Home Oil Company Limited

Nineteen Hundred & Ninety-One

Annual Report to Shareholders

TABLE OF CONTENTS

CORPORATE PROFILE

Home Oil Company Limited, established in 1925, is engaged in the exploration, development, and production of crude oil and natural gas, in western Canada. The Company has assets of approximately $1.5 billion and revenues of $273 million. Home Oil operates six major oil fields, nine natural gas processing plants, three feeder pipeline systems, and a storage facility for liquefied petroleum gas, and markets crude oil, natural gas and related products. The Company owns 88.1% of Scurry-Rainbow Oil Limited, a medium-sized producer in western Canada, and owns 50% of, and operates, Federated Pipe Lines Ltd., one of Home Oil's feeder pipeline systems. Federated transports crude oil and natural gas liquids through an extensive feeder pipeline system in Alberta.

Home Oil once again became a stand-alone, publicly traded company on May 1, 1991, as a result of a restructuring of its former corporate parent, Interhome Energy Inc. Shares of the Company are traded in Canada on The Toronto Stock Exchange under the symbol "HOC", and, in the United States, on the American Stock Exchange under the symbol "HO".

HOME OIL COMPANY LIMITED

SCURRY-RAINBOW OIL LIMITED (88.1%)

FEDERATED PIPE LINES LTD. (50%)

HIGHLIGHTS

FINANCIAL

(dollars in millions, except per share amounts)

YEAR ENDED DECEMBER 31,	1991	1990	1989
Revenue	**$273.1**	$333.6	$277.7
Earnings (Loss)			
Before extraordinary item	**$ (0.4)**	$ 66.4	$ 43.7
After extraordinary item	**$ (0.4)**	$ 66.4	$ 58.1
Cash from operations	**$116.0**	$182.5	$164.6
Capital expenditures	**$135.3**	$196.7	$244.4
Debt/debt plus shareholders' equity	**57.3%**	32.4%	31.1%
Per common share (39.6 million shares outstanding)			
Earnings (Loss)			
Before extraordinary item	**$ (0.01)**	$ 1.68	$ 1.10
After extraordinary item	**$ (0.01)**	$ 1.68	$ 1.47
Cash from operations	**$ 2.93**	$ 4.60	$ 4.15
Dividends	**$ 0.06**	$ 0.25	$ 0.25
Shareholders' equity	**$ 9.92**	$15.64	$14.40

OPERATING

Daily production/sales			
Crude oil (barrels)	**23,763**	25,019	26,342
Natural gas liquids (barrels)	**6,588**	6,532	5,854
Natural gas (millions of cubic feet)	**172.8**	159.5	150.6
Average price (Canadian dollars at wellhead)			
Crude oil (per barrel)	**$20.58**	$25.57	$20.23
Natural gas liquids (per barrel)	**$12.80**	$15.66	$11.64
Natural gas (per thousand cubic feet)	**$ 1.37**	$ 1.62	$ 1.52
Drilling activity			
Working interest wells			
Gross	**132**	201	182
Net	**45**	90	50
Gross successful	**92**	157	132
Net successful	**27**	67	33
Gross royalty interest wells	**61**	72	46
Percentage replacement of production			
Crude oil and natural gas liquids	**86**	83	93
Natural gas	**87**	233	261

REPORT TO SHAREHOLDERS

Nineteen ninety-one was a year of change and challenge for Home Oil. As a result, we focused on adopting a management strategy [illegible] ensure Home Oil's competitiveness and future profitability. ~ On May 1, 1991, pursuant to a restructuring, Home Oil was separated

from Interhome Energy Inc. and became a stand-alone, publicly traded company. The effect of this transaction was to transfer Interhome Energy's interest in Home Oil directly to Interhome Energy's shareholders. As a consequence of the restructuring, Home Oil was allocated an additional $221 million of debt.

The separation occurred at a time when deteriorating economics and a difficult business environment were forcing contraction within the petroleum industry. Profitability of the Canadian upstream oil and gas sector diminished during the late 1980s due to declining prices and rising costs. While crude oil prices escalated in 1990 following the invasion of Kuwait by Iraq, the resolution of the conflict in 1991 returned crude oil prices to their previous low level. In addition, natural gas prices declined during the year reflecting the continued surplus of gas deliverability in western Canada.

With this as the Company and industry backdrop, management focused its efforts on ensuring the Company's near term responsiveness and future well-being.

A new management strategy was implemented in 1991, the key components of which are a lowering of costs, reduction in capital expenditures, and divestiture of non-strategic assets. In a continued effort to reduce ongoing operating, and general and administrative costs, the head office staff level was trimmed by 25% in September. At the same time, the Company was reorganized to permit a more open and responsive decision making process. Integrated operational work teams comprising several disciplines are being established to enable us to respond more quickly and appropriately to changing conditions, and to transfer more responsibility and authority to our employees. Cost savings, together with the application of proceeds from sale of non-strategic assets, have permitted significant progress to be made in reducing the level of the Company's debt.

1991 RESULTS AND INITIATIVES

The Company recorded a loss of $0.4 million ($0.01 per share) for 1991 compared with earnings of $66 million ($1.68 per share) one year ago. Cash from operations declined to $116 million ($2.93 per share) compared with $183 million ($4.60 per share) one year ago. The decline in earnings and cash flow primarily resulted from substantially lower product prices, combined with additional interest expense and $11 million of non-recurring costs associated with the spin-off from Interhome Energy and the downsizing in September.

Although we are not satisfied with these results, we are pleased that we were able to hold our earnings at a break-even level, despite substantial non-recurring costs and low oil and gas prices.

The Company has been engaged in asset optimization initiatives over the last several years, and stepped-up these efforts during 1991. This change in emphasis is designed to strengthen the Company's balance sheet and, in the longer term, to improve corporate efficiency and enhance the value of its asset base. An asset optimization group was created with the responsibility to increase Home Oil's interest in its key properties through asset swaps and purchases while, at the same time, marketing our interests in non-strategic properties. We hope to effectively divest approximately a net $100 million of non-core properties over the next two to three years, with the proceeds being dedicated to debt reduction. During 1991, property dispositions amounted to $34 million. Funds from these sales, including approximately $25 million collected early in 1992, were applied to reduce debt. As a result, total debt at February 28, 1992 stood at $503 million, down 7% from the $538 million carried when we became a public company on May 1, 1991.

Home Oil holds a large portfolio of undeveloped petroleum and natural gas rights in Canada. During the year, we were able to attract third party capital to assist the exploration of Company lands, thereby reducing our risk. Farmout arrangements allow Home Oil to evaluate exploration opportunities, despite the depressed state of the industry, with a minimal capital outlay. This practice also enabled us to retain an appropriate level of staff and expertise to facilitate a timely response when industry economics improve.

D. E. Powell
President & Chief Executive Officer

Given the prevailing weak gas markets, Home Oil directed most of its discretionary capital to exploring for, and developing light oil projects, which yield early cash flow. Production gains through several oil development projects, implemented late in the year, largely offset the natural production declines attributable to mature fields and losses experienced through asset sales. In spite of spending constraints, the Company added sufficient oil, natural gas and liquids reserves to replace 87% of its 1991 production.

We also sought to improve the Company's returns through increased natural gas marketing efforts to place uncontracted reserves into the long term market. We entered the direct sales market in the northeastern United States by signing a long term contract to supply 18 million cubic feet per day to a proposed cogeneration facility in upper New York State beginning in 1993.

A second new long term contract took effect in January 1992 and resulted in the supply of ten million cubic feet per day of flowing gas that would otherwise have been sold at discount prices on the spot market.

These two contracts absorbed almost one-third of Home Oil's uncontracted gas reserves which now total approximately 300 billion cubic feet.

GOVERNMENT POLICIES

The prevailing difficult economic environment has adversely impacted the oil and gas sector. Provincial governments in western Canada are being encouraged to recognize the current depressed state of the industry and reduce royalties, especially for new discoveries. A recent study of the profitability of the upstream oil and gas sector, by PowerWest Financial Ltd., reveals that the returns generated by the industry are far below its historical cost of capital.

We view the November 1991 royalty reduction initiatives of the Government of Alberta as a desirable but temporary stimulant for oil exploration and development activity. However, Home Oil, with the industry in general, continues to believe that a full scale review of the current royalty and fiscal regimes is required. Royalty payments represent a substantial withdrawal of funds from an industry that is currently not profitable, as they are calculated on revenues rather than the underlying profitability of the operations being taxed. In 1991 alone Home Oil incurred in excess of $42 million in royalties to provincial governments. Favourable changes to royalty regimes are necessary to encourage investment which would stimulate economic activity, create jobs, and generate long term revenues for both industry and government.

Two environmental initiatives are under legislative review. The Canadian Environmental Assessment Act, Bill C-13, and the Alberta Environmental Protection and Enhancement Act, Bill 53, are expected to be implemented during 1992. The proposed Alberta legislation consolidates nine existing environmental statutes and creates a new environmental impact assessment process. The Company favours efforts by the federal and provincial governments to streamline legislation and reduce the regulatory burden. Home Oil encourages fair and consistent application of the environmental mandate of government, but believes that this process should be free of duplication or conflict between federal and provincial bodies. We continue to track these developments closely, both to ensure that we continue to meet or exceed federal and provincial laws and to assess any financial impact on the Company.

CORPORATE RESPONSIBILITY

Throughout the year the Company remained committed to community responsibility. Home Oil's donations during 1991 were broadly distributed across the fields of education, civics and culture, with the largest portion being allocated to health and welfare. This priority reflects the Company's recognition of the adverse impact of the recession on the community-at-large. As government's ability to fully address these concerns is constrained by increasing financial deficits, the private sector is being asked to assume a larger role in the provision of needed services. The Company is a participant in the 'IMAGINE' campaign which encourages companies to target 1% of pre-tax earnings for worthwhile charitable causes.

The Company recognizes the need to minimize any adverse impact its operations may have on the environment, and to maintain the preparedness to respond in a timely and appropriate manner in the unlikely event of an incident. Consistent with these objectives, and despite the overall Company downsizing, the role and size of our safety and environment group was expanded to recognize the increasing importance of these functions to achieving our corporate goals.

OUTLOOK

The current difficult economic conditions are expected to continue into the near future. Continued oversupply, weak demand growth, and aggressive selling by producers at the wellhead will continue to characterize markets in the near term. As a result, significant improvement in crude oil and natural gas prices is not expected until the mid-1990s.

Home Oil's strategies are designed to provide a realistic balance between pursuit of high potential exploration and development opportunities and a substantial improvement in its financial position. Our $100 million capital program planned for 1992 focuses on activities to optimize oil production volumes and replace production.

We are pleased that we were able to hold our earnings at a break-even level, despite substantial non-recurring costs and low oil and gas prices.

Exploration expenditures are expected to account for 25% of the program, with the majority directed towards oil prospects, and will be supplemented by farmout programs. More than 50% of the overall capital program will be spent on development projects and will be concentrated on optimization projects to maintain crude oil production volumes. The remainder is accounted for by miscible fluids and other miscellaneous expenditures. Total 1992 capital expenditures are being held below anticipated cash flow from operations to permit further debt reduction.

Assuming product prices remain at 1991 levels, Home Oil's cash flow is expected to improve in 1992 as a result of increased natural gas sales, the continuing benefits of past cost reduction measures, and lower interest expenses. Debt reduction, achieved by applying both cash from operations in excess of capital expenditures and the net proceeds from our property rationalization program, should permit further improvement in Home Oil's financial position by the end of 1992.

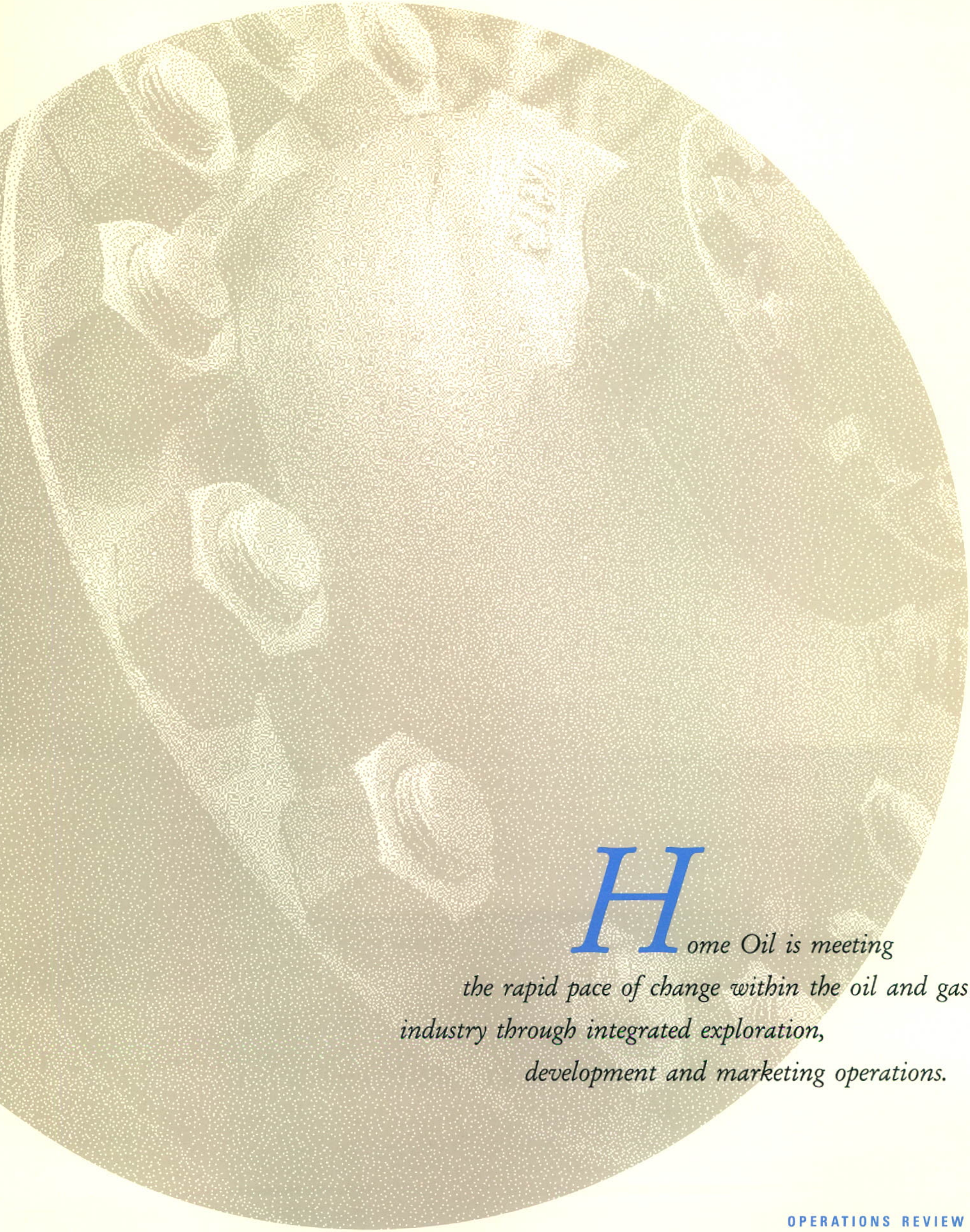
GENERAL

The dedication and professionalism exhibited by our staff during these difficult times was admirable, enabling us to effectively manage change and to place the Company on solid footing to address future challenges.

