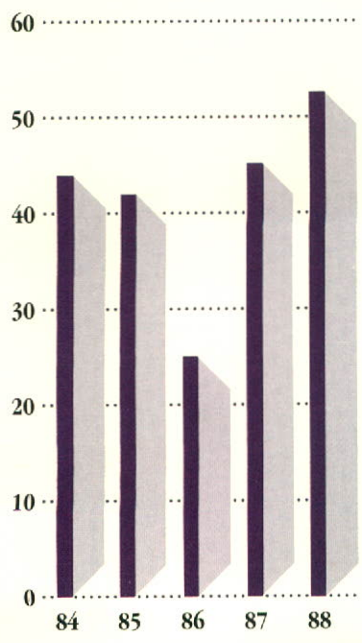
**Conversion rate: 1 mmbtu per 1 mcf*

Left to right:
GORD KERR
Controller
WAYNE FOCH
Manager, Operations Accounting

CASH FLOW
($ millions)



CAPITAL EXPENDITURES
($ millions)



ACQUISITIONS

During the fourth quarter of 1988, the Company completed the acquisition of Erskine Resources through the issuance of $11.5 million of common shares and the assumption of Erskine's corporate liabilities. Proven and probable reserves acquired included 5.3 million barrels of oil and natural gas liquids and 36.2 billion cubic feet of natural gas. In addition, $2.0 million was spent during the year to acquire producing properties which added a further 500,000 barrels of oil reserves.

Effective February 1, 1989, Mark Resources reacquired for $10.3 million, 50 per cent of the Bigstick interest sold in 1987. As a result, 29.7 billion cubic feet of proven natural gas reserves have been added to the Company's asset base.

FINANCING

The capital expenditure program was fully funded through cash flow, flow-through share issues, the Bigstick property development financing and government incentive grants. Long term liabilities were reduced by $4.0 million during the year before accounting for the assumption of debt in the Erskine acquisition.

Three flow-through share issues during 1988 resulted in the raising of $14.6 million of equity financing:

- February 29, 1988 – 275,862 shares issued at $14.50 per share
- March 31, 1988 – 250,000 shares issued at $12.00 per share
- August 8, 1988 – 588,462 shares issued at $13.00 per share.

ACCOUNTING POLICY CHANGE

The Company has adopted, on a retroactive basis, the policy of providing for the effects of estimated future income taxes related to the issues of flow-through shares and shares exchanged on the rollover of oil and gas properties. This change in accounting has had the effect of increasing net earnings in 1988 by $2.4 million ($0.11 per share) and in 1987 by $1.4 million ($0.07 per share) because of reduced depletion and depreciation expense and deferred income tax charges. The financial information presented for prior years throughout the annual report has been restated where required to give effect to this accounting policy change.

Mark Resources Inc.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mark Resources Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes. In the preparation of financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements.

The external auditors conduct an independent examination of corporate and accounting records in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This committee meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

James K. Wilson
Vice President, Finance

Gordon J. Kerr
Controller

AUDITORS' REPORT

To the Shareholders of Mark Resources Inc.:

We have examined the consolidated balance sheet of Mark Resources Inc. as at December 31, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1988 and the results of operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in the method of accounting for the tax attributes of share issuances as explained in Note 1 to the financial statements.

Price Waterhouse
Chartered Accountants

January 31, 1989
Calgary, Alberta

Mark Resources Inc.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies are summarized below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Mark Resources Inc. and its subsidiaries.

FOREIGN CURRENCY TRANSLATION

Accounts of foreign operations are translated into Canadian dollars using year-end rates of exchange for monetary assets and liabilities, historical rates of exchange for other assets and liabilities and average rates of exchange prevailing during the year for revenues and expenses, except for depletion and depreciation, which are translated at the rates in effect when the corresponding assets were acquired. Gains or losses arising on foreign exchange translation have been included in earnings.

JOINT OPERATIONS

Substantially all oil and gas exploration and development activities are conducted jointly with others. Accordingly, the accounts reflect the Company's proportionate interest in these activities.

PROPERTY, PLANT AND EQUIPMENT

Oil and Gas

The Company follows the full cost method of accounting as outlined in the guideline issued by The Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of nonproducing properties, costs of drilling productive and nonproductive wells, administration costs related to exploration and development activities and related plant and equipment costs, net of government incentives and grants earned. These amounts are accumulated in separate cost centres for each country.

Costs associated with the acquisition and evaluation of unproved properties are excluded from amounts subject to depletion until such time as the related properties are proved or become impaired.

Depletion and depreciation are provided using the unit of production method based on the Company's share of gross proven reserves of oil and gas. Reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on the relative energy content.

Gains or losses on the disposition of oil and gas properties are not recognized in the statement of earnings unless the depletion and depreciation rate would be changed by 20% or more.

The Company's oil and gas properties are subject to a ceiling test under which the carrying value is limited to the future net revenue from production of estimated proven oil and gas reserves valued at year-end prices plus the unimpaired costs of nonproducing properties less future administration and financing costs and income taxes.

Other Equipment

All other equipment is carried at cost. Depreciation is provided over the estimated useful lives of the assets at annual rates varying from 10% to 30%.

DEFERRED REVENUE

Payments received for undelivered gas are deferred and recognized as revenue when deliveries are made.

Mark Resources Inc.

