

HOME OIL COMPANY LIMITED

ANNUAL REPORT 1978

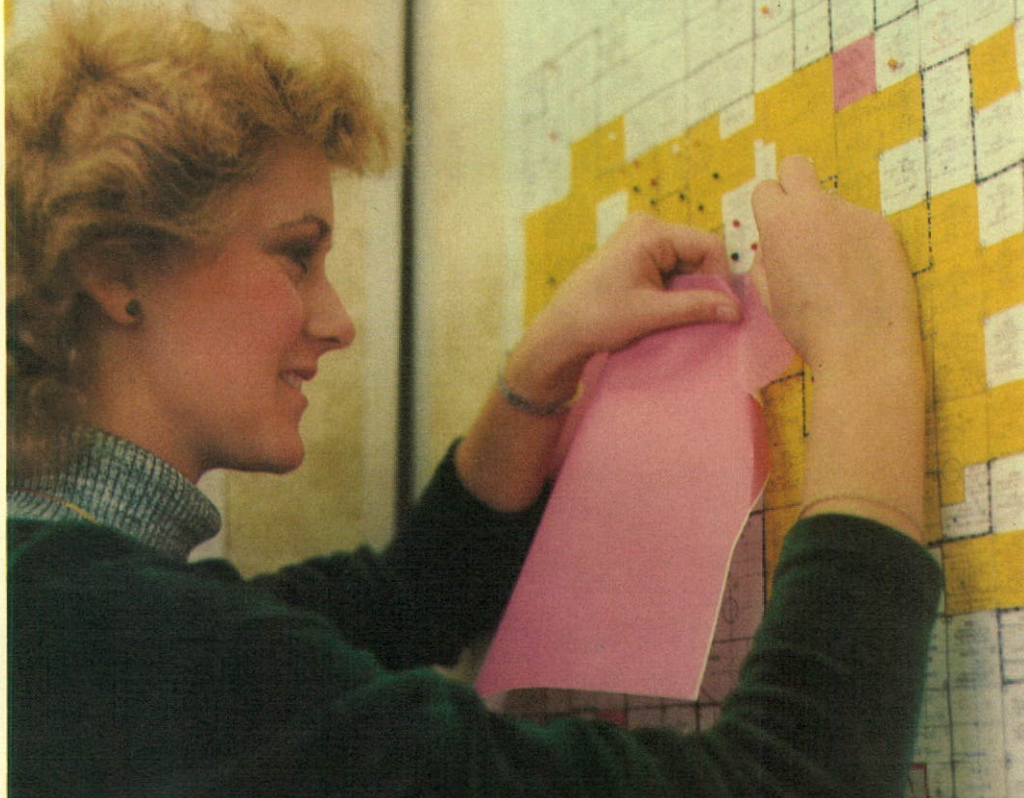
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CORPORATE GOALS

- *provide Shareholders with a fair and reasonable return on their investment.*
- *maintain a secure working environment for employees, recognizing the dignity of the individual and providing opportunities for achievement.*
- *be a good corporate citizen in those countries and communities in which we operate.*

CORPORATE PROFILE

Home Oil Company Limited, incorporated as a federal company in 1929, is an independent Canadian oil and gas exploration and production company with its headquarters in Calgary, Alberta. Subsidiary offices are located in Tulsa, Oklahoma and Houston, Texas. Exploration activities are mainly concentrated in Canada, to a lesser extent in the United States and on a limited basis in other parts of the world. The Company's major producing properties are located in Alberta, with production also being obtained from properties in British Columbia, Saskatchewan and the United States. The Company operates and has ownership in two major pipeline systems and seven gas processing plants, as well as interests in many other gas processing plants within Alberta and British Columbia. It also has a 50 per cent interest in a natural gas liquids (LPG) fractionation plant and an underground storage facility at Hardisty, Alberta and owns a large underground facility for the storage of LPG's at Conway, Kansas. Home and its United States subsidiary market LPG's in both Canada and the United States but do not engage in refining or retail marketing of gasoline. Other corporate assets of Home include an operating silver-gold mine in Nevada, an investment in Panarctic Oils Ltd., substantial undeveloped coal reserves in south-western Alberta and south-eastern British Columbia and an oil sands lease in the Athabasca area of Alberta.



HIGHLIGHTS

FINANCIAL

	1978	1977
Gross Operating Revenue	\$204,699,000	\$188,710,000
Net Earnings Before Extraordinary Items	\$ 38,452,000	\$ 38,342,000
Per Share	\$ 4.68	\$ 4.68
Net Earnings After Extraordinary Items	\$ 43,891,000	\$ 36,997,000
Per Share	\$ 5.34	\$ 4.52
Dividends Declared	\$ 9,045,000	\$ 6,764,000
Per Class A Share	\$ 1.10	\$ 0.825
Per Class B Share	\$ 1.10	\$ 0.825
Working Capital (Deficiency) at December 31	\$ (4,139,000)	\$ 21,090,000
Exploration Expenditures	\$ 64,373,000	\$ 75,345,000
Development Expenditures	\$ 39,483,000	\$ 17,359,000

OPERATING*

Crude Oil Production — Barrels Per Day	27,467	29,532
Natural Gas Liquids Production — Barrels Per Day	3,218	4,081
Natural Gas Sales — Million Cubic Feet Per Day	125.7	115.2
Sulphur Sales — Long Tons	66,144	50,963
Pipeline Gatherings		
Federated Pipe Lines Ltd. — Barrels Per Day	232,812	247,612
Cremona Pipeline Division — Barrels Per Day	37,480	41,386
Proven Developed Reserves at December 31		
Crude Oil and Natural Gas Liquids — Barrels	125,700,000	129,416,000
Natural Gas — Thousand Cubic Feet	895,022,000	785,324,000
Sulphur — Long Tons	1,214,000	1,442,000
Exploration Acreage at December 31		
Gross Acres	33,814,000	34,363,000
Net Acres	6,667,000	6,971,000

*Daily Production and Proven Reserves shown as Company's share before deduction of royalties and minority interests in subsidiary companies.