During the year, several members of senior management retired from the Company. Messrs. R. F. Haskayne, President and Chief Executive Officer; H. Alfaro, Vice President, Production; and E. Jorgensen, Vice President & Controller retired from the Company after a combined 63 years of dedicated service to Home Oil. Their valued efforts and leadership over the years are greatly appreciated.

On behalf of the Board of Directors

D. E. Powell
President &
Chief Executive Officer
March 12, 1992



Home Oil is meeting the rapid pace of change within the oil and gas industry through integrated exploration, development and marketing operations.

EXPLORATION & DEVELOPMENT

During 1991, Home Oil's exploration and development strategies were revised to reflect our changed corporate circumstances and the prevailing business climate. In view of low oil and gas prices and the continuing oversupply of natural gas, a selective approach was adopted by the Company to permit high potential opportunities to be pursued while directing remaining cash flow to debt reduction. Another objective was to maximize value while minimizing the Company's risk exposure.

Of the $135 million capital program, $60 million was dedicated to development activities, primarily oil, and exploration expenditures accounted for $43 million. An additional $22 million was spent on miscible fluids. Activity during the year focused on improving returns on the Company's existing asset base and on efficiently developing new oil and gas reserves, where market opportunities existed. The Company's technical expertise was applied to existing secondary and tertiary flood projects thereby adding significant value to reserves. Three production optimization projects were implemented late in the year which increased oil production from mature fields.

Home Oil continued to explore the Western Canadian Sedimentary Basin where the Company's land position is strong, technical expertise is proven, and innovative geological, geophysical and horizontal drilling technologies can be employed.

During 1991, Home Oil's exploration efforts were directed to high reserve potential, oil prone, plays as a means of increasing near term cash flow.

Exploratory activity on the Company's extensive landholdings in western Canada was supplemented by a substantial farmout program. Home Oil participated directly in many of these programs to retain operating and marketing control over the reserves. Projects of this type enable the Company to retain core exploration staff and expertise until industry economics improve.

DEVELOPMENT ACTIVITIES

A major expansion to the water disposal facilities at Swan Hills Unit #1 in Alberta, where the Company holds a 17% interest, was commissioned during the third quarter and is operating at full capacity. As a result, the Company's oil production from the Unit increased by approximately 850 barrels per day.

A gas conservation facility in the Cecil/Royce area of northwestern Alberta was completed and on-stream by October 1, 1991. This project enabled Home Oil to gather and ship solution gas and resulted in increased oil production of 600 barrels per day and gas sales of two million cubic feet per day net to the Company. Home Oil holds a 60% interest in the facility.

In late August, water injection commenced in the West Stoddart area of northeastern British Columbia. Implementation of this waterflood enhanced Home Oil's production by 250 barrels of oil per day and resulted in net additional reserves of 525,000 barrels of oil. The Company holds a 50% interest in the field, with the exception of the waterflood area in which an approximate 60% interest is held.

An agreement was reached to unitize the Ring/Border field in northeastern British Columbia. An 84 million cubic feet per day gas processing plant was constructed, at a cost of $20 million, and started up November 1, 1991. The project, in which Home Oil holds an approximate 15% interest, yields ten million cubic feet of gas per day net to the Company.

In the East Eagle Unit of northeastern British Columbia, where Home Oil holds a 50% interest, four development wells were successfully completed. These wells added 220 barrels of oil per day to the Company's production and a net 242,000 barrels of proved oil reserves. An additional well was drilled between the East and West Eagle Units and added a net 124,000 barrels of oil reserves.

Ten development wells, drilled in the South Pierson area of Manitoba, resulted in an increase of 600,000 barrels of oil reserves net to Home Oil. The Company holds a 100% working interest in these wells.

A development well was successfully drilled in the Pembina field of Alberta, adding a net 460,000 barrels of oil reserves. Home Oil holds a 100% working interest in this well before payout and an 80% working interest after payout. Studies are in progress to evaluate the feasibility of a waterflood scheme in the pool.

EXPLORATION ACTIVITIES

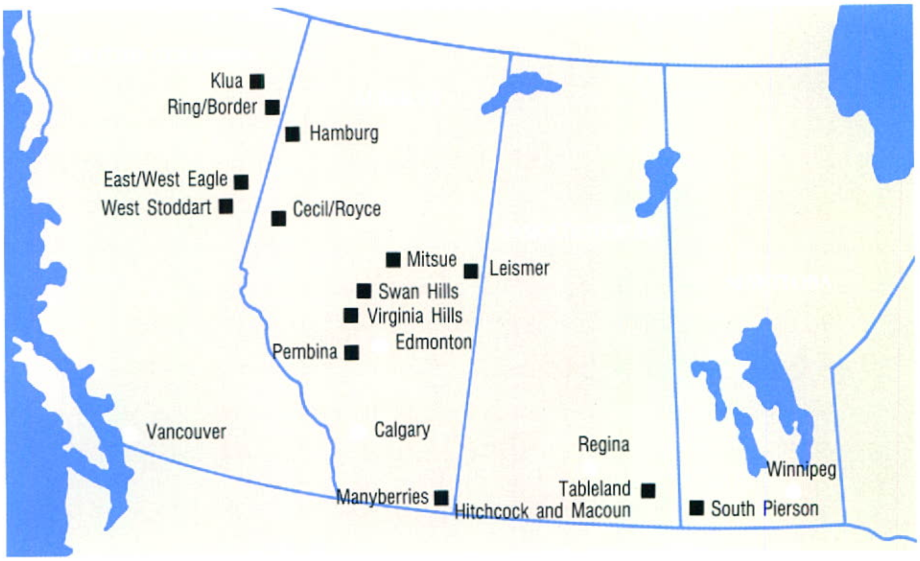
An exploratory well in the Pembina area of Alberta added a net 328,000 barrels of natural gas liquids and two billion cubic feet of net proved natural gas reserves. A seismic program commenced in the area with further seismic and step-out drilling planned in 1992.

In the Klua area of British Columbia, Home Oil successfully recompleted an exploratory well which added eight billion cubic feet of natural gas to the Company's proved reserves.

Exploration activity on the Company's extensive landholdings in western Canada was supplemented by a substantial farmout program.

Late in 1991, seismic work commenced in Saskatchewan as part of a major exploration farmout agreement with OMV (CANADA) Ltd. This follows up the Company's past successes in the Winnipegosis formation at Tableland, Hitchcock and Macoun. Home Oil and the farmee plan to spend a combined $6 million to drill up to 15 wells for deep oil targets in Saskatchewan. OMV will pay 75%, while Home Oil will participate at a 25% working interest in, and will operate most of, the program. Home Oil will retain 59% of its original working interest in the subject lands. This arrangement allows Home Oil to reduce its risk capital while continuing activities to effectively evaluate our lands.

EXPLORATION AND DEVELOPMENT AREAS

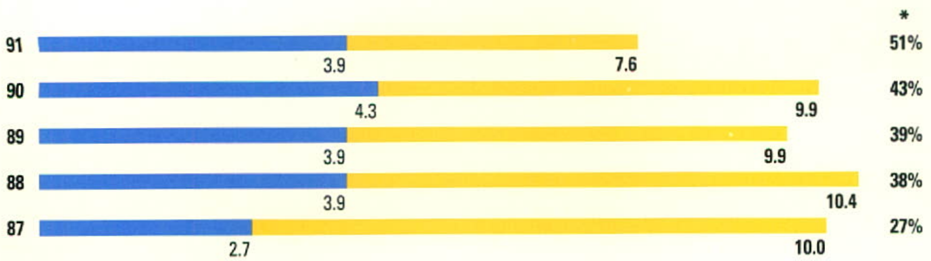


LAND POSITION

The Company's net landholdings at December 31, 1991 totalled 4.4 million acres compared with 4.8 million acres one year ago. Undeveloped lands in western Canada accounted for 3.7 million net acres, down from 4.3 million net acres last year. This significant land base enabled the Company to supplement its drilling activity during the year by participating in numerous farmout programs, thereby maintaining exploratory activity levels similar to prior years.

In 1991, the Company purchased 114,000 net acres of undeveloped Crown and Freehold rights in western Canada for $2.5 million or an average $22 per acre. This represents a significant decline in acreage acquisition from that of previous years and is a direct result of the Company's strategy of selective capital investment. Land acquisition objectives changed in 1991 and are now limited to following up drilling successes and purchasing strategic parcels on Home Oil's key exploratory plays.

Due to acreage expiry in the Beaufort Sea, the Company held undeveloped lands of 0.2 million net acres, a decrease of 0.2 million net acres from the prior year.

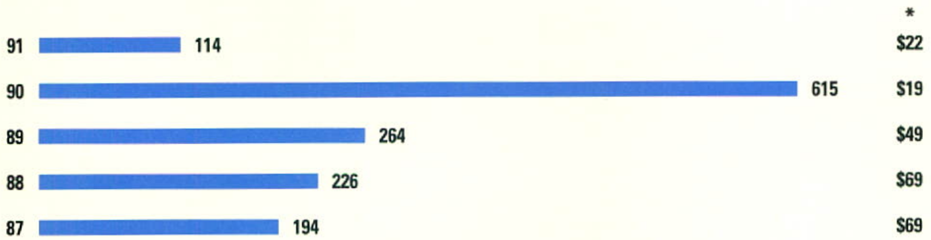


UNDEVELOPED CANADIAN LANDHOLDINGS

(acres in millions)

Average Working Interest *

Net acres **Gross acres**



LAND AQUISITIONS

(net acres in thousands)

Average Cost per Acre *

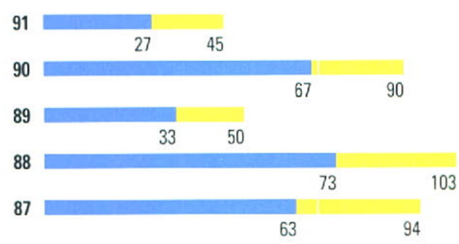
DRILLING ACTIVITY

Successful

Total

Gross Wells

Net Wells



DRILLING RESULTS

In 1991, Home Oil participated in the drilling of 132 gross working interest wells, down markedly from the 201 gross wells drilled last year. Exploratory drilling resulted in seven oil and 11 gas wells; development drilling resulted in 61 oil and 13 gas producers. Non-convertible gross overriding royalty interests were held in 61 additional wells, of which 33 were oil discoveries and 14 found gas.

RESERVES

Property sales and downward revisions largely account for the decline in Home Oil's proved reserves of liquids and natural gas at year end 1991 compared with those of the previous year.

Proved reserves of crude oil and natural gas liquids totalled 98.9 million barrels on December 31, 1991, an 11% decrease from one year earlier. Reserve additions through extensions, discoveries and purchases totalled 9.5 million barrels, while production amounted to 11.1 million barrels and dispositions were 5.8 million barrels. The sale of Home Oil's interest in the Caroline field accounted for the majority of reserves disposed of during the year. Revisions due to observed field performance also reduced crude oil and natural gas liquids reserves by 4.6 million barrels.

At year end, proved reserves of natural gas totalled 1,207.4 billion cubic feet, a 4% decrease from last year. Extensions, discoveries and purchases of 55.2 billion cubic feet were insufficient to offset sales of 63.1 billion cubic feet and dispositions of 18.1 billion cubic feet. Revisions resulted in a further decline of 22.3 billion cubic feet of proved natural gas reserves at year end.

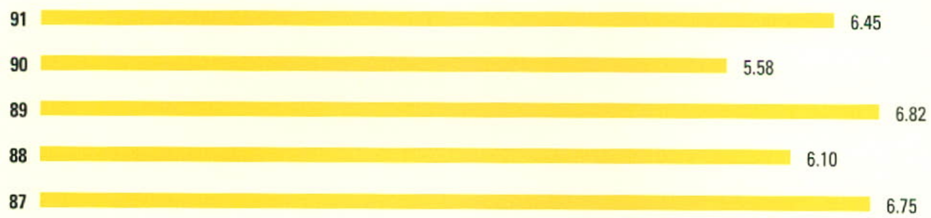
Based on 1991 production levels, the Company's current proved reserves life indices for crude oil and natural gas are 8.4 and 19.1 years, respectively.

In 1991, Home Oil added reserves at a cost of \$6.45 per barrel of oil equivalent, using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.

Home Oil replaced 87% of its production, on a barrel of oil equivalent basis, even though the capital program was substantially reduced.

PROVED AND PROBABLE RESERVES (before royalties)	CRUDE OIL (millions of barrels)	NATURAL GAS LIQUIDS (millions of barrels)	NATURAL GAS (billions of cubic feet)	SULPHUR (thousands of long tons)
PROVED RESERVES				
January 1, 1991	**84.0**	**26.9**	**1,255.7**	**2,047**
Additions	3.4	6.1	54.4	307
Revisions	(4.6)	—	(22.3)	31
Acquisitions	—	—	0.8	—
Dispositions	(0.7)	(5.1)	(18.1)	(455)
Production/Sales	(8.7)	(2.4)	(63.1)	(90)
December 31, 1991	**73.4**	**25.5**	**1,207.4**	**1,840**
PROBABLE RESERVES				
December 31, 1991	**33.8**	**7.4**	**421.7**	**399**
TOTAL RESERVES				
December 31, 1991	**107.2**	**32.9**	**1,629.1**	**2,239**

Probable reserves represent the additional volumes of reserves which exist subject to verification either through additional capital expenditures or observation of future field performance. Probable reserves represent 27% of the total proved plus probable reserves, consistent with industry levels.