CONSOLIDATED BALANCE SHEET

	As at December 31, 1988	1987
	(Thousands of Dollars)	(Restated – Note 1)
ASSETS		
Current Assets		
Cash and short-term deposits	$ 1,431	$ 1,402
Accounts receivable	10,988	15,840
Other	1,951	2,635
	14,370	19,877
Property, Plant and Equipment (Note 2)	429,554	365,117
Other Assets	553	756
	$444,477	$385,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	$ 1,521	$ –
Accounts payable	11,946	16,478
Current portion of deferred revenue	599	814
Current portion of long-term debt	1,714	900
	15,780	18,192
Long-Term Debt		
Bank loans (Note 3)	90,595	69,611
Convertible debentures (Note 4)	35,310	36,066
Notes payable	320	–
	126,225	105,677
Deferred Revenue	4,978	5,627
Deferred Income Taxes	95,907	79,433
Minority Interest (Note 6)	12,621	9,384
Shareholders' Equity		
Share capital (Note 7)	169,650	150,280
Retained earnings	19,316	17,157
	188,966	167,437
	$444,477	$385,750

Approved by the Board:

Daryl E. Birnie, Director

A. Vanden Brink, Director

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

Mark Resources Inc.

CONSOLIDATED STATEMENT OF EARNINGS

	For the Year Ended December 31, 1988	1987	1986
	(Thousands of Dollars)	(Restated – Note 1)	
Revenues			
Oil and gas production, net of royalties	$ 51,979	$ 47,505	$ 25,142
Alberta royalty tax credit	5,758	6,184	2,079
Interest and other income	837	2,144	767
Gain on sale of mineral investment	–	1,178	–
	58,574	57,011	27,988
Expenses			
Production	17,015	13,183	8,308
Administration	4,369	4,365	4,460
Interest – short-term	108	214	319
– long-term	10,398	9,105	3,729
Depletion and depreciation	25,023	15,846	7,528
Other	476	201	2,449
Minority interest	275	932	104
	57,664	43,846	26,897
Earnings Before Taxes, Write-down and Extraordinary Gains	910	13,165	1,091
Income Taxes – current	438	–	–
– deferred	134	3,676	1,437
Petroleum and Gas Revenue Taxes	–	–	220
	572	3,676	1,657
Net Earnings (Loss) Before Write-down and Extraordinary Gains	338	9,489	(566)
Write-down of Property, Plant and Equipment	–	–	(51,187)
Extraordinary Gains (Note 10)	1,821	2,158	–
Net Earnings (Loss)	2,159	11,647	(51,753)
Dividends on Preferred Shares	–	150	1,729
Net Earnings (Loss) Attributable to Common Shares	$ 2,159	$ 11,497	$ (53,482)
Weighted Average Number of Common Shares Outstanding During the Period	21,532,918	19,960,860	10,066,934
Net Earnings (Loss) Per Common Share			
Before extraordinary gain	$ 0.02	$ 0.47	$ (5.31)
After extraordinary gain	$ 0.10	$ 0.58	$ (5.31)

Mark Resources Inc.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the Year Ended December 31, 1988	1987	1986
	(Thousands of Dollars)	(Restated – Note 1)	
Balance at Beginning of Year			
As previously reported	$ 10,087	$ (37,052)	$ 13,754
Adjustment of prior years (Note 1)	7,070	5,660	4,720
As restated	17,157	(31,392)	18,474
Reduction of Deficit Against Stated Share Capital (Note 7)	–	37,052	–
Allocation to Minority Interest on Date of Acquisition as Restated (Note 1)	–	–	3,616
Net Earnings (Loss)	2,159	11,647	(51,753)
	19,316	17,307	(29,663)
Dividends on Preferred Shares	–	(150)	(1,729)
Balance at End of Year	$ 19,316	$ 17,157	$ (31,392)

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

Mark Resources Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the Year Ended December 31,		
	1988	1987	1986
	(Thousands of Dollars)	(Restated – Note 1)	
Operating Activities			
Net earnings (loss) before write-down and extraordinary gain	**$ 338**	$ 9,489	$ (566)
Add items not affecting working capital			
Depletion and depreciation	**25,023**	15,846	7,528
Deferred income taxes	**134**	3,676	1,437
Other	**77**	647	429
Cash flow from operations	**25,572**	29,658	8,828
Financing Activities			
Share capital – common	**26,329**	26,330	72,704
Long-term debt – bank loans	**(1,784)**	(8,814)	15,782
– convertible debentures	**(1,570)**	24,285	(563)
Dividends on preferred shares	**–**	(150)	(1,729)
Deferred revenue	**(649)**	(12,146)	4,872
Minority interest – common (Note 6)	**3,614**	3,377	–
– preferred (Note 6)	**–**	(25,000)	–
Other	**(39)**	(596)	–
	25,901	7,286	91,066
Net change in non-cash working capital	**1,603**	8,755	(5,788)
Cash Resources Provided from Operating and Financing Activities	**53,076**	45,699	94,106
Investing Activities			
Property, plant and equipment	**52,807**	45,270	25,294
Government incentive grants and credits	**(4,506)**	(5,026)	(3,667)
Property development financing (Note 8)	**(8,042)**	(7,968)	–
Net capital expenditures	**40,259**	32,276	21,627
Proceeds on property disposals	**(1,796)**	–	–
Acquisition of subsidiary (Note 9)	**18,562**	14,307	72,639
Investment and other assets	**(2,457)**	(3,317)	41
	54,568	43,266	94,307
Increase (Decrease) in Cash Resources	**(1,492)**	2,433	(201)
Cash Resources at Beginning of Year	**1,402**	(1,031)	(830)
Cash Resources at End of Year	**$ (90)**	$ 1,402	$(1,031)
Cash Resources are Comprised of:			
Cash and short-term deposits	**$ 1,431**	$ 1,402	$ –
Bank indebtedness	**(1,521)**	–	(1,031)
	$ (90)	$ 1,402	$(1,031)

See accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

Mark Resources Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars, except share and per share amounts)

1. CHANGE IN ACCOUNTING POLICY

The Company has changed its accounting policy in respect of certain issuances of share capital to more appropriately reflect the associated tax attributes of these issues.

The Company has adopted, on a retroactive basis, the policy of providing for the estimated effects of future income taxes related to flow-through share issuances and the issuance of shares in exchange for oil and gas properties which had, at the time of issuance, virtually no tax basis, and to carry forward the deferred tax provisions as recorded in the accounts of acquired companies.

The cumulative effects to December 31, 1988 of this change in policy were to decrease the amount shown as property, plant and equipment by $19,853,000, increase deferred income taxes by $33,173,000, decrease the amount shown as minority interest by $6,507,000, decrease the amount shown as common share capital by $55,944,000, and increase retained earnings by $9,425,000.

To December 31, 1987, the cumulative effects of this change in policy were to decrease the amount shown as property, plant and equipment by $21,970,000, increase deferred income taxes by $26,532,000, decrease the amount shown as minority interest by $6,587,000, decrease the amount shown as common share capital by $48,985,000, and increase retained earnings by $7,070,000.

The related effects on earnings were as follows:

	1988	1987	1986
Decrease in depletion expense	**$1,212**	$ 999	$1,637
Increase in minority interest expense	**(363)**	(544)	—
Decrease (increase) in deferred income tax expense	**1,506**	955	(192)
Increase in net earnings	**$2,355**	$1,410	$1,445
Increase in net earnings per common share, both before and after extraordinary gains	**$ 0.11**	$ 0.07	$ 0.13

The change had the further effect of eliminating a write-down of $3,193,000 related to the ceiling test in 1988, which would have resulted in a reported loss before extraordinary gains of $2,855,000 and after extraordinary gains of $1,034,000 and corresponding losses per common share of $0.13 and $0.05, respectively.

2. PROPERTY, PLANT AND EQUIPMENT

	1988			1987
	Cost	**Accumulated Depletion and Depreciation**	**Net**	Net (Restated — Note 1)
Oil and gas	**$484,215**	**$56,558**	**$427,657**	$363,516
Other	**2,929**	**1,032**	**1,897**	1,601
	$487,144	**$57,590**	**$429,554**	$365,117

Costs associated with unproved properties excluded from costs subject to depletion and depreciation were $34,084,000 (1987 – $30,788,000). Administration costs capitalized amounted to $3,764,000 (1987 – $3,084,000).

3. LONG-TERM BANK LOANS

As at December 31, 1988, $90,595,000 (1987 – $69,611,000) of long-term bank loans were outstanding as follows:

Nature of Bank Loan	Interest Rate	1988	1987
Canadian dollar advances	Bank prime	$ 3,280	$14,900
Canadian dollar bankers' acceptances	B/A rate plus bank's stamping fee	67,315	34,711
Interest rate currency swaps	Effective rate of		
	10.88%	10,000	10,000
	10.41%	10,000	10,000
		$90,595	$69,611

The interest rate currency swaps are based on U.S. dollar floating rate LIBOR-based loans of $7,326,000 and $7,156,000 maturing June 27, 1990 and December 30, 1992, respectively.

Bank lines of credit amounting to $150,000,000 (1987 – $128,000,000) are available for general corporate borrowing purposes. The Company's unused lines of credit as at December 31, 1988 were $52,204,000 (1987 – $58,389,000). These credit facilities may revolve until December 31, 1989. At that time, $100,000,000 of amounts outstanding in respect of $120,000,000 of the credit facilities are to be converted into term loans repayable in five equal annual installments commencing June 30, 1990 with any remaining balances, to a maximum of $20,000,000, converted into revolving loans. Amounts outstanding at that time, in respect of $30,000,000 of the credit facilities are repayable in 26 quarterly equal installments commencing March 31, 1990.

The bank lines of credit are subject to an annual review at which time the existing terms are expected to be extended for an additional one year period.

A floating charge debenture on the assets of the Company has been provided as collateral for the bank lines of credit. In addition, a fixed-charge debenture has been provided as collateral in respect of $30,000,000 of the credit facilities.

4. CONVERTIBLE DEBENTURES

	1988	1987
7% Convertible Subordinated Unsecured Debentures	$25,000	$25,000
9% Convertible Subordinated Unsecured Debentures	11,210	11,966
	36,210	36,966
Less current portion	900	900
Long-term portion	$35,310	$36,066

The 7% debentures have a maturity date of April 15, 2002 and, at the option of the holder until April 15, 1997, are convertible into common shares of the Company at $13.50 per share. The debentures are redeemable between April 15, 1990 and April 16, 1992 at par if the common shares have traded on The Toronto Stock Exchange at a price which is not less than 125% of the conversion price for a period of 20 consecutive trading days. After April 15, 1992 the debentures are redeemable at par.