DIRECTORS

Anthony G. S. Griffin (Toronto, Ontario)

Chairman of the Board of the Company.

Chairman of the Boards of The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited.

Director: Canadian Corporate Management Co. Ltd., Canadian Industries Limited, The Consumers' Gas Company, ICI Americas Inc., Raymond International Inc., United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company.

Brian A. Carlisle, C.B.E. (London, England)

Oil Consultant.

George W. Carpenter (Toronto, Ontario)

Executive Vice-President of The Consumers' Gas Company.

J. Douglas Gibson, O.B.E. (Toronto, Ontario)

Chairman of the Board of The Consumers' Gas Company.

Chairman of the Boards of Canadian Reinsurance and Canadian Reassurance Companies.

Director: Bell Canada, Harding Carpets Limited, The Imperial Life Assurance Company of Canada, Moore Corporation Limited, National Trust Company Limited, Northern Telecom Limited, Scurry-Rainbow Oil Limited, Steel Company of Canada Limited.

The Hon. Harry W. Hays, P.C. (Calgary, Alberta)

Rancher.

Member of the Senate of Canada.

Director: Canada Permanent Companies.

Henry F. LeMieux (Houston, Texas)

Chairman of the Board and Chief Executive Officer of Raymond International Inc.

Director: Texas Commerce Bancshares, Inc., Hughes Tool Company.

Peter L. P. Macdonnell, Q.C. (Edmonton, Alberta)

Partner, Milner & Steer, Barristers and Solicitors.

Director: Alberta Energy Company, The Alberta Gas Trunk Line Company Limited, CAE Industries Ltd., Canadian Utilities Limited, Edmonton Broadcasting Company Limited, IU International Corporation, The Royal Bank of Canada, Western Supplies Limited.

W. Donald C. Mackenzie (Calgary, Alberta)

President, W.D.C. Mackenzie Consultants Ltd.

Director: Easton United Securities Limited, Hudson's Bay Company, Scott United Securities Limited.

Maurice P. Paulson (Calgary, Alberta)

Retired Senior Executive.

Ross F. Phillips, F.C.A. (Calgary, Alberta)

President and Chief Executive Officer of the Company.

President and Director of Scurry-Rainbow Oil Limited.

Director: Air Canada, Calgary Power Limited, The Commercial Life Assurance Company of Canada, The Consumers' Gas Company, Crown Trust Company, The Halifax Insurance Company.

A. Ross Poyntz (Toronto, Ontario)

Director: The Consumers' Gas Company, The Imperial Life Assurance Company of Canada.

Arthur M. Shoults (Vancouver, British Columbia)

President and Chief Executive Officer of B.R.E. Electric Ltd.

Chairman of the Board of CHQT Broadcasting Ltd.

Director: Banister Continental Ltd.

William P. Wilder (Toronto, Ontario)

President and Chief Executive Officer and Director of The Consumers' Gas Company.

President and Director of Cygnus Corporation Limited.

Director: Allstate Insurance Company of Canada, John Labatt Limited, Lever Brothers Limited, Maclean-Hunter Limited, Noranda Mines Limited, Scurry-Rainbow Oil Limited, Simpsons-Sears Limited.

EXECUTIVE OFFICERS

- A. G. S. Griffin**
Chairman of the Board
- R. F. Phillips**
President and Chief Executive Officer
- R. B. Coleman**
Senior Vice-President and General Counsel
- J. P. Crone**
Group Vice-President, Corporate
- J. H. Geddes**
Group Vice-President, Operations
- W. H. Waddell**
Group Vice-President, Exploration
- H. Alfaro**
Vice-President, Oil and Gas Production
- D. E. Deakin**
Vice-President and Treasurer
- B. F. MacNeill**
Vice-President, Finance
- B. J. Todesco**
Vice-President, Law
- R. G. Watkins**
Vice-President, Business Development

SENIOR MANAGEMENT AND OTHER OFFICERS

- E. C. Hambrook**
General Manager, Administrative Services
- E. Jorgensen**
Comptroller
- J. P. Leeson**
General Manager, Domestic Exploration
- S. A. Culton**
Assistant Secretary
- T. S. Hoar**
Assistant Secretary
- J. A. Petty**
Assistant Treasurer

COMMITTEES OF THE BOARD

Executive Committee

Anthony G. S. Griffin, *Chairman*
J. Douglas Gibson, O.B.E.
The Hon. Harry W. Hays, P.C.
Ross F. Phillips, F.C.A.
A. Ross Poyntz
William P. Wilder

Audit Committee

A. Ross Poyntz, *Chairman*
The Hon. Harry W. Hays, P.C.
Henry F. LeMieux
Arthur M. Shoults

Compensation and Human Resources Committee

W. Donald C. Mackenzie, *Chairman*
Brian A. Carlisle, C.B.E.
J. Douglas Gibson, O.B.E.
William P. Wilder

Pension Plan Committee

Peter L. P. Macdonnell, Q.C., *Chairman*
W. Donald C. Mackenzie
A. Ross Poyntz

1978 REVIEW

Financial

Home Oil recorded continued growth during 1978 in revenue, cash flow and capital reinvestment. However, earnings, before extraordinary items, were approximately equal to 1977 earnings because of higher operating, administrative, interest and depletion charges which, to a major degree, resulted from an expanded exploration and development program. The long term effect of the expansion will, however, be a favourable impact on earnings. Additional factors, which adversely affected earnings, include operating losses at the Gooseberry silver-gold mine and restricted natural gas sales resulting from lower demands by gas purchasers.