ADDITIONS COST

(dollars per barrel of oil equivalent)

PRODUCTION & SALES

Crude oil production in 1991 averaged 23,763 barrels per day compared with 25,019 barrels per day last year. Lower production resulting from property sales and the natural decline of mature fields was only partially offset by production from new wells. The implementation of three major field optimization projects late in the year, resulted in November and December crude oil production averaging in excess of 24,000 barrels per day and production is expected to remain at approximately this level during 1992.

Natural gas liquids production averaged 6,588 barrels per day, up marginally from one year ago, largely attributable to increased production at the Swan Hills enhanced oil recovery project.

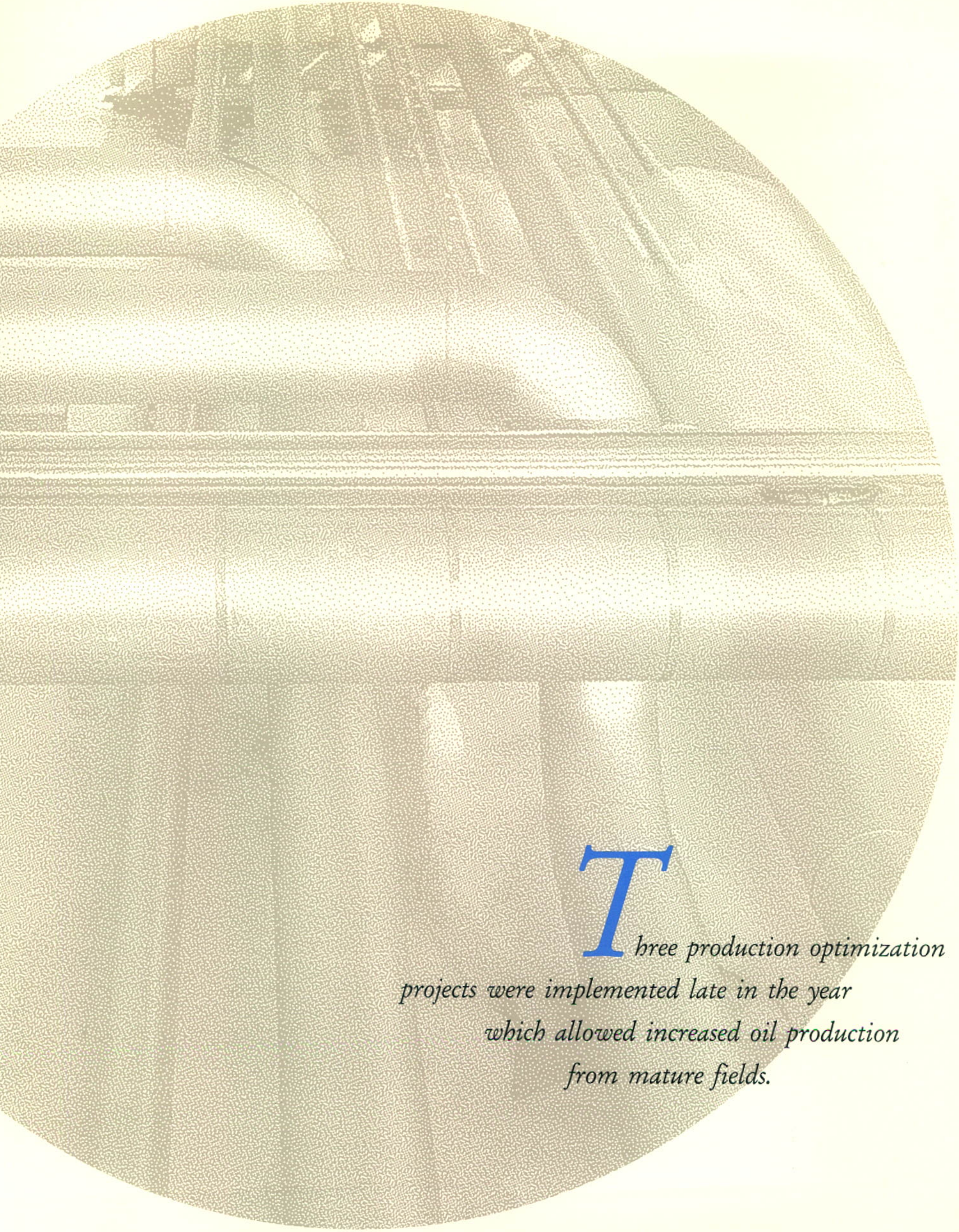
Natural gas sales reached a record 172.8 million cubic feet per day in 1991, up from 159.5 million in 1990. Higher production from the Leismer field accounted for the increased sales. In spite of lower average gas prices, the Company sold gas to several new contracts at competitive prices, and accommodated increased nominations by aggregators.

OIL & NATURAL GAS LIQUIDS PRODUCTION

(thousands of barrels per day)

NATURAL GAS SALES

(millions of cubic feet per day)



Three production optimization projects were implemented late in the year which allowed increased oil production from mature fields.

CRUDE OIL PRODUCTION

(before royalty; barrels per day)	**1991**	1990
Swan Hills Unit, Alberta	**4,719**	4,560
Mitsue Gilwood Unit, Alberta	**2,339**	2,595
West Eagle Unit, British Columbia	**1,210**	1,339
Cecil/Royce, Alberta	**1,164**	1,137
East Eagle Unit, British Columbia	**1,051**	1,021
Virginia Hills Unit, Alberta	**963**	1,070
Harmattan/Elkton, Alberta	**805**	768
Pierson, Manitoba	**775**	669
Stoddart, British Columbia	**669**	715
Other	**10,068**	11,145
Total	**23,763**	25,019

NATURAL GAS LIQUIDS PRODUCTION

(before royalty; barrels per day)	**1991**	1990
Swan Hills Unit, Alberta	**2,472**	1,808
South Wapiti, Alberta	**534**	587
Carstairs/Elkton, Alberta	**525**	650
Harmattan/Elkton, Alberta	**399**	427
West Pembina/Brazeau, Alberta	**389**	465
Leduc, Alberta	**338**	296
Turner Valley #7, Alberta	**260**	311
Other	**1,671**	1,988
Total	**6,588**	6,532

GAS PRODUCTION

(before royalty; thousands of cubic feet per day)	**1991**	1990
Leismer, Alberta	**36,932**	19,917
Harmattan/Elkton, Alberta	**11,757**	8,997
South Wapiti, Alberta	**9,595**	14,108
Carstairs/Elkton, Alberta	**8,344**	8,144
Marten Hills Unit, Alberta	**7,682**	6,572
Swan Hills Unit, Alberta	**6,676**	3,976
Coleman, Alberta	**5,584**	5,355
Moose Mountain, Alberta	**5,151**	5,957
Karr, Alberta	**4,231**	3,249
Other	**76,896**	83,208
Total	**172,848**	159,483

OIL AND GAS PRICES

Like its industry counterparts, Home Oil benefitted from the run up in crude oil prices during the second half of 1990, following the invasion of Kuwait by Iraq. Resolution of the conflict caused oil prices to fall in early 1991 and they have remained flat throughout the year. The Company's average wellhead price for crude oil was $20.58 per barrel during 1991 compared with $25.57 one year ago.

Wellhead prices for natural gas were depressed during the year as a result of surplus supply and intense gas-on-gas competition. The Company's average gas price declined to $1.37 per thousand cubic feet in 1991 from $1.62 per thousand cubic feet in 1990.

CRUDE OIL PRICES

(Canadian dollars per barrel at wellhead)

NATURAL GAS PRICES

(Canadian dollars per thousand cubic feet at wellhead)

OPERATING NETBACKS

Netbacks are calculated on a unit of production basis by product. In the case of crude oil, sales revenue less operating costs and royalties, is divided by total crude oil production to arrive at the operating netback per barrel of oil.

A similar method is employed to determine the netback per thousand cubic feet of natural gas. However, the revenues realized on the sale of gas byproducts, such as natural gas liquids, are combined with those received from natural gas sales, and the cost of extraction is included as a cost of processing the natural gas.

The Company received an average operating netback of $12.95 per barrel of oil compared with $17.31 per barrel one year ago. The average netback for gas and natural gas liquids was $1.09 per thousand cubic feet, a decline of 25% from 1990.

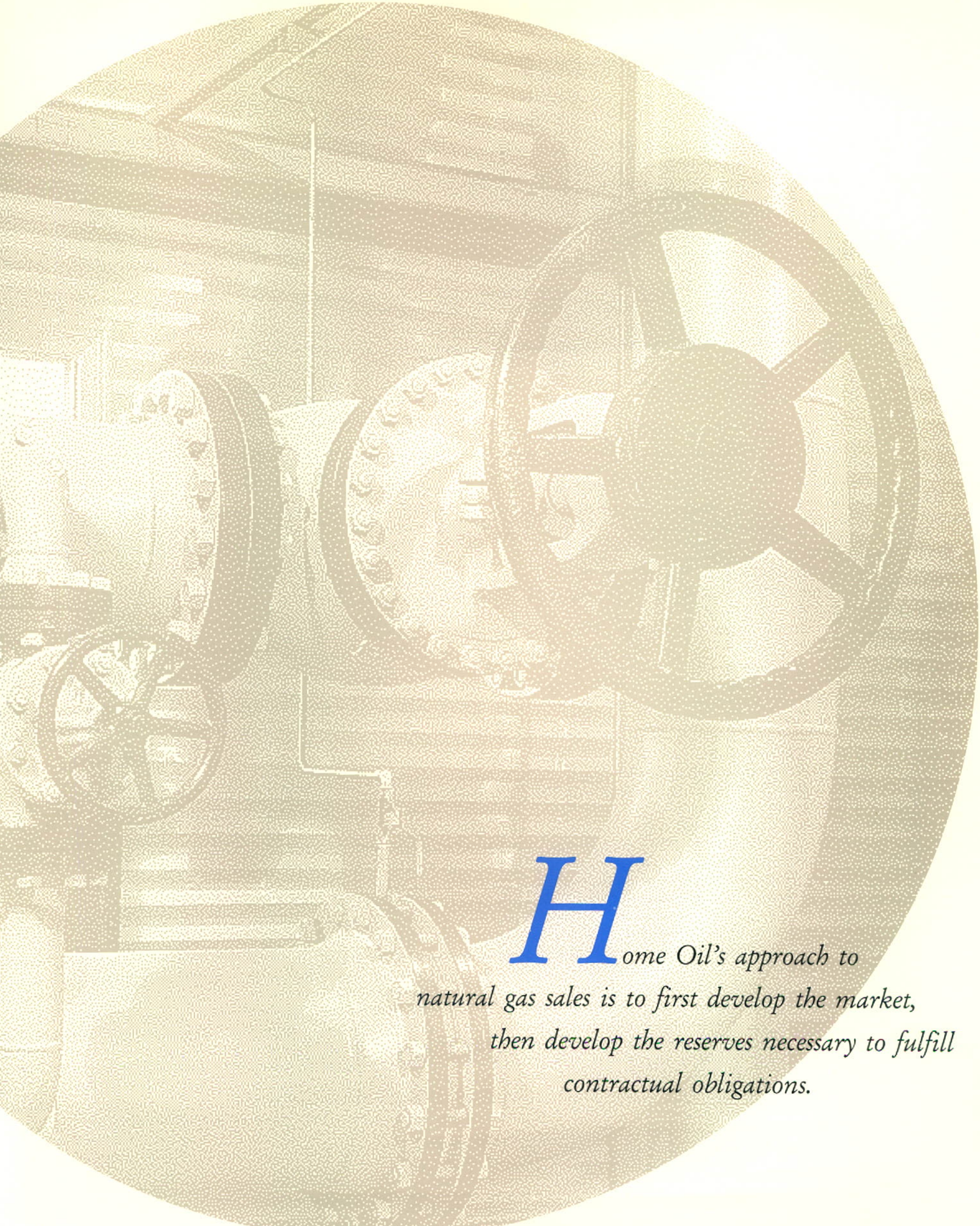
Operating netbacks were primarily influenced by lower product prices during the year. Lower netbacks also reflect the effect of a minimum royalty imposed on miscible flood projects, and the increased production from gas fields subject to higher royalty rates. Operating costs remained essentially unchanged from 1990 levels.

GAS AND NATURAL GAS LIQUIDS

(Canadian dollars per thousand cubic feet)	**1991**	1990
Gas Price	**$1.37**	$1.62
Products Price	**0.57**	0.74
Royalty Expense	**(0.34)**	(0.39)
Operating Expense	**(0.51)**	(0.52)
Netback	**$1.09**	$1.45

CRUDE OIL

(Canadian dollars per barrel)	**1991**	1990
Price	**$20.58**	$25.57
Royalty Expense	**(3.50)**	(4.22)
Operating Expense	**(4.13)**	(4.04)
Netback	**$12.95**	$17.31



Home Oil's approach to natural gas sales is to first develop the market, then develop the reserves necessary to fulfill contractual obligations.

MARKETING & PIPELINES

Crude oil markets were relatively strong during the year, but deliveries to eastern markets were constrained due to apportionment on the Interprovincial pipeline system. Home Oil's primary crude oil marketing objective during the year was to ensure that the Company had marketing opportunities available for its crude oil, such that economic production was not shut-in or substantially discounted to move the product to market.

The North American gas market remained extremely competitive during 1991. Abundant supply, slow demand growth and bottlenecked deliverability in Alberta resulted in average prices declining relative to 1990. Home Oil's primary natural gas marketing objective in 1991 was to place its uncontracted reserves into higher-valued, long term markets.

Our gas marketing activities focused on shifting sales out of Alberta's very competitive market and into the northeastern United States, where there is considerable scope for demand growth, particularly in the power generation sector. This type of buyer generally prefers long term contracts for the security of supply these arrangements provide. The Company's efforts to secure more direct sales over sales to aggregators reflects our view that more favourable price and volume terms can be obtained. Home Oil will consider sales to aggregators which supply the higher priced power generation and local distribution company markets. Home Oil's approach to natural gas sales is to first develop the market, then develop the reserves necessary to fulfill contractual obligations.