The 9% debentures have a maturity date of January 22, 1991 and, at the option of the holder, are presently convertible into common shares of the Company's subsidiary, Precambrian Shield Resources Limited ("Precambrian"), at $6.78 per share. The redemption price is 101% to January 22, 1989 and thereafter at par. Annually, Precambrian must offer to purchase for cancellation a minimum principal amount of $900,000. In the year ended December 31, 1988, $756,000 (1987 – $715,000) of the debentures were purchased under this requirement.

5. INCOME TAXES

The provision for income taxes in the consolidated statement of earnings has been determined as follows:

	1988	1987	1986
		(Restated —	Note 1)
Earnings before taxes, write-down and extraordinary gains	**$ 910**	$13,165	$ 1,091
Computed income tax expense at the Canadian statutory rate of 41.5% (1987 — 45.5% and 1986 — 46.0%)	**$ 378**	$ 5,990	$ 502
Increase (decrease) in income taxes resulting from:			
Non-deductible crown royalties and other payments	**4,109**	3,786	1,876
Alberta royalty tax credit	**(2,390)**	(2,814)	(957)
Federal resource allowance	**(3,908)**	(4,077)	(1,615)
Non-deductible depletion	**1,932**	1,415	1,194
Non-taxable losses (income)	**66**	(826)	—
Corporate surtax and provincial income taxes in excess of federal tax abatement	**50**	500	—
Other	**335**	(298)	437
Provision for income taxes	**$ 572**	$ 3,676	$ 1,437

6. MINORITY INTEREST

	1988	1987
Minority interest at beginning of year (Restated — Note 1)	**$ 9,384**	$31,821
Issue of Precambrian common shares net of related income taxes	**2,766**	1,857
Minority interest share of net earnings and extraordinary gains	**471**	706
Redemption of preferred share capital	**—**	(25,000)
Minority interest at end of year	**$12,621**	$ 9,384

As at December 31, 1988, the minority interest related to common shareholders of Precambrian was 13.2% (1987 – 13.5%).

All of the outstanding Series "C" Preferred Shares of Precambrian were redeemed on April 1, 1987 at par value for a total of $25,000,000.

7. SHARE CAPITAL

(a) ***Authorized Share Capital***

The Company's authorized share capital consists of:
- 100,000,000 common shares without nominal or par value,
- 2,000,000 preferred shares, issuable in series.

(b) ***Preferred Shares***

As of April 16, 1987, the 303,263 Series "A" Preferred Shares, issued in August 1986, were converted into common shares of the Company on the basis of .6667 common shares for each preferred share.

(c) ***Common Shares***

	December 31, 1988		December 31, 1987	
	Number of Shares	**Amount**	Number of Shares	Amount
		(Restated — Note 1)		(Restated — Note 1)
Balance at beginning of year	**20,667,066**	**$150,280**	17,938,687	$159,106
Acquisition of subsidiary (Note 9)	**1,093,776**	**11,485**	—	—
Shares issued for cash:				
Tax flow-through share agreements	**1,114,324**	**14,623**	—	—
Employee stock options exercised	**25,050**	**202**	225,316	1,785
Warrants exercised	**2,054**	**19**	563	5
Series "A" Warrants exercised	—	—	2,300,000	24,920
Deferred income taxes provided for in respect of flow-through share issues	—	**(6,959)**	—	—
Series "A" Preferred Shares converted	—	—	202,175	1,516
Reduction of deficit	—	—	—	(37,052)
Fractional adjustments related to prior year's consolidation of shares on a 1 for 3 basis	**31**	—	325	—
	22,902,301	**$169,650**	20,667,066	$150,280

As at December 31, 1988, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 1,058,267 (1987 – 1,058,267) common shares of the Company which represents 4.42% (1987 – 4.87%) of the common shares issued. Shares held by Bluesky Oil & Gas Inc. have been excluded from the total number of shares outstanding.

Pursuant to an offer to purchase which closed October 20, 1988 and subsequent compulsory acquisition order, the Company acquired all of the outstanding common shares of Erskine Resources Corporation in return for the issuance of 1,093,776 common shares of the Company recorded at a value of $10.50 per share (Note 9).

Under the terms of the flow-through agreements, the Company is to renounce to investors an amount of $11,000,000 of Canadian Exploration Expense and $3,650,000 of Canadian Oil and Gas Property Expense, as defined under the Income Tax Act of Canada, for expenditures incurred to March 1, 1989. Of these amounts, $7,000,000 of the Canadian Exploration Expenses and all of the Canadian Oil and Gas Property Expenses will be renounced to affiliated companies.

On March 17, 1987, the Company issued 2,300,000 Series "A" Warrants at a price of $11.00 per Warrant before underwriters' fees and related issuance costs. Each Series "A" Warrant was exchanged for one common share of the Company by May 15, 1987.

At the annual shareholders' meeting, held May 14, 1987, a special shareholders' resolution was passed to eliminate the December 31, 1986 deficit balance of $37,052,000, as originally reported, against the common share capital of the Company.