Reserves

Of much greater importance are the significant quantities of oil and gas which were added to reserves during the year. Home, typical of the industry, had not added reserves in excess of production since 1974. However, we are pleased to report that in 1978 proven reserve additions, on a barrel of oil equivalent basis, resulting from our exploration and development program were slightly in excess of our 1978 production. Furthermore, early exploration successes in 1979 indicate that we should achieve further improvement this year.

Other Activities

During the year we completed the acquisition of Bridger Petroleum Corporation Ltd., continued to promote the Strait of Canso storage project with Gulf Canada Limited as a new partner and maintained participation in the potential development of our extensive coal reserves. The Company disposed of its investment in TransCanada PipeLines Limited and early in 1979 Home's 88.3% owned subsidiary, Scurry-Rainbow Oil Limited, sold its United Kingdom interests, principally Block 3/7 in the North Sea, for approximately \$11.2 million.

Dividend Policy

Dividends declared in 1978 totalled \$1.10 on each of the Class A and Class B shares. The January 1, 1979 payment was 65 cents per share, a 44.4 per cent increase over the previous semi-annual dividend rate of 45 cents per share. Dividend policy will be continually reviewed to ensure that Shareholders participate directly in the Company's profit growth.

Corporate

Mr. Maurice P. Paulson, Executive Vice-President and General Manager of the Company for the last five years and a valued employee of Home since 1951, retired in June 1978.

Mr. William P. Wilder, President and Chief Executive Officer of The Consumers' Gas Company, was recently appointed to the Board of Directors and Mr. Anthony F. Griffiths and Mr. Henry N. R. Jackman have consented to stand as nominees for election to the Board at the Annual General Meeting. These gentlemen would replace valued Directors, Mr. William H. Zimmerman, who died in 1978, Mr. G. E. Creber, who has resigned and Mr. George W. Carpenter, who is retiring from the Board.

We would like to welcome employees who joined the Company during 1978 and to express, on behalf of the Board of Directors, its appreciation to all employees who in this period of increasing activity have responded so admirably with a job well done.

INVESTMENT STRATEGY

The Company's policy emphasizes conventional oil and gas exploration in the current producing regions of Canada where there are opportunities to obtain near term markets and where refined seismic techniques and advanced computer technology are expected to produce improved results. Our expenditures in the Canadian frontier are to remain around current levels but with flexibility for expansion if particularly good opportunities are developed. Exploration in the United States will grow in line with the financial capability of our United States operations, which have been augmented by the addition of Bridger's United States properties. Exploration expenditures outside North America are also expected to remain at current levels.

Home has had preliminary discussions with major companies with respect to development of our oil sands lease and investigations continue on the potential of our heavy oil properties. Other heavy oil investment opportunities are being reviewed.

Our exploration and development activities will be complemented with additional projects in those areas in which we currently operate — pipeline, storage and LPG marketing. Mining activities will concentrate on the development of the Elk River coal project in British Columbia, development of our other coal properties and exploration for coal in the Alberta plains. Uranium exploration will continue at current levels.

Corporate or petroleum property acquisitions will be actively pursued as an additional means of growth.

CANADIAN INDUSTRY OUTLOOK

Two crude oil price increases, with corresponding gas price increases to follow, are expected; \$1.00 per barrel on each of July 1, 1979 and January 1, 1980. Over the long term it appears that the underlying principle of reaching world prices remains intact.

The National Energy Board, after extensive hearings on natural gas supply, has concluded that natural gas is available for export. The evidence clearly indicates that Canada has natural gas in excess of its domestic requirements, that there is potential for developing large additional supplies and that not only the industry but also Canada as a whole will benefit from exports.

The recent interruption in deliveries of Iranian oil emphasizes the necessity for Canada to accelerate development of its oil, gas and coal reserves and strengthens the case for developing strategic crude oil storage in eastern Canada.

The inevitable uncertainties over government policies will continue to have an unsettling effect on our industry but we are confident that governments will continue to recognize the benefits for Canada in maintaining a vigorous level of activity in the industry. This not only keeps producing provinces healthy in an otherwise weak economy but it also provides direct benefits to other parts of the country.

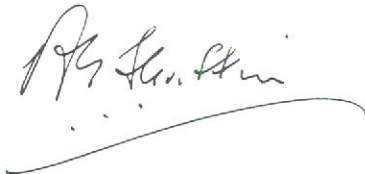
COMPANY OUTLOOK

The petroleum industry is experiencing severe competition for exploration land and prices are often pushed to their economic limits. Seismic and drilling contractors are in short supply and costs are high. In spite of this Home will expand its exploration and development program as indicated by our planned 1979 capital expenditures of \$160 million; \$100 million for exploration and \$60 million for development. This program, plus possible participation in projects and acquisition opportunities, is only possible because of significant corporate strengths on which we can draw. These include:

- extensive exploration properties strategically located in the foothills and deep basin areas of Alberta and British Columbia;
- a growing cash flow based on high quality reserves;
- significant quantities of shut-in gas reserves to dedicate to new markets;
- a diversified mix of short and long term projects such as the Strait of Canso storage project, Elk River coal project and our Athabasca Oil Sands lease;
- a strong financial position;
- a competent technical and administrative staff, including a restructured and expanded exploration division.