GAS MARKETING ACTIVITIES

During 1991, Home Oil succeeded in placing significant uncontracted proved reserves of natural gas into higher-valued, long term markets. As a result, the Company's pool of uncontracted gas reserves declined by over one-third to approximately 300 billion cubic feet at year end. Sales of natural gas averaged 173 million cubic feet per day, up 8% from one year ago, due to additional sales into long term markets.

Approximately 40% of Home Oil's gas sales are directed to local distribution companies which serve the higher-valued core residential and commercial markets.

Home Oil completed the contracting of 105 billion cubic feet of natural gas reserves, under a 15 year agreement with ProGas Limited, a producer-owned aggregator. ProGas was successful in acquiring incremental power generation and local distribution markets in the northeastern United States. Maximum deliveries under the contract are set at 20 million cubic feet per day effective November 1, 1991.

GAS SALES BY CUSTOMER (millions of cubic feet per day)	**1991**	1990
Long Term		
Western Gas Marketing	**28**	26
Syncrude Canada	**22**	15
Consumers' Gas	**18**	22
Pan Alberta Gas	**17**	14
Alberta & Southern Gas	**12**	12
ProGas	**12**	9
Other	**19**	21
	128	119
Short Term	**45**	41
	173	160

The Company entered into two major sales contracts, during 1991, each of which required a secure, long term supply of natural gas. A long term agreement was signed with CanWest Gas Supply Inc. for the sale of up to 16 million cubic feet per day of British Columbia gas. The terms of this contract include a development agreement which permits up to 100 billion cubic feet of natural gas reserves from British Columbia to be dedicated to the contract as they are found and developed. This provision allows Home Oil to further explore and develop its extensive landholdings in northeastern British Columbia. Sales to CanWest commenced in January, 1992 with initial deliveries of ten million cubic feet per day.

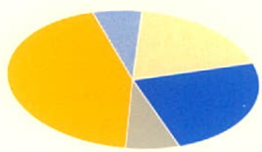
An agreement was also signed for the sale of, and an application has been filed with the National Energy Board for, a permit to export 18 million cubic feet per day of natural gas to Sithe Energies of New York. The gas will feed its proposed cogeneration facility at Ogdensburg, New York. Almost 100 billion cubic feet of natural gas reserves have been dedicated to satisfying this contract.

PIPELINE ACTIVITIES

Federated Pipe Lines Ltd., 50% owned by Home Oil, was selected to build a pipeline to transport natural gas liquids on a cost-of-service basis from the Caroline gas processing plant presently under construction in central Alberta to Federated's existing system at Bonnie Glen, Alberta. This extension will add 28,000 barrels per day of throughput to Federated's deliveries, and will also require expansion of the existing Federated line between Bonnie Glen and Fort Saskatchewan. Completion is targeted for late 1992.

1991 GAS SALES (by Market Type)

(millions of cubic feet per day)



- **Local Distribution Companies 76**
- **Power Generation 11**
- **Industrial 32**
- **Spot 42**
- **Internal 12**

1991 total 173

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion of the results of operations and fi [illegible] *of Home Oil for the three years ended December 31, 199* [illegible] *in conjunction with the Consolidated Financial Statements* [illegible] *pursuant to a Plan of Arrangement, Home* [illegible] from Interhome Energy Inc. and became a stand-alone, publicly traded company. The effect of this corporate restructuring was to transfer Interhome Energy's interest in Home Oil directly to Interhome Energy's shareholders.

Results of Operations

Liquidity and Capital Resources

Business Risks and Prospects

RESULTS OF OPERATIONS

Home Oil incurred a loss during 1991 of $0.4 million, $0.01 per share, compared with 1990 earnings of $66 million, $1.68 per share, and 1989 earnings before an extraordinary gain of $44 million, $1.10 per share. The extraordinary gain of $14 million from the sale of Home Oil's investment in Sovereign Oil & Gas PLC resulted in earnings totalling $58 million or $1.47 per share in 1989.

Cash from operations amounted to $116 million compared with $183 million in 1990 and $165 million in 1989. Lower operating revenue, additional interest costs and non-recurring costs associated with the corporate restructuring and the downsizing program principally account for the decline in both earnings and cash from operations. Earnings and cash from operations in 1990 and 1989 also benefited from tax recoveries on the realization of certain capital losses.

OPERATING REVENUE (dollars in millions)	1991	1990	1989
Crude oil	**$151**	$195	$160
Natural gas	**72**	79	70
Natural gas liquids	**25**	31	21
Sulphur	**4**	5	5
Pipeline and other	**14**	16	15
	$266	$326	$271

Operating revenue of $266 million declined from $326 million in 1990 and $271 million in 1989. The fluctuations in operating revenue are principally related to changes in product prices, in particular oil prices which rose during the last half of 1990 as a result of the Persian Gulf conflict.

CRUDE OIL	1991	1990	1989
Revenue after royalty (dollars in millions)	**$ 151**	$ 195	$ 160
Volume (barrels per day)	**23,763**	25,019	26,342
Price (per barrel)	**$ 20.58**	$ 25.57	$ 20.23
Royalty rate	**17.0%**	16.5%	17.3%

Average crude oil production volumes declined by 5% in 1991 as new production only partially offset the impact of natural production declines in the Company's mature fields and property sales. The implementation of three major field optimization projects late in the year has arrested the decline with both November and December production averaging in excess of 24,000 barrels per day. The 5% decline in production in 1990 from 1989 resulted from the January 1, 1990 sale of Home Oil's international production of 1,130 barrels per day.

As a result of a stronger Canadian dollar and lower world oil prices, Home Oil's average price per barrel declined 20% from the average 1990 price but increased marginally from 1989 levels.

NATURAL GAS	1991	1990	1989
Revenue after royalty (dollars in millions)	**$ 72**	$ 79	$ 70
Volume (millions of cubic feet per day)	**173**	160	151
Price (per thousand cubic feet)	**$1.37**	$1.62	$1.52
Royalty rate	**17.4%**	16.2%	16.5%

Natural gas sales volumes reached a record level of 173 million cubic feet per day, an increase of 8% and 15% over 1990 and 1989 levels, respectively. Higher production from Leismer, instituted to offset competitor drainage, accounted for the increased sales.

The average natural gas price fell in 1991 by 15% to $1.37 per thousand cubic feet reflecting the continued surplus of gas deliverability in western Canada. The average price rose in 1990 over 1989 as a result of improved long term contract prices. The royalty rate reached 17.4% as increased production originated from dry gas fields with low processing fees resulting in higher royalty rates.

NATURAL GAS LIQUIDS

NATURAL GAS LIQUIDS	1991	1990	1989
Revenue after royalty (dollars in millions)	**$ 25**	$ 31	$ 21
Volume (barrels per day)	**6,588**	6,532	5,854
Price (per barrel)	**$12.80**	$15.66	$11.64
Royalty rate	**17.6%**	17.6%	13.9%

Natural gas liquids production rose marginally from 1990 and was up 13% from 1989. The increase over 1989 resulted from higher liquids production from the Swan Hills miscible flood. Liquids prices have generally tracked changes in the price of crude oil.

OPERATING EXPENSES

OPERATING EXPENSES (dollars in millions)	1991	1990	1989
Oil and gas	**$68**	$67	$63
Pipeline and other	**3**	4	3
	$71	$71	$66

Operating expenses increased slightly from 1990 and were up 8% over 1989. The increase was primarily a result of the cost associated with additional gas production. On a barrel of oil equivalent basis, costs were $3.13 compared with $3.16 and $3.09 for 1990 and 1989, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totalled $20 million, up slightly from 1990. Higher administrative costs associated with Home Oil becoming a public company and general cost increases, were offset by savings in the fourth quarter as a result of the downsizing. The 1990 increase was due mainly to higher wage and benefit costs.

RESTRUCTURING AND DOWNSIZING EXPENSES

Home Oil's share of the Interhome Energy corporate restructuring generated non-recurring costs of approximately $5 million of which $2 million was incurred in 1990 and the remainder in 1991. In September 1991, Home Oil implemented a downsizing program affecting approximately 25% of the head office staff. This program, taken to reduce ongoing head office costs, in response to lower activity levels within the Company and the oil and gas industry, resulted in a one time charge of $8 million.

DEPLETION AND DEPRECIATION EXPENSES

(dollars in millions)	**1991**	1990	1989
Oil and gas	**$107**	$98	$103
Pipeline and other	**2**	2	2
Corporate	**5**	5	4
	$114	$105	$109

Depletion and depreciation expense rose by 8% in 1991 principally as a result of increased oil and gas depletion rates. On a barrel of oil equivalent basis, the Canadian depletion rate was $4.94 compared with $4.60 in 1990 and $4.41 in 1989. The oil and gas depletion expense declined in 1990 from 1989 due to the disposition of Home Oil's international properties.

INTEREST EXPENSE

Interest expense of $54 million in 1991 was $11 million higher than 1990 and $25 million higher than 1989. The increase in 1991 resulted from the assumption of $221 million of debt on May 1 pursuant to the corporate restructuring. Interest expense rose in 1990 over 1989 due to a higher average interest rate on the $200 million Oil Indexed Debenture ("OID") and increased intercompany borrowings. The interest rate on the OID varies with the West Texas Intermediate crude oil price and averaged 14.3% for 1991, 14.5% in 1990 and 10.9% in 1989.

TAXES

(dollars in millions)	**1991**	1990	1989
Income taxes			
Current	**$(1)**	$12	$ 3
Deferred	**2**	11	12
	1	23	15
Large Corporations Tax	**3**	2	1
Alberta Royalty Tax Credit	**(2)**	(2)	(6)
	$ 2	$23	$10

The effective income tax rate on pretax earnings was 55% compared with 25% in 1990 and 28% in 1989. The effective rate rose in 1991 because non-deductible resource royalties exceeded the resource allowance as a result of lower prices and higher royalty rates. The effective rates in 1990 and 1989 were abnormally low due to income tax recoveries of $9 million in 1990 and $4 million in 1989 from the utilization of capital losses.

The Large Corporations Tax increased from both 1990 and 1989. The statutory rate for the tax rose from 0.175% to 0.200% in the current year. The tax became effective on June 30, 1989 and accordingly only applied for one half of that year.

The Alberta Royalty Tax Credit declined significantly from the 1989 level when both Home Oil and its subsidiary, Scurry-Rainbow Oil Limited, each received the maximum $3 million credit. Subsequent legislative changes reduced the available credit and required the amount to be shared among associated companies, being Home Oil, Scurry-Rainbow and Gulf Canada Resources Limited.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash from operations totalled $116 million compared with $183 million in 1990 and $165 million in 1989. Lower operating revenue, the restructuring and downsizing costs, and increased interest expense were offset partially by lower current taxes.

Investing Activities

CAPITAL EXPENDITURES (dollars in millions)	**1991**	1990	1989
Exploration — Canada	**$ 43**	$ 70	$ 55
— International	**—**	—	21
Development	**60**	80	70
Acquisitions	**3**	15	68
Miscible fluids	**22**	24	22
Other	**7**	8	8
	$135	$197	$244
Proceeds on sale of assets	**$ 34**	$ 30	$ 21

Capital expenditures in 1991 declined by 31% from 1990 reflecting the difficult current industry environment and uncertain future economic outlook. Exploration expenditures declined by 38%, but activity levels were supplemented by an extensive farmout program. Spending on development activities totalled $60 million and included significant expenditures on equipment and facilities to increase existing production and bring new facilities on-stream.

The Company has an ongoing property optimization program which resulted in the disposal during 1991 of a number of non-strategic properties in western Canada, for $34 million, including a 2.25% interest in the Caroline gas field. Funds from these sales, including approximately $25 million collected early in 1992, are being applied to reduce long term debt. The proceeds on sale of assets in 1990 and 1989 principally relate to the disposition of Home Oil's international properties and its investment in Sovereign Oil & Gas PLC.

In 1991, net investing activities were essentially financed from internally generated funds. In 1990 and 1989 internally generated funds were supplemented by borrowings from Interhome Energy to finance the more extensive capital programs. The 1992 planned capital program of $100 million is anticipated to be funded from cash from operations.

Financing Activities and Capitalization

The corporate restructuring significantly altered the Company's capital structure. On May 1, 1991 long term debt increased by $306 million due to the assumption of $221 million of Interhome Energy debt and the repayment of intercompany advances of $85 million. The assumption of debt also resulted in a $221 million reduction in shareholders' equity.

The debt assumed by Home Oil included a $125 million 11% obligation to Interhome Energy maturing in 1995 which is supported by a letter of credit from a major financial institution at a cost of ⅝% per annum. The balance of the debt assumed and the repayment of intercompany advances was financed by borrowing under a $225 million revolving term credit facility. This facility, which expires in 1994, can be drawn down in either Canadian or U.S. dollars at interest rates ⅝% over Canadian Bankers' Acceptances or the U.S. London Interbank Offer Rate, respectively. Since May 1, 1991, approximately $10 million of long term debt has been repaid and at December 31, 1991 borrowings under this facility totalled $170 million.

CAPITALIZATION
(dollars in millions)

	1991		1990	
	AMOUNT	**%**	AMOUNT	%
Long Term Debt				
Oil Indexed Debenture, due 2000	**$200**	**21**	$200	24
9⅞% Debentures, due 1998	**33**	**4**	36	4
11% Debentures, due 1995	**125**	**14**		
Revolving Term Credit Facility, due 1994	**170**	**18**		
	528	**57**	236	28
Equity	**393**	**43**	620	72
Total	**$921**	**100**	$856	100

The Company's ratio of debt to debt plus equity rose to 57:43 at the end of 1991 as a result of the assumption of debt pursuant to the corporate restructuring. The debt structure at the end of 1991 is divided almost equally between fixed rate, floating rate and the OID. The OID provides significant financial protection to the Company in a low oil price environment as the interest rate varies between 5.0% and 21.8% based on the prevailing price of West Texas Intermediate crude oil. At December 31, 1991 $116 million of the revolving term credit facility was denominated in U.S. dollars providing a partial hedge against U.S. denominated crude oil prices and access to the lower interest rates prevailing in the U.S.