(d) ***Employee Stock Option Plan***

Options for common shares	
Outstanding December 31, 1987	469,365
Options granted during the year	765,000
Options exercised during the year	(25,050)
Options cancelled during the year	(212,500)
Outstanding December 31, 1988	996,815
Balance of common shares reserved under Company stock option plan	1,003,185
Total common shares reserved under Company stock option plan	2,000,000

Outstanding common share options are exercisable at prices ranging from \$6.45 per share to \$9.25 per share and expire within one to ten years.

(e) ***Warrants***

Pursuant to the acquisition of all of the outstanding shares of Erskine Resources Corporation, the Company issued 546,892 warrants to purchase common shares of the Company. Each warrant entitles the holder to purchase one common share of the Company at a price of \$14.00 per share until October 31, 1990 and thereafter at a price of \$15.00 per share until October 31, 1991 at which time any warrants remaining outstanding will expire.

8. PROPERTY DEVELOPMENT FINANCING

In 1987, the Company entered into an agreement to sell a 50% interest in a natural gas property at a price not to exceed 100% of the actual costs incurred by the Company to develop the property prior to January 1, 1991 or \$20,000,000. As of December 31, 1988, a cumulative amount of \$16,010,000 (1987 – \$7,968,000) for incurred development costs has been recorded in the accounts of the Company as a reduction of property, plant and equipment costs.

9. ACQUISITION OF ERSKINE RESOURCES CORPORATION

Pursuant to an offer to purchase which closed October 20, 1988 and a subsequent compulsory acquisition order, the Company acquired all of the outstanding common shares of Erskine Resources Corporation, a public Alberta company engaged in the exploration for and development of oil and gas reserves, for a total consideration of \$11,686,000 comprised of 1,093,776 common shares of the Company at a recorded value of \$11,485,000 and costs associated with the acquisition amounting to \$201,000. The total consideration paid, in excess of the carrying values recorded in the accounts of Erskine, has been allocated as an increase to property, plant and equipment in the amount of \$424,000 and a decrease in accounts receivable of \$233,000. The net assets acquired, excluding the working capital deficiency of \$6,876,000, are summarized as follows:

Property, plant and equipment	\$ 50,692
Other assets	36
Long-term debt	(23,902)
Deferred income taxes	(8,264)
Net assets acquired excluding working capital deficiency	\$ 18,562

10. EXTRAORDINARY GAINS

Effective July 1, 1988, the Company disposed of its interest in its gas marketing subsidiary, PSR Gas Ventures Inc., to a related company for proceeds of $2,092,000 which has been included as an extraordinary gain in the current period.

Extraordinary gains are comprised of the following:

	1988	1987
Gain on sale of investment in subsidiary (net of deferred income taxes of $501)	$1,230	$ —
Gain on sale of investment (net of deferred income taxes of $351)	—	2,158
Tax recovery related to the application of losses of prior periods	591	—
Total extraordinary gains	$1,821	$2,158

11. OTHER RELATED PARTY TRANSACTIONS

Gas sales under contracts with affiliated companies totalled $7,949,000 in 1988 (1987 – $3,501,000) and as at year end $1,022,000 (1987 – $607,000) was included in accounts receivable pursuant to these sales. Such sales were considered to be in accordance with normal industry terms.

12. COMPARATIVE AMOUNTS

Prior years' comparative amounts have been reclassified to conform to the current year's presentation.

Management fees earned under joint venture agreements have been applied to reduce general administration expenses. These fees are deemed to be recoveries of administration costs incurred by the Company in its capacity as the managing participant under joint operating agreements.

The financial statements for the year ended December 31, 1986, prior to the restatement (Note 1), were audited and reported on by another firm of chartered accountants.

UNAUDITED SUPPLEMENTARY DATA

RESERVES SUMMARY

As at December 31, 1988

	Gross Reserves		Net Reserves		Present Value (before tax)			
						Discounted at		
	Oil & NGLs	Natural Gas	Oil & NGLs	Natural Gas	Undis-counted	10%	15%	20%
	(mbbls)	(bcf)	(mbbls)	(bcf)	(millions of dollars)			
Canada								
Proven — Producing	21,601	266.7	15,785	206.3	$1,036	$438	$330	$264
— Nonproducing	3,565	220.9	4,421	177.0	682	176	106	67
Total proven	25,166	487.6	20,206	383.3	1,718	614	436	331
Probable	8,683	96.4	6,966	73.2	264	60	35	22
Proven and probable	33,849	584.0	27,172	456.5	1,982	674	471	353
United States								
Proven — Producing	59	1.3	43	0.9	3	1	1	1
— Nonproducing	—	0.2	—	0.1	1	—	—	—
Total proven	59	1.5	43	1.0	4	1	1	1
Probable	—	0.1	—	0.1	—	—	—	—
Proven and probable	59	1.6	43	1.1	4	1	1	1
Total								
Proven — Producing	21,660	268.0	15,828	207.2	1,039	439	331	265
— Nonproducing	3,565	221.1	4,421	177.1	683	176	106	67
Total proven	25,225	489.1	20,249	384.3	1,722	615	437	332
Probable	8,683	96.5	6,966	73.3	264	60	35	22
Proven and probable	33,908	585.6	27,215	457.6	$1,986	$675	$472	$354