Early results already indicate that 1979 should be a successful year.

Submitted on behalf of the Board of Directors.



Chairman of the Board



President and Chief Executive Officer

Calgary, Alberta.
March 7, 1979.



OPERATIONS

EXPLORATION

During 1978 the Company undertook the most active drilling program in its history. Home and its subsidiaries had a working interest in 349 wells and a farmout or royalty interest in a further 148 wells. Exploratory drilling accounted for 186 of the 497 wells and the remaining 311 were development wells.

Exploratory drilling resulted in 17 oil wells, 67 gas wells and 73 dry holes. Development drilling resulted in 63 oil wells, 178 gas wells and 58 dry holes; 29 exploratory and 12 development wells were still drilling at year end.

During the year additions to our landholdings were made in Alberta, British Columbia, the United States, Australia and New Zealand.

The acquisition early in 1978 of Bridger Petroleum added 5,772,177 gross acres (550,981 net acres) to the Company's land inventory in Canada and 771,700 gross acres (179,345 net acres) to its holdings in the United States.

On December 31, 1978 the Company's exploration land inventory stood at 33,814,290 gross acres (6,666,943 net acres).

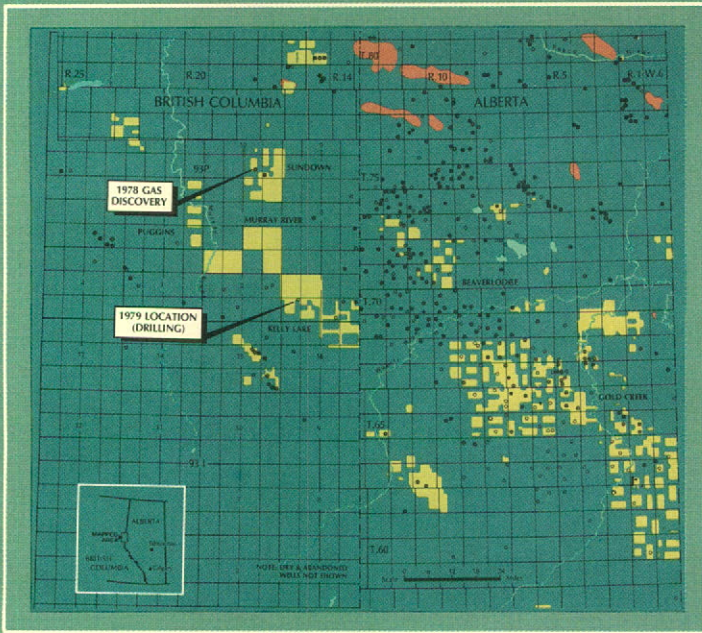
Alberta

Home's exploration activities were concentrated in the deeper parts of the Alberta basin and within the structural belt, with a lesser emphasis on the shallow gas areas in the north-east and east-central part of the province. The Elsworth/Beaverlodge area in Alberta continued to hold the industry's attention. At the end of 1978 the Company held 515,531 gross acres (94,983 net acres) on the Alberta side of the Elsworth area, virtually unchanged from the previous year. Industry activity on corridor lands offsetting Company leases provided information on several zones which show promise of significant gas reserves, although the economic viability of some is still in question. On Scurry-Rainbow Oil Limited's Gold Creek land, where it has interests varying from 8.33 per cent to 23.32 per cent, significant gas discoveries in the Spirit River and Bluesky reservoirs and one indicated Devonian gas discovery were made during 1978. Scurry participated in 22 exploratory wells, 16 of which were drilling at year end. The Gold Creek area will receive increased emphasis during 1979.

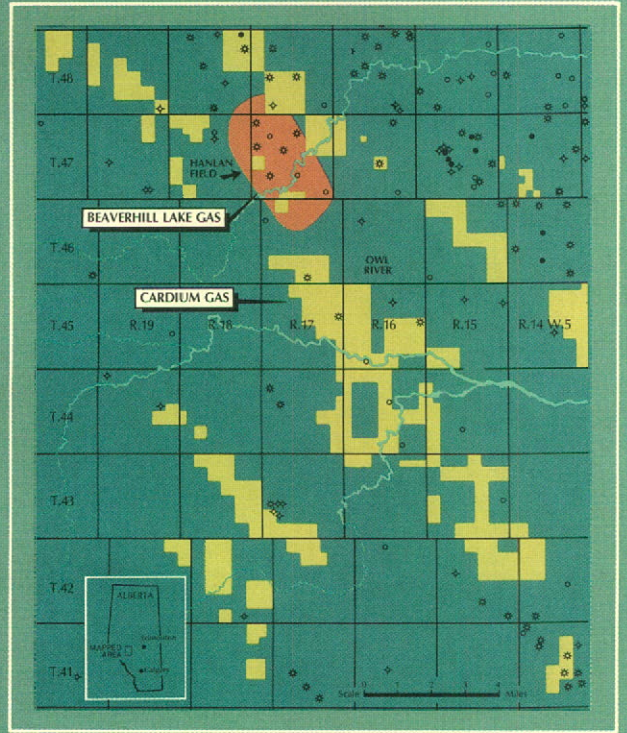
The Cretaceous and Devonian prospects within the Hanlan/Owl River part of the deep basin, where the Company has land interests varying from 11.72 per cent to 33.33 per cent, were tested at one location by a Home joint venture in Owl River. Other operators have drilled on lands offsetting Home's Hanlan leases and discoveries were made in the Cretaceous Cardium sands and Devonian Beaverhill Lake carbonates. Home will undertake joint venture drilling operations involving four wells over the 1978/1979 winter season in Owl River, two of which will be shallow tests (Cardium) and two deep tests (Beaverhill Lake).