Liquidity

Working capital at the end of 1991 was $14 million including other receivables of $26 million. The majority of other receivables relates to amounts due from the sale of properties and was collected early in 1992. As a result, 1992 working capital requirements are expected to decline. The settlement of trade accounts receivable on a monthly basis is expected to provide adequate liquidity to settle trade payables on their due dates.

Management considers the ratio of long term debt to cash from operations to be a key indicator of long term liquidity. At December 31, 1991 the Company's long term debt of $528 million represented 4.6 years of cash from operations. Although this level of debt is considered manageable, the Company's objective is to improve this ratio to less than three years by utilizing both cash from operations in excess of capital expenditures and the proceeds from asset sales to further reduce debt over the next few years.

The unutilized portion of the revolving term credit facility provides additional liquidity to cover ongoing working capital and operating requirements. The Dominion Bond Rating Agency and Canadian Bond Rating Agency have assigned ratings of BBB (high) and B++, respectively, to the Company's outstanding debt.

BUSINESS RISK AND PROSPECTS

The Canadian oil and gas exploration and development industry currently faces many challenges. The industry has been only marginally profitable in recent years due to declining prices and rising costs. The industry outlook is for this trend to continue in the near term.

Oil and gas exploration, development and marketing involve numerous business risks. Earnings and cash flow are sensitive to changes in crude oil and natural gas prices and production volumes, and to the Company's ability to economically find, develop and produce reserves.

Government regulation and legislation has a significant impact on the industry. Changes in the legislative and regulatory environment are possible which may affect the Company. The province of Alberta recently announced royalty holidays for oil wells drilled which should have a small positive effect on results by late 1992.

Home Oil's operations are designed to have minimal impact on the environment and programs are in place which meet or exceed the current governmental regulations. When assets are no longer required, the Company's practice is to abandon and restore well and facility sites. The Company has estimated its future liability for these costs and has been recording this liability in accordance with the guidelines of the Canadian Institute of Chartered Accountants. During 1991 these estimated future costs were reviewed in light of current industry practices and were increased to $50 million. As a result, the annual depletion expense related to abandonment and restoration is estimated to increase to $3 million in 1992 from the $1 million expensed in 1991 and prior years.

Oil prices are expected to remain at present levels but are volatile and dependant on many factors. Changes to crude oil prices also impact interest on the OID. The interest rate for the first month of 1992 under this debenture is 16.5% and declines to 6.2% for the following three months. Crude oil and liquids production volumes in 1992 are anticipated to approximate current levels.

Natural gas prices are expected to remain weak in 1992 due to surplus supply and intense gas-on-gas competition. Natural gas prices are also affected by pipeline availability and North American weather patterns. The new Iroquois Pipeline which recently commenced deliveries to markets in the northeast United States should partially alleviate the deliverability surplus in western Canada.

Crude oil and liquids volumes shipped on the Company's wholly owned pipelines are not secured by contract and are subject to the supply of, and demand for, such products and competition by other pipelines or alternative transportation systems. Competititors have made applications to regulatory agencies for permits to construct and operate a pipeline which would directly compete for volumes comprising approximately half of the revenue generated by the Company's Manyberries pipeline system. The Company is pursuing alternatives to mitigate the adverse impact of these proposals on Manyberries' revenues which were $4 million in 1991.

Operating expenses are anticipated to remain at the same level as 1991 with the costs of new production being offset by operational efficiencies. General and administrative expenses in 1992 are expected to decline as a result of the full year impact of the September 1991 downsizing.

Based on 1991 production and sales volumes and assuming no change in income tax or royalty legislation, the estimated effect on the financial results of the oil and gas operations, on an annualized basis, of a change in each of the following factors is set out in the following table:

FINANCIAL SENSITIVITIES
(dollars in millions)

	APPROXIMATE CHANGE	
	EARNINGS	CASH FROM OPERATIONS
Crude oil prices (U.S. $1 per barrel)[1]		
Inside OID range (U.S. $21-25 per barrel)	$1	$1
Outside OID range	$5	$6
Natural gas prices (Cdn. $0.10 per thousand cubic feet)	$3	$4
Crude oil production (500 barrels per day)	$1	$2
Natural gas sales (10 million cubic feet per day)	$1	$3
Exchange rate (U.S. $0.01)	$1	$2

(1) Crude oil prices affect both revenues and the OID interest rate for future quarterly periods. If, during 1992, crude oil prices average U.S. $21 per barrel or less, the interest rate on the OID for the period commencing after May 1, 1992 will be 5.0% per annum. At oil prices above U.S. $25 per barrel, the interest rate on the OID is the maximum rate of 21.8% per annum. An increase or decrease in revenue resulting from a change in the price of crude oil within the range of U.S. $21 - $25 per barrel is largely offset by a corresponding increase or decrease in the interest rate applicable under the OID.

A $100 million capital program is planned for 1992 with expenditures aimed at optimizing production volumes and adding proved reserves. Exploration expenditures are expected to account for 25% of the program with the majority of the activity directed towards oil prospects. Gas exploration will be limited to fulfilling marketing opportunities with accompanying early cash flows. Exploration activity will be supplemented with an aggressive farmout program. More than one-half of the capital program will be spent on development activities with a focus on optimization projects to maintain crude oil production volumes. The majority of the balance of the program will be spent on acquiring fluids for the miscible flood projects.

A constant reassessment of spending plans is required in an environment where major fluctuations occur in oil and gas prices. The 1992 capital program is flexible and contains no long term commitments. The cost of the program was held below the anticipated cash from operations in order to reduce debt.

As part of the ongoing program to improve the efficiency of its asset base, Home Oil plans to continue its asset optimization program of sales, swaps and purchases. While the amount and timing of these sales are uncertain, the Company hopes to realize approximately $30 million from property sales in 1992, with proceeds dedicated to debt reduction.

Based on 1991 average product prices, Home Oil's 1992 financial results are expected to improve due to increased natural gas sales, the continuing benefits of cost reduction measures, the absence of non-recurring costs and lower interest expenses. The application to debt reduction, of cash from operations in excess of capital expenditures and net proceeds from property dispositions, is projected to result in a significant improvement in the Company's financial position by the end of 1992.

MANAGEMENT'S REPORT

To the Shareholders of Home Oil Company Limited

Management is responsible for the accompanying consolidated financial statements and for the accuracy and consistency of all other information in this Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that reflect management's judgement and best estimates. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system is augmented by an internal audit function and an established code of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board has specific responsibility for this area and is comprised of three directors, the majority of whom are not officers or employees of the Company or any of its affiliates. The Committee meets with management, internal auditors and independent auditors to review the internal controls, financial statements and auditors' reports. The Committee reports its findings to the Board for its consideration in approving the financial statements for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Company's independent auditors, conduct an examination of the financial statements in accordance with Canadian generally accepted auditing standards. Their examination includes a review of the Company's systems of internal control, and such tests and procedures as they consider necessary in order to express an opinion on the financial statements.

D. E. Powell
President &
Chief Executive Officer

A. R. Hagerman
Vice President &
Chief Financial Officer

AUDITORS' REPORT

To The Shareholders of Home Oil Company Limited

We have audited the consolidated statement of financial position of Home Oil Company Limited as at December 31, 1991 and 1990 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1991 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse

Calgary, Alberta, Canada
February 6, 1992

Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(dollars in millions)

DECEMBER 31,	1991	1990
ASSETS		
Current Assets		
Taxes recoverable	$ 0.1	$ —
Accounts receivable		
Trade	57.3	83.3
Other	25.8	1.5
Inventories	9.2	10.6
	92.4	95.4
Investments and Other Assets (Note 3)	24.3	22.5
Property, Plant and Equipment (Note 4)		
Petroleum and natural gas (full cost)	1,339.3	1,349.4
Other	36.4	37.0
	1,375.7	1,386.4
	$1,492.4	$1,504.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness	$ 2.7	$ —
Advances from Interhome Energy Inc. (Note 2)	—	60.7
Accounts payable and accrued liabilities	57.9	68.2
Interest payable	11.6	8.8
Taxes payable	—	8.8
Current portion of deferred production revenue (Note 6)	5.2	5.4
Current portion of long term debt (Note 5)	0.6	0.8
	78.0	152.7
Long Term Debt (Note 5)	527.7	236.0
Deferred Credits (Note 6)	26.9	33.2
Deferred Income Taxes	438.6	434.6
Minority Interest	28.2	27.9
	1,099.4	884.4
Shareholders' Equity		
Capital stock (Note 7)		
Common shares issued 39,644,414 (1990 — 839,258,523)	100.0	200.0
Preferred shares issued — nil (1990 — 32,000)	—	—
Contributed surplus (Note 7)	153.6	277.2
Retained earnings	139.4	142.7
	393.0	619.9
	$1,492.4	$1,504.3

Approved by the Board:

Director *Director*

CONSOLIDATED STATEMENT OF EARNINGS

(dollars in millions, except per share amounts)

YEAR ENDED DECEMBER 31,	1991	1990	1989
Revenue			
Operating	**$266.2**	$325.8	$270.5
Investment and other income (Note 9)	**6.9**	7.8	7.2
	273.1	333.6	277.7
Expenses			
Operating	**71.4**	71.1	66.2
General and administrative	**20.3**	19.6	17.6
Restructuring and downsizing	**11.2**	2.0	—
Depletion and depreciation	**113.9**	105.4	108.5
Interest (Notes 10 and 13)	**54.1**	43.4	29.4
Minority interest	**1.1**	2.7	2.2
	272.0	244.2	223.9
Earnings Before Undernoted	**1.1**	89.4	53.8
Taxes (Note 11)	**1.5**	23.0	10.1
Earnings (Loss) Before Extraordinary Item	**(0.4)**	66.4	43.7
Extraordinary Item (Note 12)	**—**	—	14.4
Earnings (Loss)	**$ (0.4)**	$ 66.4	$ 58.1
Earnings (Loss) per Common Share (Note 7)			
Before extraordinary item	**$ (0.01)**	$ 1.68	$ 1.10
After extraordinary item	**$ (0.01)**	$ 1.68	$ 1.47

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(dollars in millions)

YEAR ENDED DECEMBER 31,	1991	1990	1989
Retained Earnings at Beginning of Year	**$142.7**	$ 87.9	$ 41.4
Earnings (Loss)	**(0.4)**	66.4	58.1
	142.3	154.3	99.5
Dividends			
Common shares	**2.5**	10.0	10.0
Preferred shares	**0.4**	1.6	1.6
	2.9	11.6	11.6
Retained Earnings at End of Year	**$139.4**	$142.7	$ 87.9

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in millions)

YEAR ENDED DECEMBER 31,	1991	1990	1989
Operating Activities			
Earnings (loss) before extraordinary item	**$ (0.4)**	$ 66.4	$ 43.7
Charges (credits) not affecting cash			
Depletion and depreciation	**113.9**	105.4	108.5
Deferred income taxes	**1.7**	10.9	11.8
Unremitted equity earnings	**(1.5)**	(1.4)	(0.9)
Minority interest	**1.1**	2.7	2.2
Other	**1.2**	(1.5)	(0.7)
Cash from Operations	**116.0**	182.5	164.6
Change in non-cash working capital	**(10.6)**	(44.4)	61.9
Deferred production revenue	**(5.6)**	(5.6)	(15.9)
	99.8	132.5	210.6
Investing Activities			
Capital expenditures	**(135.3)**	(196.7)	(244.4)
Proceeds from sale of assets	**34.1**	30.0	20.8
Other	**1.2**	5.9	3.1
	(100.0)	(160.8)	(220.5)
Financing Activities			
Advances from (repayments to) Interhome Energy Inc.	**(60.7)**	43.8	6.0
Proceeds from (repayment of) long term debt (Note 2)	**291.0**	(3.1)	(3.4)
Contribution (reduction) of capital	**(221.4)**	—	15.0
Dividends	**(3.7)**	(12.4)	(12.4)
Other	**(5.0)**	—	—
	0.2	28.3	5.2
Decrease in Cash	**—**	—	(4.7)
Cash at Beginning of Year	**—**	—	4.7
Cash at End of Year	**$ 0.0**	$ 0.0	$ 0.0

(tabular amounts expressed in millions of dollars)

NOTE ONE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Home Oil Company Limited are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee.

(i) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All subsidiaries are wholly owned except for Scurry-Rainbow Oil Limited of which 88.1% is owned. Investments in companies which are not subsidiaries, but over which the Company exercises significant influence, are accounted for using the equity method. Other long term investments are recorded using the cost method.

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

(ii) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities are translated at the rate of exchange in effect at the date of the Statement of Financial Position. Translation gains and losses relating to long term monetary assets and liabilities are deferred and amortized to earnings over their remaining term.

(iii) CASH

Cash, for the purposes of the Statement of Cash Flows, is defined as cash and short term deposits, which are highly marketable securities with an original maturity of three months or less. Operating cash surpluses or requirements increase or decrease a committed revolving long term bank facility and accordingly are shown on the Statement of Cash Flows under Financing Activities as "Proceeds from (repayment of) long term debt".

(iv) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the "first in, first out" and "average cost" methods of inventory valuation.

(v) PROPERTY, PLANT AND EQUIPMENT

The full cost method of accounting is followed for oil and gas operations, whereby all exploration and development costs are capitalized in separate cost centres for each country. Capitalized costs include land acquisition costs, geological and geophysical costs, lease rentals and related charges applicable to nonproducing properties, costs of drilling both productive and nonproductive wells and administrative costs related to exploration and development activities. The net book value of such costs, net of related deferred income taxes and the estimated site restoration accrual, is limited by a "ceiling test" amount. This amount is the sum of future net revenues from proved reserves at current prices and costs, plus the lower of cost and estimated fair market value of unproved properties, less estimated future financing, administrative and income tax expenses.

Oil and gas costs are depleted using the unit of production method based upon estimated proved reserves, before royalties, as determined by Company engineers. Natural gas reserves and sales are converted to equivalent units of crude oil based on six thousand cubic feet of natural gas to one barrel of crude oil. Costs of acquiring and evaluating significant unproved properties and costs of major development projects are excluded from the computation of depletion until such time as additional reserves are proved, the project is completed, or an impairment in value has occurred. Future obligations for site restoration costs, including dismantling and abandoning properties, are accrued using the unit of production method. The annual provision is expensed as depletion.

Depreciation of buildings, plant, pipeline and equipment, other than oil and gas production equipment, is provided on the straight line basis over the estimated service life of each asset. Oil and gas production equipment is depreciated using the unit of production method.