RESERVES BY GEOGRAPHIC AREA

As at December 31, 1988

	Oil & NGLs		Natural Gas	
	Gross	Net	Gross	Net
	(mbbls)		(bcf)	
Proven				
Alberta	20,403	16,252	302.0	224.6
Saskatchewan	3,763	3,111	163.4	141.4
British Columbia	997	841	22.2	17.3
Manitoba	3	2	—	—
United States	59	43	1.5	1.0
	25,225	20,249	489.1	384.3
Probable				
Alberta	6,551	5,240	79.3	60.0
Saskatchewan	1,707	1,383	0.7	0.6
British Columbia	425	343	16.4	12.6
United States	—	—	0.1	0.1
	8,683	6,966	96.5	73.3
Total Proven and Probable	**33,908**	**27,215**	**585.6**	**457.6**

OIL AND NATURAL GAS LIQUIDS PRODUCTION

	1988	1987	1986
Production by quarter (bbls/d)			
First quarter	**6,245**	4,927	2,668
Second quarter	**6,138**	5,021	2,429
Third quarter	**6,615**	5,854	2,472
Fourth quarter	**7,468**	6,041	4,091
Operating income by geographic area ($000's)			
Alberta	**$14,361**	$19,561	$ 7,467
Saskatchewan, British Columbia, Manitoba	**2,708**	3,228	1,143
United States	**132**	206	250
Total	**$17,201**	$22,995	$ 8,860
Pre-tax unit net back ($ per bbl)			
Alberta	**$ 7.42**	$ 12.04	$ 8.96
Saskatchewan, British Columbia, Manitoba	**$ 6.42**	$ 10.73	$ 6.09
United States	**$ 3.80**	$ 2.98	$ 3.25
Total	**$ 7.19**	$ 11.53	$ 8.24

NATURAL GAS PRODUCTION

	1988	1987	1986
Production by quarter (mcf/d)			
First quarter	**55,143**	35,600	19,300
Second quarter	**45,386**	20,600	10,728
Third quarter	**51,836**	25,569	10,896
Fourth quarter	**57,049**	36,948	24,604
Operating income by geographic area ($000's)			
Alberta	**$10,129**	$ 6,776	$ 4,187
Saskatchewan, British Columbia	**4,683**	2,789	2,772
United States	**74**	191	977
Total	**$14,886**	$ 9,756	$ 7,936
Pre-tax unit net back ($ per mcf)			
Alberta	**$ 0.78**	$ 0.94	$ 1.17
Saskatchewan, British Columbia	**$ 0.81**	$ 0.85	$ 1.61
United States	**$ 0.58**	$ 0.57	$ 1.53
Total	**$ 0.80**	$ 0.90	$ 1.31

CAPITAL EXPENDITURES

	1988					1987
	Total	**Alberta**	**Sask.**	**Other**	**U.S.**	**Total**
	(thousands of dollars)					
Lease acquisition costs and rentals	**$ 8,803**	$ 6,570	$1,793	$ 277	$163	$10,320
Geological and geophysical	**5,764**	3,517	2,189	15	43	3,589
Drilling costs	**24,173**	13,221	10,497	540	(85)	18,374
Plant and facilities	**7,279**	3,657	3,097	525	—	8,781
Producing property acquisition	**2,050**	2,050	—	—	—	—
Capitalized general administration	**3,764**	2,363	1,333	68	—	3,084
Other fixed assets	**974**	938	—	—	36	1,122
	52,807	32,316	18,909	1,425	157	45,270
Government incentives	**(4,506)**	(2,147)	(2,303)	(56)	—	(5,026)
Property development financing	**(8,042)**	—	(8,042)	—	—	(7,968)
	$40,259	$30,169	$8,564	$1,369	$157	$32,276

INTEREST COVERAGE

	1988	1987	1986
	(thousands of dollars)		
Earnings			
Earnings before deferred taxes, write-down and extraordinary gain	**$ 472**	$13,165	$ 1,091
Add interest expense	**10,506**	9,319	4,048
Earnings before deferred taxes, write-down, extraordinary gain and interest expense	**$10,978**	$22,484	$ 5,139
Interest expense and preferred dividends	**$10,506**	$ 9,469	$ 5,777
Interest and preferred dividend coverage (times)	**1.1**	2.4	0.9
Cash flow from operations			
Cash flow from operations before interest expense	**$36,078**	$38,977	$12,876
Interest and preferred dividend coverage (times)	**3.4**	4.1	2.2

ANALYSIS OF GENERAL ADMINISTRATION COSTS

	1988	1987	1986
	(thousands of dollars)		
Total general administration costs	**$ 9,819**	$ 8,657	$ 8,107
Overhead recoveries	**(1,686)**	(1,208)	(1,247)
	8,133	7,449	6,860
Capitalized	**(3,764)**	(3,084)	(2,400)
Expensed	**$ 4,369**	$ 4,365	$ 4,460
Capitalized general administration costs as a % of total	**38.3%**	35.6%	29.6%

CASH FLOW ANALYSIS

	1988	1987	1986
	(thousands of dollars)		
Cash flow	**$25,572**	$29,658	$ 8,828
Deduct:			
Capitalized overhead	**3,764**	3,084	2,400
Preferred share dividends	**–**	150	1,729
Discretionary cash flow	**$21,808**	$26,424	$ 4,699
Cash flow per share	**$ 1.19**	$ 1.49	$ 0.88
Discretionary cash flow per share	**$ 1.01**	$ 1.32	$ 0.47