Within the foothills, wells were drilled at Narraway, Findley, Brûlé and Moose Mountain. The Narraway well was drilled as an outpost well to a 1976 discovery, reached a total depth of 15,850 feet late in the year and will be completed as a Permian gas well. The Findley test, a 10 per cent interest development well, was drilled to 7,650 feet and was completed as a Dunvegan gas well. The Moose Mountain well, the second drilled on this structure, on lands in which Home's interest is 36 per cent, appears to be the most significant in Home's foothills program and could add considerably to the Company's gas reserves. This well reached a total depth of 15,667 feet in November and tested natural gas at a stabilized rate of 10.2 Mmcf per day and condensate at 102 barrels

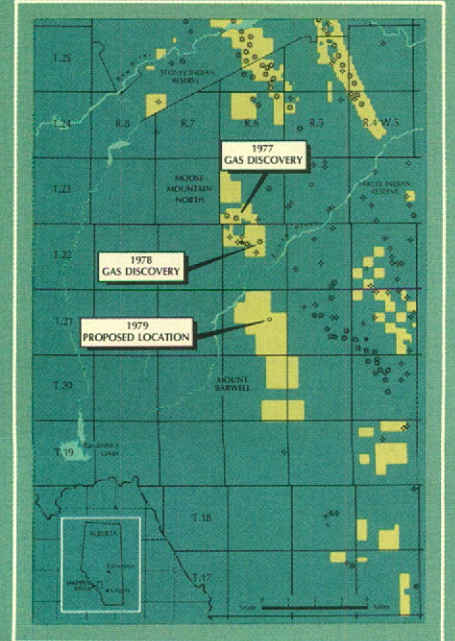
ELMWORTH-GOLD CREEK AREA
British Columbia-Alberta



OWL RIVER AREA
Alberta



MOOSE MOUNTAIN AREA
Alberta



- THE COMPANY'S ACREAGE INTERESTS
- LOCATION or DRILLING
- DRY & ABANDONED
- OIL FIELDS
- OIL WELL
- GAS WELL
- GAS FIELDS

per day, with an indicated 380 feet of net pay in the Mississippian section. The initial well drilled in 1977 and completed as a dual Devonian/Mississippian well tested natural gas from the Mississippian at a rate of 5.8 Mmcf and from the Devonian at a rate of 4.2 Mmcf per day.

Within the Pembina area, the 1977 exploration program continued into the first half of 1978 when surface conditions halted activities until January 1979. Two wells were drilled in 1977 and in the first half of 1978 the Company completed two exploratory and one development oil well, in which we have a 50 per cent interest. The two oil wells drilled in 1977 are now on production and the three other wells are in various stages of evaluation. This play was pursued to the north-east where there were strong seismic indications of the presence of Nisku reefs. Three unsuccessful exploratory tests were drilled under this extension program and, although the anticipated reef was encountered in two of these holes, water was found to have filled the entire reef reservoir.

On the Granada block acquired in November 1977, in which Home has a $66\frac{2}{3}$ per cent interest, the initial test well was drilled early in 1978. No reef was encountered and the well was abandoned, even though light gravity oil was recovered from the reef platform.

Oil or gas discoveries were made at Ferrier, Manyberries, Bowden, Bison Lake and Hairy Hills.

The Company plans an extensive drilling program during 1979. In the foothills, wells will be drilled at Narraway, Moose Mountain and Mount Barwell, a structure similar to Moose Mountain. Within the deep basin, wells will be drilled at Owl River, Pinto and Gold Creek. A number of tests will be drilled in the Pembina, Alhambra and Cremona areas following the winter seismic programs. In northern Alberta wells will be drilled at Chinchaga and Bison Lake.

British Columbia

The Company holds a land inventory of 1,901,225 gross acres (516,291 net acres) in the province and is adding to that inventory in several promising areas.

Scurry-Rainbow had varying interests in three exploratory wells in the Fort St. John area; of these one was completed as a potential gas well in the Red Creek area and one was an indicated oil discovery at Mallard. Further drilling will be required to evaluate these prospects.