When property, plant and equipment are retired or otherwise disposed of, the net proceeds are credited to the carrying value except for certain major disposals for which the gain or loss is included in earnings.

(vi) DEFERRED INCOME TAXES

Income taxes are accounted for using the tax allocation basis of accounting. Under this method, deferred income taxes are recorded with respect to differences between depletion, depreciation and other items recorded in the accounts and those claimed for income tax purposes.

NOTE TWO

CORPORATE RESTRUCTURING

Pursuant to a Plan of Arrangement, effective May 1, 1991 Home Oil Company Limited was separated from its parent company, Interhome Energy Inc. ("Interhome Energy"), and became a stand-alone, publicly traded company. The result of the Arrangement was to transfer Interhome Energy's interest in Home Oil directly to Interhome Energy shareholders.

Under the terms of the Arrangement, Home Oil repaid all advances from Interhome Energy and assumed the obligations with respect to the payment of principal and interest on certain indebtedness of Interhome Energy totalling $221.4 million. The assumption of long term debt resulted in a corresponding decrease in shareholders' equity.

NOTE THREE

INVESTMENTS AND OTHER ASSETS

DECEMBER 31,	1991	1990
Federated Pipe Lines Ltd., equity method	**$13.8**	$12.5
Minerals Limited, equity method	**1.3**	1.1
Minora Resources NL, cost method	**6.6**	6.6
Other	**2.6**	2.3
	$24.3	$22.5

The Company owns a 50% interest in Federated Pipe Lines Ltd. and Scurry-Rainbow Oil Limited owns a 50% interest in Minerals Limited. The Company also owns a 12% interest in Minora Resources NL, a publicly traded Australian oil and gas company.

NOTE FOUR

PROPERTY, PLANT AND EQUIPMENT

DECEMBER 31, 1991	COST	ACCUMULATED DEPLETION AND DEPRECIATION	NET
Petroleum and natural gas properties and equipment	$2,255.0	$915.7	$1,339.3
Other			
Mining properties	7.3	1.1	6.2
Pipeline carrier property	25.2	16.2	9.0
LPG plant and equipment	8.3	4.4	3.9
Land, buildings and other equipment	40.7	23.4	17.3
	81.5	45.1	36.4
	$2,336.5	$960.8	$1,375.7

DECEMBER 31, 1990	COST	ACCUMULATED DEPLETION AND DEPRECIATION	NET
Petroleum and natural gas properties and equipment	$2,165.8	$816.4	$1,349.4
Other			
Mining properties	11.8	5.7	6.1
Pipeline carrier property	24.8	15.2	9.6
LPG plant and equipment	8.3	3.9	4.4
Land, buildings and other equipment	36.3	19.4	16.9
	81.2	44.2	37.0
	$2,247.0	$860.6	$1,386.4

The Canadian oil and gas depletion and depreciation expense per equivalent unit of production for the year ended December 31, 1991 amounted to $4.94 per barrel (1990 — $4.60; 1989 — $4.41).

During the year administrative costs related to exploration and development activities of $8.5 million (1990 — $9.5 million) were capitalized in accordance with the accounting policies of the Company.

LONG TERM DEBT

NOTE FIVE

DECEMBER 31,	MATURITY	1991	1990
Oil Indexed Debenture, unsecured	2000	**$200.0**	$200.0
9.875% Sinking Fund Debentures, unsecured	1998	**33.6**	36.8
11.0% Debentures, unsecured	1995	**125.0**	—
Revolving Bank Credit Facility, unsecured	1994		
Canadian dollars		**54.1**	—
U.S. dollars (U.S. $100.0)		**115.6**	—
		528.3	236.8
Current portion of long term debt		**(0.6)**	(0.8)
Long term debt		**$527.7**	$236.0

The Oil Indexed Debenture bears interest at a fixed rate of 5.0% per annum plus a variable rate of up to 16.8% per annum. The variable rate is payable if the average West Texas Intermediate crude oil price, of the previous quarter, exceeds certain threshold prices which rise over time. The annual average threshold and ceiling West Texas Intermediate crude oil prices at which the Oil Indexed Debenture attracts a rate of 5.0% and 21.8%, respectively, are as follows:

NOTE FIVE cont'd

YEAR (U.S. dollars per barrel)	THRESHOLD PRICE	CEILING PRICE
1992	$20.97	$24.48
1993	22.23	26.31
1994	23.56	28.06
1995	24.97	30.17
1996	26.47	32.60
1997	28.06	35.12
1998	29.74	37.42
1999	31.53	39.87
2000	33.32	42.25

In 1991, the interest rate averaged 14.3% (1990 — 14.5%) and was 16.5% at the end of 1991 (1990 — 21.8%) (Note 13).

During 1991, the Company arranged a three year committed Revolving Bank Credit Facility in the amount of Cdn. $225 million. This facility is available in any combination of Canadian or U.S. dollar amounts and may be drawn down on a revolving basis. Interest rates on the Canadian and U.S. dollar portions of the facility averaged 9.3% and 6.4%, respectively, during 1991 and were 7.6% and 5.8%, respectively, at the end of 1991. As at December 31, 1991 the unutilized portion of this facility amounted to approximately $55 million.

The amounts of long term debt maturities and sinking fund requirements for the years ending December 31, 1992 through 1996 are $0.6 million, $3.0 million, $172.7 million, $128.0 million and $3.0 million, respectively.

NOTE SIX

DEFERRED CREDITS

DECEMBER 31,	1991	1990
Deferred production revenue	**$13.4**	$19.0
Less: Current portion	**(5.2)**	(5.4)
	8.2	13.6
Site restoration accrual	**12.4**	12.4
Pension liability	**6.3**	7.2
	$26.9	$33.2

Amounts paid to the Company for gas volumes not yet taken under take or pay contracts are recorded as deferred production revenue. These amounts will be recorded as revenue when the gas to which the payments relate is delivered to the purchaser. Deliveries or repayments are being made over a period ending in 1994.

The Company's estimate of future removal and site restoration costs is $50 million of which $0.5 million was accrued in 1991 using the unit of production method. Actual site restoration expenditures, $0.5 million in 1991, reduce the liability when incurred.

CAPITAL STOCK

NOTE SEVEN

The authorized capital stock of the Company consists of an unlimited number of common and preferred shares. At December 31, 1991, 39,644,414 common shares were issued and outstanding.

Prior to the May 1, 1991 effective date of the Arrangement as described in Note 2, all of the issued and outstanding common and preferred shares of the Company were owned by Interhome Energy. Pursuant to the Arrangement, such shares were cancelled and the shareholders of Interhome Energy were issued, on a pro-rata basis, one common share of the Company for each Interhome Energy share held. Concurrently and pursuant to a special resolution of the Board of Directors, the Company reduced its stated capital in common shares from $200.0 million to $100.0 million with the reduction being transferred to the contributed surplus account. In addition, the Company assumed $221.4 million in long term debt and reduced contributed surplus by the same amount.

Earnings per share have been computed using the average number of shares outstanding of 39.6 million shares. There would have been no material dilution of earnings per share if outstanding stock options had been exercised during the year.

Pursuant to agreements entered into with Interhome Energy during 1987, the Company agreed to renounce, for income tax purposes, resource expenditures up to the amount of capital contributions made by Interhome Energy. Interhome Energy contributed $15.0 million during 1989. In 1991, prior to the effective date of the Arrangement, the Company renounced resource expenditures of $5.3 million (1990 — $14.5 million; 1989 — $19.4 million), and contributed surplus was reduced by $2.3 million (1990 — $6.0 million; 1989 — $8.1 million) representing the related tax effect.

STOCK OPTIONS

NOTE EIGHT

On August 6, 1991 the Company's Board of Directors approved an Employee Incentive Stock Option Plan. Under the plan, certain employees were granted options to purchase 227,000 unissued common shares of the Company at an option price of $14.625 per share. The options so awarded are conditional upon receipt of shareholder and other approvals.

INVESTMENT AND OTHER INCOME

NOTE NINE

YEAR ENDED DECEMBER 31,	1991	1990	1989
Interest and dividends	**$1.1**	$1.7	$1.8
Earnings from equity investments	**4.7**	4.6	4.1
Other income	**1.1**	1.5	1.3
	$6.9	$7.8	$7.2

NOTE TEN

INTEREST EXPENSE

YEAR ENDED DECEMBER 31,	1991	1990	1989
Long term debt	$51.8	$32.8	$26.1
Short term borrowings	2.3	10.6	3.3
	$54.1	$43.4	$29.4

NOTE ELEVEN

TAXES

YEAR ENDED DECEMBER 31,	1991	1990	1989
Income taxes			
Current	$ (1.1)	$11.5	$ 3.2
Deferred	1.7	10.9	11.8
	0.6	22.4	15.0
Large Corporations Tax	2.7	2.3	1.1
Alberta Royalty Tax Credit	(1.8)	(1.7)	(6.0)
Total taxes	$ 1.5	$23.0	$10.1

Deferred income taxes result from timing differences in the recognition of items for income tax and financial statement purposes. These differences have arisen principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess of depreciation and depletion in the accounts.

The income tax provision differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to pretax earnings. The differences result from the items shown in the following table:

YEAR ENDED DECEMBER 31,	1991	1990	1989
Pretax earnings	$ 1.1	$ 89.4	$ 53.8
Canadian statutory income tax rate	44.2%	43.8%	43.8%
Income taxes at statutory rate	$ 0.5	$ 39.2	$ 23.6
Increase (decrease) resulting from:			
Non-deductible resource royalties	19.3	23.2	17.7
Federal resource allowance	(16.9)'	(25.9)	(19.5)
Equity income	(2.1)	(2.0)	(1.8)
Utilization of loss carry forward	—	(8.5)	(3.7)
Other	(0.2)	(3.6)	(1.3)
Income taxes	$ 0.6	$ 22.4	$ 15.0
Effective income tax rate	54.5%	25.0%	27.9%

EXTRAORDINARY ITEM

NOTE TWELVE

In 1989, the Company completed the sale of its remaining shareholding in Sovereign Oil & Gas PLC for $23.1 million. This sale resulted in an extraordinary gain of $14.4 million, net of income taxes of $5.9 million of which $2.0 million were deferred.

RELATED PARTY TRANSACTIONS

NOTE THIRTEEN

Prior to the effective date of the Arrangement as described in Note 2, the Company borrowed various amounts from Interhome Energy. These short term loans carried interest at $\frac{1}{16}$% above Interhome Energy's cost of funds from commercial paper and bankers' acceptances. Interest of $2.1 million was charged during 1991 (1990 — $10.0 million; 1989 — $2.7 million). In addition, Interhome Energy provided certain management and administrative services to the Company and in return Interhome Energy was provided with facilities and administrative services. The net cost to the Company amounted to $4.5 million (1990 — $5.7 million; 1989 — $3.2 million). As part of the Arrangement, certain assets and liabilities were exchanged between Home Oil and Interhome Energy. At December 31, 1991, Home Oil's accounts payable included $6.4 million with respect to the settlement of assets and liabilities exchanged and the costs associated with the Arrangement. The liabilities assumed included the assumption by the Company of the $125 million, 11% debentures. The debenture is supported by a $133 million letter of credit with a major financial institution.

During 1989, the Company acquired, through a competitive bid process, an additional working interest in the Leismer East Gas Unit #1 from an affiliate of Imperial Oil Limited for $45.3 million. Imperial Oil Limited owned 22.8% of Interhome Energy's common shares prior to June 14, 1990.

The Company's Oil Indexed Debenture is held by a wholly owned subsidiary of Gulf Canada Resources Limited ("Gulf"), which owns 22.8% of the Company's common shares. The Company's exploration and production activities are conducted jointly with others, including Gulf, under competitive market terms and in the normal course of business.

Olympia & York Developments Limited ("O&Y") owns approximately 75.0% of the ordinary shares of Gulf, 0.5% of the common shares of the Company and 0.5% of the common shares of Interprovincial Pipe Line Inc. ("IPL"), formerly Interhome Energy. GWU Capital Corp. ("GWU Capital") owns approximately 89.3% of the common shares of GW Utilities Limited, which owns 40.7% of the Company's common shares and 63.5% of the common shares of IPL. All of the voting shares of O&Y and all of the shares of GWU Capital are beneficially owned, directly or indirectly, by members of the Reichmann family.

NOTE FOURTEEN

PENSION PLAN

The Company has noncontributory defined benefit pension plans which cover substantially all employees. The plans are funded by the Company based on independent actuarial valuations. Plan assets are invested primarily in publicly traded equity and fixed income securities. Retirement benefits are based on the employees' years of service and salaries during the last years of employment. The cost of pensions is based on the projected benefits and is charged to earnings as services are rendered. The cost reflects management's best estimates of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes to assumptions are amortized over the expected average remaining service lives of the employees of approximately 13 years.

Based on an actuarial valuation dated January 1, 1991, which has been updated to include the effects of the restructuring and downsizing, the plans' status was:

DECEMBER 31,	1991	1990
Pension plan assets at market values	**$77.7**	$72.0
Projected benefit obligations	**76.0**	74.5
Pension plan assets in excess of projected benefit obligations	**$ 1.7**	$ (2.5)

The Company's pension cost for the year ended December 31, 1991 was $4.1 million (1990 — $3.7 million; 1989 — $1.7 million). The 1991 pension cost includes $0.5 million resulting from the restructuring and downsizing.

The most significant economic assumptions made in the measurement of the pension costs and projected benefit obligations of the pension plan were as follows:

YEAR ENDED DECEMBER 31,	1991	1990	1989
Discount rate	**8.5%**	8.5%	8.0%
Average rate of salary increases	**6.5%**	6.5%	6.5%
Average rate of return on pension plan assets	**8.5%**	8.5%	8.0%

NOTE FIFTEEN

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides group health care and life insurance benefits to retirees, their spouses and qualified dependants. The cost of providing these benefits, which is charged against earnings and funded in the year incurred, amounted to $0.1 million (1990 — $0.1 million; 1989 — $0.1 million).