FIVE YEAR FINANCIAL REVIEW

	1988	1987	1986	1985	1984
	(thousands of dollars except per share amounts)				
Revenue					
Oil and gas production, net of royalties	**$ 51,979**	$ 47,505	$ 25,142	$ 30,047	$ 27,010
Alberta royalty tax credit	**5,758**	6,184	2,079	1,890	2,000
Other income	**837**	3,322	767	1,388	3,497
	58,574	57,011	27,988	33,325	32,507
Expenses					
Production	**17,015**	13,183	8,308	6,487	5,678
Administration	**4,369**	4,365	4,460	1,837	1,592
Interest — short-term	**108**	214	319	650	960
— long-term	**10,398**	9,105	3,729	1,254	1,310
Depletion and depreciation	**25,023**	15,846	7,528	5,494	4,312
Other	**476**	201	2,449	130	101
Minority interest	**275**	932	104	—	—
	57,664	43,846	26,897	15,852	13,953
Earnings before taxes, unusual or extraordinary items	**910**	13,165	1,091	17,473	18,554
Income and other taxes					
Current income taxes	**438**				
Deferred income taxes	**134**	3,676	1,437	6,698	8,805
Petroleum and gas revenue taxes	**—**	—	220	1,977	2,654
	572	3,676	1,657	8,675	11,459
Net earnings (loss) before unusual or extraordinary items	**338**	9,489	(566)	8,798	7,095
Write-down of property, plant and equipment	**—**	—	(51,187)	—	—
Extraordinary gain on sale of investment	**1,821**	2,158	—	—	—
	2,159	11,647	(51,753)	8,798	7,095
Preferred share dividends	**—**	150	1,729	2,840	3,488
Net earnings (loss) attributable to common shareholders	**$ 2,159**	$ 11,497	$(53,482)	$ 5,958	$ 3,607
Net earnings (loss) per common share after preferred dividends					
Before unusual or extraordinary items	**$ 0.02**	$ 0.47	$ (0.23)	$ 0.70	$ 0.43
After unusual or extraordinary items	**$ 0.10**	$ 0.58	$ (5.31)	$ 0.70	$ 0.43
Cash flow from operations	**$ 25,572**	$ 29,658	$ 8,828	$ 22,594	$ 20,192
Cash flow from operations per common share	**$ 1.19**	$ 1.49	$ 0.88	$ 2.66	$ 2.39
Expenditures for property, plant and equipment	**$ 52,807**	$ 45,270	$ 25,294	$ 42,137	$ 44,018
Working capital (deficiency)	**$ (1,410)**	$ 1,685	$ 8,007	$ (6,763)	$ 16,863
Total assets	**$444,477**	$385,750	$342,089	$211,452	$197,346
Long-term debt	**$126,225**	$105,677	$ 90,206	$ 20,344	$ 13,540
Common shareholders' equity	**$188,966**	$167,437	$127,714	$115,555	$108,860

Prior year comparative amounts have been restated to conform with the presentation adopted for the current year.

FIVE YEAR OPERATIONS REVIEW

	1988	1987	1986	1985	1984
Reserves — proven and probable					
Oil and NGLs (mmbbls)	**33.9**	29.3	28.2	13.5	11.8
Natural gas (bcf)	**585.6**	533.0	498.0	388.0	363.0
Daily production					
Oil and NGLs (bbls/d)	**6,619**	5,465	2,915	2,329	2,104
Natural gas (mmcf/d)	**52.4**	29.7	16.4	10.0	7.1
Land holdings					
Gross acres (000's)	**6,971**	5,316	6,568	2,474	2,387
Net acres (000's)	**1,443**	1,205	1,163	843	675
Drilling activity (gross)					
Oil wells	**58**	64	26	64	95
Gas wells	**115**	97	18	69	69
Dry and abandoned	**71**	36	22	34	50
Total	**244**	197	66	167	214
Success rate	**70.9%**	81.7%	66.7%	79.6%	76.6%

SHAREHOLDER INFORMATION

SELECTED QUARTERLY FINANCIAL DATA

	Revenues	Earnings (Loss) Before Taxes	Net Earnings (Loss) Before Unusual or Extraordinary Items	Net Earnings (Loss) After Unusual or Extraordinary Items	Cash Flow from Operations
			(thousands of dollars)		
1988 — First quarter	$ 15,270	$ 1,563	$ 846	$ 846	$ 7,481
— Second quarter	15,043	1,577	969	1,236	7,284
— Third quarter	13,887	(193)	(79)	1,499	5,660
— Fourth quarter	14,374	(2,037)	(1,398)	(1,422)	5,147
	$58,574	**$ 910**	**$ 338**	**$ 2,159**	**$25,572**
1987 — First quarter	$ 13,397	$ 2,875	$ 1,723	$ 1,723	$ 6,788
— Second quarter	11,759	2,799	1,616	3,774	5,936
— Third quarter	15,724	4,654	3,203	3,203	8,860
— Fourth quarter	16,131	2,837	2,947	2,947	8,074
	$57,011	**$13,165**	**$9,489**	**$ 11,647**	**$29,658**
1986 — First quarter	$ 8,063	$ 3,229	$ 1,489	$ 1,489	$ 4,909
— Second quarter	5,331	438	369	369	2,453
— Third quarter	4,746	89	414	(47,367)	1,685
— Fourth quarter	9,848	(2,665)	(2,838)	(6,244)	(219)
	$27,988	**$ 1,091**	**$ (566)**	**$(51,753)**	**$ 8,828**

Prior year comparative amounts have been restated to conform with the presentation adopted for the current year.