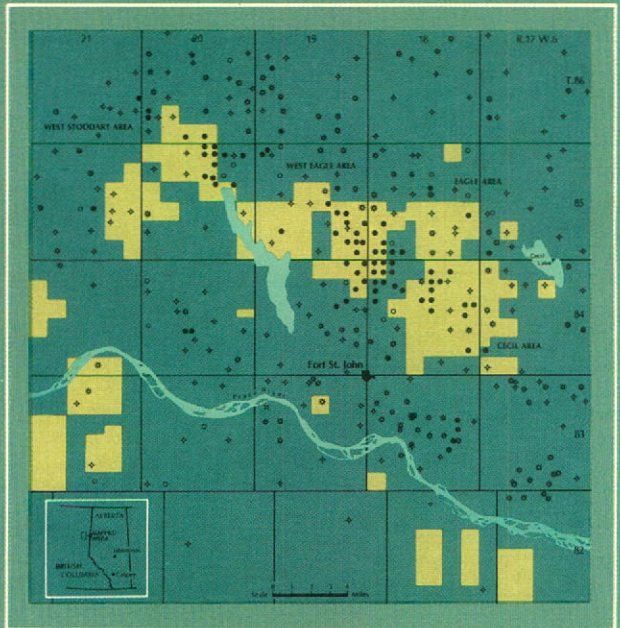
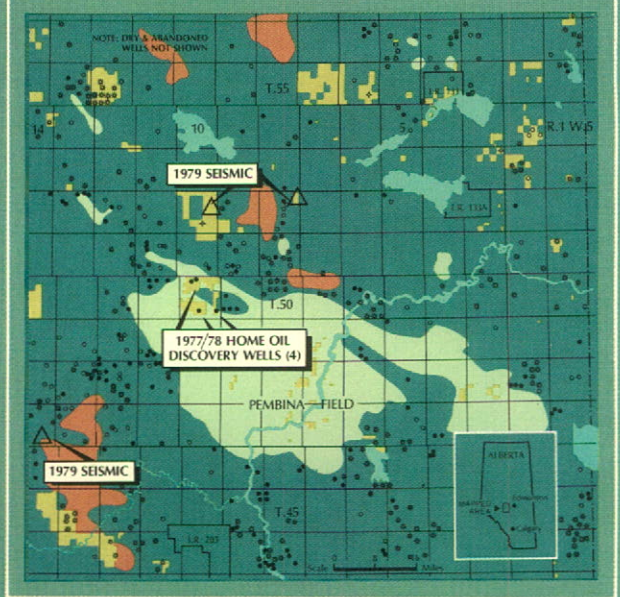
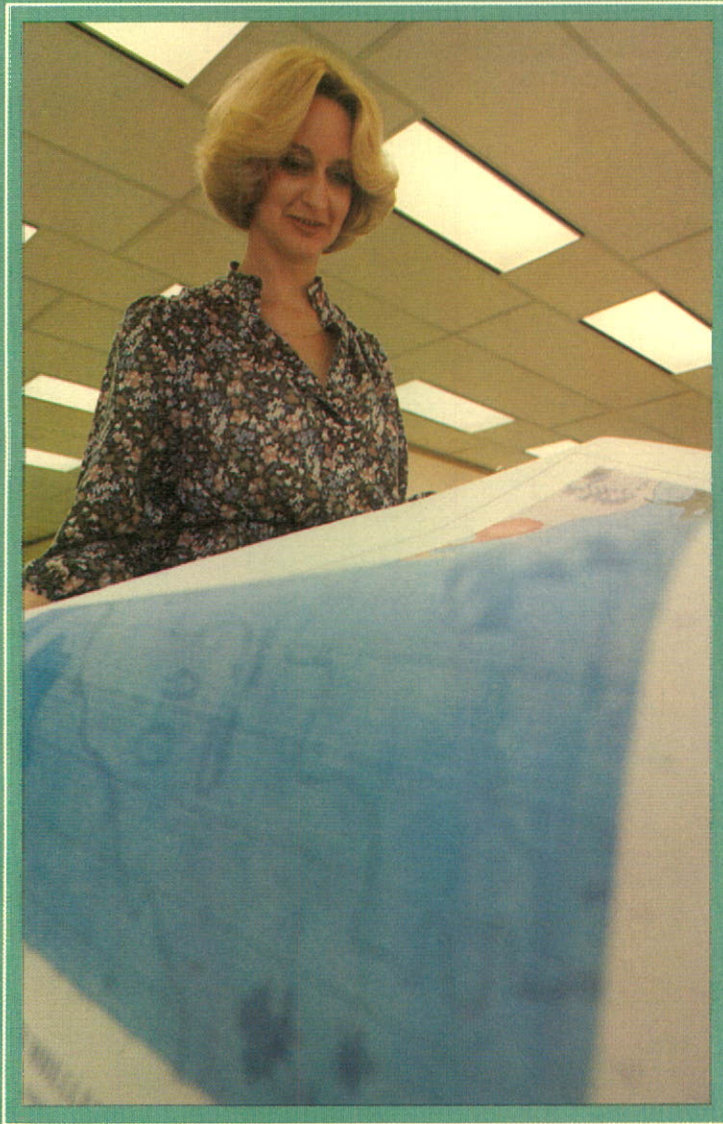
Exploration acreage was acquired by Scurry-Rainbow in the West Inga/Beargrass area 45 miles north-west of Fort St. John and two wells have been drilled. A good oil show in the Triassic was encountered in one of the wells. However, it could not be successfully completed and further drilling is required to evaluate this project.

Home is one of the largest landholders on the extension of the Elmworth/Beaverlodge trend into British Columbia where the Company now holds 331,208 gross acres (112,998 net acres). One well was drilled during 1978 and completed as a potential gas well. A second well, spudded in December 1978, was abandoned in March 1979. Additional drilling and active participation in land sales is planned for 1979.