SUPPLEMENTARY INFORMATION (Unaudited)

SELECTED QUARTERLY FINANCIAL DATA

1991 QUARTERS	**FIRST**	**SECOND**	**THIRD**	**FOURTH**	**TOTAL**
Operating revenue	**$73.4**	**$ 61.2**	**$ 63.7**	**$67.9**	**$266.2**
Operating income (1)	**$20.8**	**$ 11.0**	**$ 14.6**	**$14.2**	**$ 60.6**
Earnings (Loss)	**$ 4.2**	**$ (2.8)**	**$ (3.0)**	**$ 1.2**	**$ (0.4)**
Cash from operations	**$37.6**	**$ 25.7**	**$ 24.7**	**$28.0**	**$116.0**
Earnings (Loss) per share	**$0.11**	**$(0.07)**	**$(0.08)**	**$0.03**	**$ (0.01)**

1990 QUARTERS	FIRST	SECOND	THIRD	FOURTH	TOTAL
Operating revenue	$81.9	$61.5	$81.1	$101.3	$325.8
Operating income (1)	$31.8	$14.6	$33.6	$ 49.7	$129.7
Earnings	$15.5	$11.1	$16.8	$ 23.0	$ 66.4
Cash from operations	$48.5	$33.6	$43.0	$ 57.4	$182.5
Earnings per share	$0.39	$0.28	$0.43	$ 0.58	$ 1.68

(1) Operating income is defined as operating revenue less operating and general and administrative expenses, and depletion and depreciation.

QUARTERLY SHARE TRADING INFORMATION (2)

TSE (THE TORONTO STOCK EXCHANGE)

1991 QUARTERS	**FIRST**	**SECOND**	**THIRD**	**FOURTH**	**ANNUAL**
High	—	**$18⅜**	**$15⅞**	**$16½**	**$18⅜**
Low	—	**$14¾**	**$14⅜**	**$14⅛**	**$14⅛**
Close	—	**$15**	**$14½**	**$15**	**$15**
Volume (thousands)	—	**1,429**	**2,385**	**3,875**	**7,689**

AMEX (AMERICAN STOCK EXCHANGE)

1991 QUARTERS (U.S. dollars)	**FIRST**	**SECOND**	**THIRD**	**FOURTH**	**ANNUAL**
High	—	**$15¾**	**$13¾**	**$14½**	**$15¾**
Low	—	**$12⅞**	**$12½**	**$12⅜**	**$12⅜**
Close	—	**$12⅞**	**$13**	**$12¾**	**$12¾**
Volume (thousands)	—	**56**	**98**	**95**	**249**

(2) Share trading information available only after May 1, 1991 when the Company became publicly traded.

FIVE YEAR REVIEW

CONSOLIDATED STATEMENT OF EARNINGS

(dollars in millions)	**1991**	1990	1989	1988	1987
Revenue					
Operating	**$ 266.2**	$ 325.8	$ 270.5	$ 240.4	$ 266.2
Investment and other income	**6.9**	7.8	7.2	8.1	7.2
	273.1	333.6	277.7	248.5	273.4
Expenses					
Operating and general	**91.7**	90.7	83.8	88.2	75.5
Restructuring and downsizing	**11.2**	2.0	—	—	—
Depletion and depreciation	**113.9**	105.4	108.5	107.7	90.7
Interest	**54.1**	43.4	29.4	27.3	49.3
Minority interest	**1.1**	2.7	2.2	1.1	2.9
	272.0	244.2	223.9	224.3	218.4
Earnings before undernoted	**1.1**	89.4	53.8	24.2	55.0
Taxes	**1.5**	23.0	10.1	5.2	20.2
Earnings (loss) before extraordinary item	**(0.4)**	66.4	43.7	19.0	34.8
Extraordinary item	**—**	—	14.4	16.2	—
Earnings (loss)	**$ (0.4)**	$ 66.4	$ 58.1	$ 35.2	$ 34.8

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in millions)	**1991**	1990	1989	1988	1987
Operating activities					
Cash from operations	**$ 116.0**	$ 182.5	$ 164.6	$ 131.2	$ 126.7
Change in non-cash working capital	**(10.6)**	(44.4)	61.9	(18.1)	51.9
Deferred production revenue	**(5.6)**	(5.6)	(15.9)	(9.0)	(12.2)
	99.8	132.5	210.6	104.1	166.4
Investing activities					
Capital expenditures	**(135.3)**	(196.7)	(244.4)	(219.0)	(152.3)
Proceeds from sale of assets	**34.1**	30.0	20.8	29.8	5.1
Other	**1.2**	5.9	3.1	16.0	5.2
	(100.0)	(160.8)	(220.5)	(173.2)	(142.0)
Financing activities					
Advances from (repayments to) Interhome Energy Inc.	**(60.7)**	43.8	6.0	10.8	(40.0)
Proceeds from (repayment of) long term debt	**291.0**	(3.1)	(3.4)	(5.1)	(0.1)
Contribution (reduction) of capital	**(221.4)**	—	15.0	30.0	79.0
Dividends	**(3.7)**	(12.4)	(12.4)	(13.6)	(21.0)
Other	**(5.0)**	—	—	—	—
	0.2	28.3	5.2	22.1	17.9
Increase (decrease) in cash	**$ 0.0**	$ 0.0	$ (4.7)	$ (47.0)	$ 42.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(dollars in millions)	**1991**	1990	1989	1988	1987
Assets					
Cash and cash equivalents	**$ —**	$ —	$ —	$ 4.7	$ 51.7
Short term investments	**—**	—	—	5.3	13.6
Other current assets	**92.4**	95.4	86.6	92.0	90.4
Investments and other assets	**24.3**	22.5	22.0	18.5	27.5
Property, plant and equipment	**1,375.7**	1,386.4	1,323.0	1,199.6	1,090.3
	$1,492.4	$1,504.3	$1,431.6	$1,320.1	$1,273.5
Liabilities and Shareholders' Equity					
Bank indebtedness	**$ 2.7**	$ —	$ —	$ —	$ —
Advances from Interhome Energy Inc.	**—**	60.7	16.9	10.9	—
Current portion of long term liabilities	**5.8**	6.2	5.6	12.2	16.7
Other current liabilities	**69.5**	85.8	121.4	66.0	82.5
Long term debt	**527.7**	236.0	239.0	242.0	244.9
Deferred credits	**26.9**	33.2	32.6	40.0	45.8
Deferred income taxes	**438.6**	434.6	419.5	401.0	368.4
Minority interest	**28.2**	27.9	26.0	29.2	29.2
Shareholders' equity	**393.0**	619.9	570.6	518.8	486.0
	$1,492.4	$1,504.3	$1,431.6	$1,320.1	$1,273.5

CAPITAL EXPENDITURES

(dollars in millions)	**1991**	1990	1989	1988	1987
Western Canada					
Exploration	**$ 42.0**	$ 69.1	$ 55.8	$ 71.7	$ 63.4
Development	**60.3**	79.1	72.3	69.1	46.2
Acquisitions	**2.8**	15.2	68.4	44.2	15.3
Miscible fluids	**22.5**	24.2	22.0	17.1	18.4
Other	**6.6**	8.5	7.8	7.2	5.4
Total Western Canada	**134.2**	196.1	226.3	209.3	148.7
Canadian Frontier	**1.1**	0.6	1.7	(0.4)	5.5
International	**—**	—	20.8	17.9	9.1
	135.3	196.7	248.8	226.8	163.3
Canadian incentives	**—**	—	(4.4)	(7.8)	(11.0)
	$135.3	$196.7	$244.4	$219.0	$152.3

Capital expenditures declined in 1991 reflecting the difficult industry environment and uncertain future economic outlook. The decline in 1990 from 1989 resulted from the acquisition in 1989 of proved gas reserves in western Canada. As well, there were no international expenditures as a result of the sale of the Company's properties effective January 1, 1990. Miscible fluids expenditures over the past three years reflect the start-up of new miscible flood projects. The incentives obtained were primarily under the Petroleum Incentives Program, which expired on March 31, 1986 with certain transitional provisions and the Canadian Exploration and Development Incentive Program which expired on December 31, 1989.

PRODUCTION/SALES DATA

(before royalties)	**1991**	1990	1989	1988	1987
Daily production/sales					
Crude oil (barrels)	**23,763**	25,019	26,342	27,234	26,131
Natural gas liquids (barrels)	**6,588**	6,532	5,854	5,211	4,019
Natural gas (millions of cubic feet)	**172.8**	159.5	150.6	148.0	113.6
Prices					
Crude oil (per barrel)	**$20.58**	$25.57	$20.23	$16.87	$22.66
Natural gas liquids (per barrel)	**$12.80**	$15.66	$11.64	$10.27	$15.26
Natural gas (per thousand cubic feet)	**$ 1.37**	$ 1.62	$ 1.52	$ 1.54	$ 1.67
Royalty rates					
Crude oil	**17.0%**	16.5%	17.3%	17.1%	19.2%
Natural gas liquids	**17.6%**	17.6%	13.9%	15.0%	15.3%
Natural gas	**17.4%**	16.2%	16.5%	18.1%	18.5%

Crude oil production has declined each year since 1988 as a result of the sale of the Company's international properties effective January 1, 1990 and as drilling successes and enhanced oil recovery schemes in western Canada were unable to offset the natural decline of mature fields. Natural gas liquids production has increased steadily over the five year period reflecting higher production of liquids rich natural gas. Increased levels of natural gas sales were experienced in the last four years due to the rising demand for exports to the United States and higher direct sales in Canada.

Approximately 72% of the Company's crude oil production is from Alberta, with 15% from British Columbia and the remainder from Saskatchewan and Manitoba. Substantially all natural gas liquids production is obtained from Alberta fields and almost 90% of natural gas sales occurred in Alberta with the balance in British Columbia and Saskatchewan.

Canadian crude oil prices have displayed wide fluctuations over the five year period, tracking the volatility of world oil prices. Average prices declined during 1991 from the five year high in 1990 brought on by events in the Persian Gulf. The Company's natural gas price averaged $1.37 per thousand cubic feet during 1991 reflecting the continued surplus of gas deliverability in western Canada.

Royalty rates have generally declined during the five year period due to low prices and royalty free periods for new production. During 1991, increased production from fields having higher effective royalty rates resulted in increased average rates.

PROVED RESERVES

(before royalties)	**1991**	1990	1989	1988	1987
Crude oil (millions of barrels)					
Beginning of year	**84.0**	88.4	93.8	89.3	92.8
Revisions and improved recovery	**(4.6)**	1.7	(1.9)	5.3	(2.0)
Extensions and discoveries	**3.4**	4.9	5.6	8.8	8.1
Purchase of reserves in place	**—**	0.2	0.8	0.6	0.1
Sale of reserves in place	**(0.7)**	(2.1)	(0.2)	(0.2)	(0.2)
Production	**(8.7)**	(9.1)	(9.7)	(10.0)	(9.5)
End of year	**73.4**	84.0	88.4	93.8	89.3
Natural gas liquids (millions of barrels)					
Beginning of year	**26.9**	27.6	21.8	18.0	14.9
Revisions and improved recovery	**—**	(2.7)	3.3	1.2	1.4
Extensions and discoveries	**6.1**	4.4	4.5	4.2	3.2
Purchase of reserves in place	**—**	—	0.1	0.3	—
Sale of reserves in place	**(5.1)**	—	—	—	—
Production	**(2.4)**	(2.4)	(2.1)	(1.9)	(1.5)
End of year	**25.5**	26.9	27.6	21.8	18.0
Natural gas (billions of cubic feet)					
Beginning of year	**1,255.7**	1,193.2	1,050.3	959.1	949.2
Revisions and improved recovery	**(22.3)**	(12.5)	55.6	34.2	4.6
Extensions and discoveries	**54.4**	129.4	67.7	78.2	46.1
Purchase of reserves in place	**0.8**	6.2	75.8	43.7	3.4
Sale of reserves in place	**(18.1)**	(2.4)	(1.2)	(10.7)	(2.7)
Production	**(63.1)**	(58.2)	(55.0)	(54.2)	(41.5)
End of year	**1,207.4**	1,255.7	1,193.2	1,050.3	959.1

PERCENTAGE REPLACEMENT OF PRODUCTION

	1991	1990	1989	1988	1987
Crude oil	**39**	56	66	94	86
Natural gas liquids	**254**	183	219	237	213
Natural gas	**87**	233	261	225	119

Proved reserves of crude oil have declined by 21% over the five year period as discoveries and production optimization programs were not sufficient to offset production and reserves sales. Natural gas and natural gas liquids reserves increased by 27% and 71%, respectively, over the five years reflecting an increased focus on natural gas in the exploration and development programs prior to 1991 and acquisitions of proved reserves in 1989 and 1988.

WORKING INTEREST WELLS DRILLED

	1991		1990		1989		1988		1987	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory										
Oil	**7**	**2**	9	4	9	4	40	13	67	24
Gas	**11**	**5**	27	12	20	12	21	7	9	3
Dry	**33**	**15**	32	19	39	14	64	19	68	22
	51	**22**	68	35	68	30	125	39	144	49
Development										
Oil	**61**	**16**	76	29	89	14	147	48	156	34
Gas	**13**	**4**	45	22	14	3	21	5	10	2
Dry	**7**	**3**	12	4	11	3	31	11	22	9
	81	**23**	133	55	114	20	199	64	188	45
Total	**132**	**45**	201	90	182	50	324	103	332	94
Average working interest	**34%**		45%		27%		32%		28%	

Although there has been a reduction in overall drilling activity during the last five years, the Company's strategy of increasing its working interest in wells drilled has been successful in that the average working interest has increased to 34% in 1991 from 28% in 1987. Home Oil has maintained an overall average success ratio of 73% (net 69%) with 48% (net 49%) for exploration successes and 88% (net 86%) for development successes over the past five years.

SUCCESS RATIOS

	1991		1990		1989		1988		1987	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory	**35%**	**32%**	53%	46%	43%	53%	49%	51%	53%	55%
Development	**91%**	**87%**	91%	93%	90%	85%	84%	83%	88%	80%
Total	**70%**	**60%**	78%	74%	73%	66%	71%	71%	73%	67%

OIL AND GAS LANDHOLDINGS

(millions of acres)

	1991		1990		1989		1988		1987	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Canada										
Western provinces	**7.9**	**4.2**	8.4	4.4	8.1	3.9	8.1	3.9	6.6	2.4
Beaufort/Mackenzie Delta	**1.4**	**0.2**	3.1	0.4	3.4	0.5	3.9	0.5	4.8	0.7
Arctic Islands and other	**0.2**	**—**	0.3	—	0.3	—	0.3	—	0.5	0.1
	9.5	**4.4**	11.8	4.8	11.8	4.4	12.3	4.4	11.9	3.2
International (1)	**—**	**—**	—	—	11.7	1.7	17.5	3.2	9.5	1.0
	9.5	**4.4**	11.8	4.8	23.5	6.1	29.8	7.6	21.4	4.2

(1) The Company sold all of its international landholdings effective January 1, 1990.