KEY RATIO ANALYSIS

	1988	1987	1986
Price/Cash flow ratio	**7.56**	5.20	9.81
Long-term debt to total assets	**0.28**	0.27	0.26
Long-term debt to common shareholders' equity	**0.67**	0.63	0.71
Long-term debt to annual cash flow	**4.94**	3.56	10.22

TRADING RANGE OF SHARES

Year	High	Low	Close	Share Volume
1988	**$11.00**	**$ 7.00**	**$ 9.00**	**3,648,231**
1987	$15.00	$ 7.50	$ 7.75	8,686,576
1986	$10.35	$ 6.30	$ 8.63	1,790,955
1985	$14.70	$ 9.45	$10.20	1,474,280
1984	$15.75	$10.50	$13.35	1,545,913

COMMON SHARE CAPITAL

	December 31, 1988
	(thousands)
Issued and outstanding	**22,902**
Reserved for:	
Exercise of common share purchase warrants	547
Exercise of employee stock options	997
Conversion of 7% Debentures	1,852
	26,298
Shares held by subsidiary — Bluesky Oil & Gas Inc.	1,058
Fully diluted number of common shares	**27,356**

DIRECTORS

Daryl E. Birnie *Calgary, Alberta*	President and Chief Executive Officer, Mark Resources Inc.
James W. Leech *Toronto, Ontario*	Chairman, Mark Resources Inc. and President, Unicorp Canada Corporation, a Canadian owned company with operations in energy production, marketing and transportation; U.S. real estate and financial services; and merchant banking based in Toronto, Ontario.
Barry W. Harrison *Calgary, Alberta*	Partner, Code Hunter, Barristers and Solicitors, based in Calgary, Alberta.
Klaus Hebben *London, England*	Chairman, CAL Futures Limited, a commodity, currency and financial futures company based in London, England.
Vernon L. Horte *Calgary, Alberta*	President, V.L. Horte Associates, a private oil and gas consulting company based in Calgary, Alberta.
Andrew Janisch *Calgary, Alberta*	President, Quintana Exploration Canada Ltd., an oil and gas exploration and production company based in Calgary, Alberta.
Michael R. Kordyback *Toronto, Ontario*	Executive Vice President, Unicorp Canada Corporation.
Arne R. Nielsen *Calgary, Alberta*	Energy Consultant and Director and past-Chairman of Mobil Oil Canada, Ltd., an oil and gas company based in Calgary, Alberta.
Antonie Vanden Brink *Calgary, Alberta*	Director and past-President of Trimac Limited, a publicly traded drilling, trucking and oil and gas company based in Calgary, Alberta.
John B. Zaozirny *Vancouver, B.C.*	Partner, McCarthy & McCarthy, Barristers and Solicitors, Vancouver, B.C. and Black and Company, Barristers and Solicitors, Calgary, Alberta.

OFFICERS

Daryl E. Birnie, *P.Geoph.* *President and Chief Executive Officer*	With Mark Resources Inc. and Precambrian Shield Resources Limited since March 1988. Previously with Encor Energy Corporation Inc. from 1985 to 1988; Voyager Energy Inc. from 1979 to 1985 and in other oil and gas industry positions since 1957.
Arthur C. Eastly, *P.Eng.* *Executive Vice President and Chief Operating Officer*	With Mark Resources Inc., formerly Bluesky Oil & Gas Ltd., from 1975 to present and Precambrian Shield Resources Limited from November 1986 to present. Previously in other oil and gas industry positions since 1958.
Peter B. Boulanger, *P.Eng.* *Vice President, Production*	With Mark Resources Inc. from November 1986 to present and Precambrian Shield Resources Limited from June 1980 to present. Previously with Petroleum Royalties Limited from 1978 to 1980 and in other oil and gas industry positions since 1969.
James R. Good *Vice President, Exploration*	With Mark Resources Inc. from November 1986 to present and Precambrian Shield Resources Limited from June 1985 to present. Previously with Canadian Superior Oil from 1968 to 1985.
Daniel T. Tsubouchi *Vice President, Corporate Development*	With Mark Resources Inc. and Precambrian Shield Resources Limited since July 1988. Previously with Encor Energy Corporation Inc. from 1983 to 1988 and in other oil and gas industry positions since 1981.
James K. Wilson, *C.A.* *Vice President, Finance*	With Mark Resources Inc. from November 1986 to present and Precambrian Shield Resources Limited from April 1982 to present. Previously with Clarkson Gordon, Chartered Accountants from 1976 to 1982.
J. Clifford Hughes *General Counsel and Secretary*	With Mark Resources Inc. and Precambrian Shield Resources Limited from June 1988 to present. Previously with Canadian Occidental Petroleum Ltd. from 1983 to 1988 and in legal private practice from 1980 to 1983.
Gordon J. Kerr, *C.A.* *Controller*	With Mark Resources Inc., formerly Bluesky Oil & Gas Ltd., from 1979 to present and Precambrian Shield Resources Limited from November 1986 to present. Previously with Winspear Higgins Stevenson & Co., Chartered Accountants, from 1976 to 1979.

CORPORATE INFORMATION

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Legal	Atkinson McMahon, Calgary
Transfer Agent	Royal Trust Corporation of Canada
Listing	The Toronto Stock Exchange

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