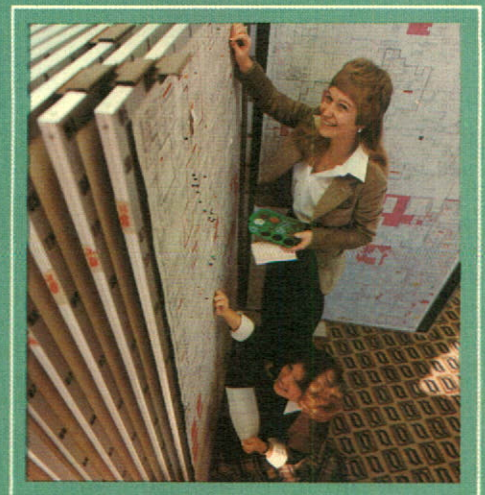
Extensive seismic programs are planned to evaluate existing holdings and lands acquired in the general Bivouac area through a farmout agreement with the British Columbia Resources Investment Corporation involving 221,059 gross acres.

PEMBINA AREA

Alberta



FT. ST. JOHN AREA
British Columbia



Saskatchewan

In south-east Saskatchewan Scurry-Rainbow drilled three 100 per cent interest oil wells, two in the Hume area and one at Steelman. A fourth oil well, in which it has a 37½ per cent working interest, was drilled at Douglaston.

East Coast

Planning continued during 1978 toward the drilling of the initial test well on a large structure 200 miles off Newfoundland's east coast. This well will be drilled to 19,000 feet and may set a depth of water record as it will be drilled in 4,950 feet of water. The drillship "Discoverer Seven Seas" has been contracted for this test and the project is expected to begin in mid-1979. Home's participation in this well will earn a five per cent working interest in a land block totalling 5,565,586 acres. Projects of this nature, with very high attendant risk and cost, can only be undertaken under the federal government's frontier exploration allowance program which provides for the earning of additional depletion credits on drilling costs in excess of \$5 million in respect of a qualifying well.

United States

Home Petroleum Corporation, the Company's United States wholly-owned subsidiary, conducted an active exploration program both onshore and offshore Gulf Coast and in Texas, Oklahoma and in the Williston Basin portion of North Dakota. The acquisition of Bridger Petroleum in March 1978 added to our United States drilling program significantly and during the year the Company participated in 116 wells compared with 47 wells in 1977. Land was acquired in Arizona, Colorado, North Dakota, Wyoming, the lower Gulf Coast and onshore and offshore Texas.

Four indicated gas discoveries were made during the year, three in Panola County, Texas and one in Upsher County, Texas.

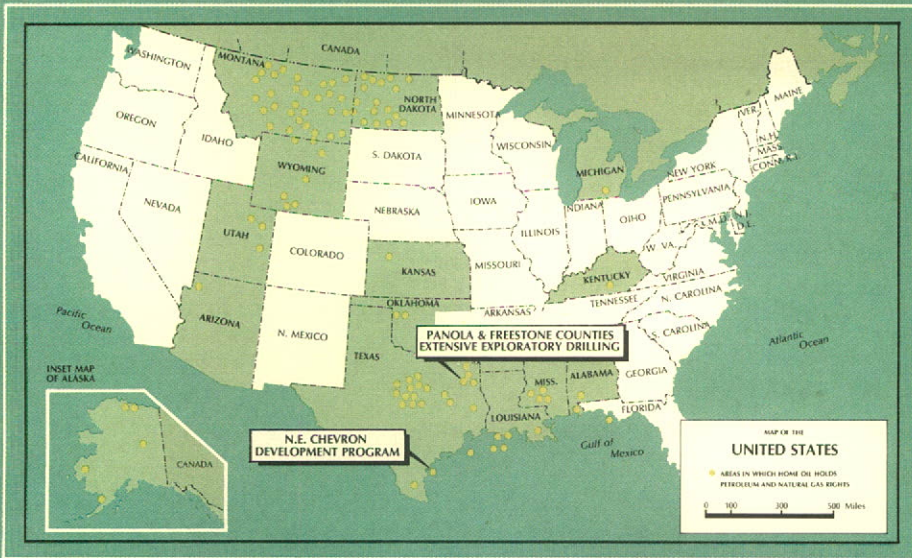
The Company participated in the development of two major offshore projects during 1978. Two platforms were set on the NE Chevron prospect (Block 818/820), in which the Company has a 20 per cent interest. A recent well drilled from the platform found gas-bearing sands in zones deeper than those previously found productive. Two additional platforms are planned for 1979. Several development wells will be drilled on that prospect during 1979 with initial sales to a major gas transmission company planned for 1980. A platform was also set at High Island Block 561 offshore Texas late in 1978. Development drilling will begin early in 1979 with production to follow in the fourth quarter of 1979.

During 1979 the Company plans to concentrate its efforts within the upper and lower Gulf Coast and near the Mexican border. In addition, wells will be drilled in east-central Texas and in Colorado, Wyoming and Montana.

United Kingdom

A seismic program was undertaken on the two offshore blocks adjacent to the Moray Firth, which Home and its partners were awarded in the Fifth Round Awards and, although a final decision has not yet been made, a well may be drilled on these blocks in 1979.

Scurry-Rainbow sold its subsidiary, Scurry-Rainbow (U.K.) Limited, including its interest in Block 3/7 in the North Sea for approximately \$11.2 million (\$9.4 million U.S.). With this sale, which was completed on February 16, 1979, Scurry-Rainbow relinquished all of its interests in the United Kingdom.



Australia

East Swan No. 1 in the Vulcan Basin of Australia's north-west shelf was abandoned after encountering several sub-commercial shows of oil. Additional seismic studies will be completed early in 1979 in preparation for a second well to be drilled mid-year.

New Zealand

A well on the Tasman Bay concession off the north coast of South Island was abandoned in December at a depth of 8,947 feet after failing to encounter any indications of hydrocarbons in the principal target horizon.