Net Canadian landholdings were 4.4 million acres in 1991, a decrease of 8% from 1990 levels and unchanged from levels established in 1989 and 1988. During 1991, the Company relinquished interests in one half of its Beaufort/MacKenzie Delta acreage and did not replace relinquishments in the western provinces with new land acquisitions. Included in the data are 1.8 million gross (0.5 million net) acres of developed lands from which production is being obtained or is capable of being obtained.

SHAREHOLDER AND INVESTOR INFORMATION (1)

	1991	1990	1989	1988	1987
Shares outstanding at year end (thousands)	**39,644**	39,637	39,621	39,581	39,558
Average shares outstanding weighted monthly during the year (thousands)	**39,644**	39,628	39,604	39,572	39,550
Number of shareholders at year end	**6,051**	7,070	7,688	8,987	9,549
Percentage of shares registered in Canada at year end	**97%**	99%	97%	97%	97%
Share Trading					
High	**$ 18⅜**				
Low	**$ 14⅛**				
Close	**$ 15**				
Volume (thousands)	**7,689**				
Per Share Data					
Earnings					
Before extraordinary item	**$ (0.01)**	$ 1.68	$ 1.10	$ 0.48	$ 0.88
After extraordinary item	**$ (0.01)**	$ 1.68	$ 1.47	$ 0.89	$ 0.88
Cash from operations	**$ 2.93**	$ 4.60	$ 4.15	$ 3.31	$ 3.20
Dividends	**$ 0.06**	$ 0.25	$ 0.25	$ 0.25	$ 0.51
Shareholders' equity at year end	**$ 9.92**	$ 15.64	$ 14.40	$ 13.11	$ 12.29

(1) Information shown as to number of shares and shareholders for the years 1987 through 1990 are for information purposes only and represent the amounts reported by the Company's former parent, Interhome Energy Inc., prior to the May 1, 1991 Plan of Arrangement.

The Company's common shares are traded on The Toronto Stock Exchange (TSE) in Canada under the ticker symbol "HOC" and on the American Stock Exchange in the United States under "HO". The TSE is the principal market for the Company's common shares. Prices and volumes shown above are as reported by the TSE.

There are no limitations under Canadian law or under the Company's articles or by-laws on the right of non-Canadians to hold securities of the Company or the right of non-Canadian shareholders of the Company to vote on matters presented at shareholder meetings.

Dividends represent payments to the Company's former parent company, Interhome Energy Inc., prior to the May 1, 1991 Plan of Arrangement.

FINANCIAL RATIOS

	1991	1990	1989	1988	1987
Return on average shareholders' equity (1)					
Before extraordinary item	**0.0%**	11.2%	8.0%	3.8%	7.8%
After extraordinary item	**0.0%**	11.2%	10.7%	7.0%	7.8%
Debt/debt plus shareholders' equity (2)	**57.3%**	32.4%	31.1%	32.9%	33.9%
Cash flow coverage of interest (3)	**3.1×**	5.5×	6.5×	5.8×	4.0×
Earnings coverage of interest					
Before extraordinary item (4)	**1.0×**	3.1×	2.8×	1.9×	2.1×
After extraordinary item (4)	**1.0×**	3.1×	3.5×	2.7×	2.1×

(1) Earnings divided by average shareholders' equity.

(2) Debt includes advances from Interhome Energy Inc. and both the current and long term portions of long term debt.

(3) The sum of cash from operations, current taxes and interest expense divided by interest expense.

(4) Sum of pretax earnings and interest expense, divided by interest expense.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert J. Butler
Chairman GW Utilities Limited and Gulf Canada Resources Limited

Donald G. Campbell
Chairman
Maclean Hunter Limited

William A. Dimma
Deputy Chairman
Royal LePage Limited

Lionel G. Dodd
Chief Operating Officer
O & Y Enterprises Inc.

H. Gordon MacNeill
Chairman
Jannock Limited

Gilbert I. Newman
Executive Vice President
Olympia & York Developments Limited

David E. Powell
President & Chief Executive Officer
Home Oil Company Limited

Clifford W. Rackley
Chairman & Chief Executive Officer
Texas Eastern Products Pipeline Company

Albert Reichmann
Chairman
Olympia & York Developments Limited

Charles E. Shultz
President & Chief Executive Officer
Gulf Canada Resources Limited

SENIOR MANAGEMENT

David E. Powell
President & Chief Executive Officer

Fred Callaway
Vice President, Corporate

Allen R. Hagerman
Vice President & Chief Financial Officer

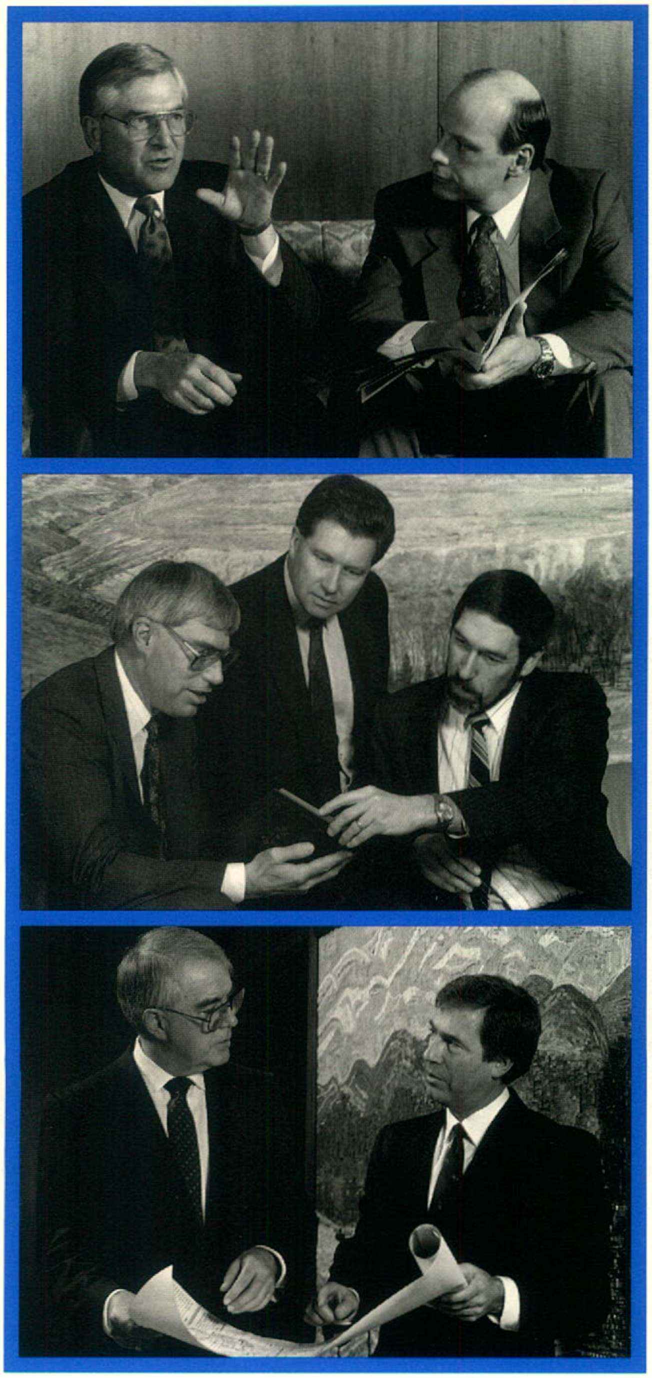
Andrew P. Holder
Vice President, Exploration

Richard C. Osborne
Vice President, Marketing & Pipelines

Robert M. Perrin
Vice President & General Counsel

Bruce W. Sherley
Vice President, Production

Douglas E. Deakin
Corporate Secretary



Management Executive Committee*

top to bottom, left to right:

F. Callaway,
Vice President,
Corporate

R. M. Perrin,
Vice President
& General Counsel

A. R. Hagerman,
Vice President
& Chief Financial Officer

B. W. Sherley,
Vice President, Production

A. P. Holder,
Vice President, Exploration

D. E. Deakin,
Corporate Secretary

R. C. Osborne,
Vice President, Marketing
& Pipelines

* Not shown
D. E. Powell,
President & Chief Executive Officer

BOARD COMMITTEES

The Board of Directors is responsible for establishing Home Oil's major policies and strategic direction. A number of Committees of the Board have been created to focus their attention, and report to the full Board, on areas of Board responsibility and major issues facing the Company. This structure reinforces the proper governance of the Company and protects the interests of all shareholders.

Audit Committee

The principal function of the Audit Committee is to review the Company's audited financial statements and to recommend their approval or otherwise to the Board. The Audit Committee also reviews the effectiveness of internal controls and the terms of engagement of, and compensation payable to, the Company's independent auditors.

Members:
W. A. Dimma, *Chairman*
D. G. Campbell
G. I. Newman

Compensation Committee

The Compensation Committee reviews the Company's compensation policies and budgets, including benefit programs, senior management appointments and management succession plans. The Committee makes its recommendations on these matters to the full Board.

Members:
H. G. MacNeill, *Chairman*
R. J. Butler
C. E. Shultz

Safety & Environment Committee

This Committee monitors and makes recommendations with respect to safety and environment policies, practices and procedures of the Company. Policies are established for the protection of the environment and worker safety. The Committee regularly conducts its review to update policies and ensure compliance throughout the Company's operations.

Members:
C. W. Rackley, *Chairman*
L. G. Dodd

SHAREHOLDER & INVESTOR INFORMATION

Stock Trading

Home Oil's shares are traded in Canada on The Toronto Stock Exchange under the symbol "HOC", and, in the United States, on the American Stock Exchange under "HO". Stock quotation listings in the Canadian press refer to the Company as "Home Oil". For further information, please telephone the Corporate Secretary at (403) 232-7138 or he may be contacted, in writing, at the corporate address.

Transfer Agent and Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver
1-800-665-3906

Co-Transfer Agent and Co-Registrar

The Bank of New York
New York City,
New York

Investor Relations

For more detailed investor information, please telephone the Vice President & Chief Financial Officer at (403) 232-7222 or he may be contacted, in writing, at the corporate address.

Annual Information Form & Form 40-F

The Company files an Annual Information Form with various Canadian securities regulators, and also files an annual report with the Securities and Exchange Commission of the United States. This latter report for 1991 is known as the Annual Report on Form 40-F. Copies of either of these documents are available to shareholders, free of charge, upon written request to the Corporate Secretary, Home Oil Company Limited, 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, Canada, T2P 2Z5.

Auditors

Price Waterhouse
Calgary, Alberta

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held in Calgary, Alberta, Canada on Thursday, May 7, 1992 at 11:30 a.m. in the Crystal Ballroom of the Palliser Hotel. A copy of this annual report is being mailed with the Notice of Annual Meeting of Shareholders, Management Information Circular and Proxy Statement and Form of Proxy to all registered shareholders.

CORPORATE ADDRESS

Home Oil Company Limited
1600 Home Oil Tower
324 Eighth Avenue S.W.
Calgary, Alberta, T2P 2Z5
Telephone: (403) 232-7100
Facsimile: (403) 232-7678

GLOSSARY OF TERMS

Additions Cost: Total western Canadian exploration and development expenditures excluding acquisitions and injected miscible fluids, divided by the proved reserves additions resulting from these activities, expressed in dollars per barrel of oil equivalent.

Barrel of Oil Equivalent: The equivalent energy unit which equates one barrel of crude oil or natural gas liquids to six thousand cubic feet of natural gas (methane) so that oil and gas volumes can be expressed in one common unit known as a barrel of oil equivalent.

Completion: The work necessary to prepare an oil or gas well for production.

Deliverability: The ability to produce natural gas from wells or fields into the pipeline system.

Deliveries: The amount of liquid hydrocarbons delivered by the pipeline to certain points along the system. Also known as throughput.

Development Well: A well drilled inside an established oil or gas field.

Exploratory Well: A well drilled outside the boundary of an established oil or gas field.

Gross: Includes the interests of others.

Gross Overriding Royalty Interest: A royalty usually reserved under a farmout arrangement which is ordinarily calculated and paid as a percentage of gross production before other deductions, such as operating costs, are made. This royalty may be either convertible or non-convertible which permits the owner an opportunity to exchange (convert) this royalty to a working interest.

Natural Gas Liquids: Hydrocarbons liquefied and removed from natural gas during processing.

Net: Excludes the interests of others.

Operator: The company which is responsible for the actual operation of a program or facility.

Percentage Replacement of Production: The portion of annual production replaced by reserves additions, including acquisitions and injected miscible fluids, expressed as a percentage.

Proved Reserves: The estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing operating and economic conditions.

Proved Reserves Life Index: Proved reserves remaining at the end of the current year divided by the current year's production, expressed in years.

Royalty: The share of oil and gas which belongs to the owner of the resource.

Tertiary Recovery: Sophisticated techniques for the recovery of crude oil which go beyond the more conventional secondary recovery techniques of pressure maintenance and water flooding.

Waterflood: One method of secondary recovery in which water is injected into a reservoir to displace additional oil from the reservoir rock.

Working Interest: The operating interest under an oil and gas lease. Companies holding the working interests are responsible for their share of costs.

CONVERSION FACTORS

IMPERIAL SYSTEM OF UNITS	INTERNATIONAL SYSTEM OF UNITS
1 barrel of liquid hydrocarbons	= 0.159 cubic metre
1 cubic foot of natural gas	= 0.028 cubic metre
1 linear foot	= 0.305 metre
1 mile	= 1.609 kilometres
1 acre	= 0.405 hectare
1 long ton (2,240 pounds) of sulphur	= 1.016 tonnes

Photographs on the report cover and throughout the Operations Review were taken at the Company's major production facilities at Swan Hills, Alberta.

In keeping with its commitment to environmental stewardship, Home Oil has used recycled paper throughout this report.

PRINTED IN CANAD