Other Foreign

Our Oman landholdings were farmed out to a major operator who will drill a test on these lands in 1979.

Home elected to sell its interest in the offshore Thailand gas field to the operator because of onerous work obligations and a continuing impasse in gas pricing negotiations.

MINING

Coal

Further development studies were conducted on the Company's Elk River coal properties in British Columbia and a preliminary application for permission to develop a mine with an annual producing rate of 3.94 million long tons of metallurgical coal has been approved by the British Columbia Government. However, the development schedule for this project has been extended by one year because of the sluggish coking coal export markets. The Company has a 25 per cent working interest plus a royalty interest in this venture.

To expand our coal holdings, additional rights were acquired by the Company in the Ardley area of Alberta.

Metallics

The Gooseberry silver-gold mine near Reno, Nevada operated at less than the planned mining rate throughout most of the year but it is currently generating a small cash flow. Additional stopes are needed to achieve the planned production rates and, therefore, underground development work was commenced in 1978. Additional high quality ore reserves have been encountered and with the present prices for gold and silver the Company expects better results in 1979.

In December the physical assets of the Santa Rita mine in Mexico were sold to a mining agency of the Mexican Government. This mine was shut down in March 1978 because of its disappointing performance.

Uranium

Exploratory drilling programs were undertaken on claim blocks in the Athabasca Sandstone Basin of Saskatchewan and surface assessment was carried out in the Okanagan area of British Columbia and the Hornby Basin and Baker Lake/Thelon areas of the Northwest Territories. Several interesting leads were encountered on the Saskatchewan and British Columbia properties which will be followed up by exploratory drilling in 1979.

Late in 1978 the Company acquired interests in two additional claim blocks in Saskatchewan and one in Ontario on which initial exploration is planned for 1979.

EXPLORATION ACREAGE

December 31, 1978

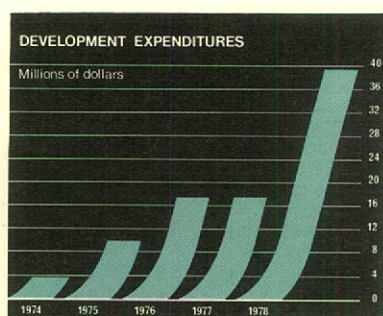
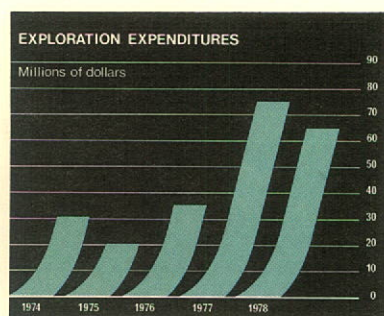
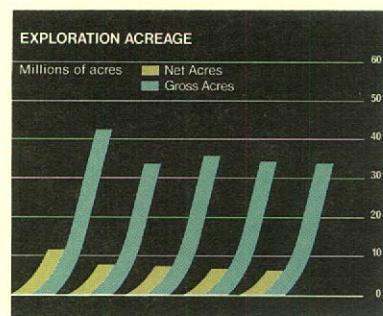
	Petroleum & Natural Gas Leases (1)		Reservations, Licences and Permits		Totals	
	GROSS	NET	GROSS	NET	GROSS	NET
CANADA						
Alberta (1)	4,950,830	1,623,974	642,739	235,177	5,593,569	1,859,151
Arctic Islands	87,934	16,383	6,324,023	632,369	6,411,957	648,752
British Columbia (1)	799,001	241,835	1,102,224	274,456	1,901,225	516,291
Manitoba (1)	32,922	27,930	—	—	32,922	27,930
New Brunswick	—	—	178,050	48,984	178,050	48,984
Newfoundland	80,592	5,373	5,565,586	—	5,646,178	5,373
Northwest Territories	3,155	1,578	1,477,492	244,162	1,480,647	245,740
Ontario	3,100	1,388	—	—	3,100	1,388
Quebec	—	—	318,750	117,938	318,750	117,938
Saskatchewan	1,074,268	807,308	—	—	1,074,268	807,308
Yukon Territory	—	—	388,967	113,848	388,967	113,848
	<u>7,031,802</u>	<u>2,725,769</u>	<u>15,997,831</u>	<u>1,666,934</u>	<u>23,029,633</u>	<u>4,392,703</u>
EUROPE						
United Kingdom (Offshore) (2)	—	—	288,836	46,858	288,836	46,858
United Kingdom (Onshore)	—	—	57,920	15,577	57,920	15,577
	<u>—</u>	<u>—</u>	<u>346,756</u>	<u>62,435</u>	<u>346,756</u>	<u>62,435</u>
UNITED STATES						
Alaska	230,995	146,973	—	—	230,995	146,973
Arizona	170,804	170,804	—	—	170,804	170,804
Colorado	41,406	18,879	—	—	41,406	18,879
Gulf of Mexico	43,800	8,776	—	—	43,800	8,776
Kansas	14,459	5,592	—	—	14,459	5,592
Michigan	10,815	2,960	—	—	10,815	2,960
Montana	975,807	525,850	—	—	975,807	525,850
Nebraska	12,640	12,640	—	—	12,640	12,640
New Mexico	2,837	719	—	—	2,837	719
Nevada	34,218	12,488	—	—	34,218	12,488
North Dakota	698,125	252,157	—	—	698,125	252,157
Oklahoma	43,690	34,363	—	—	43,690	34,363
South Dakota	9,642	1,625	—	—	9,642	1,625
Texas	166,537	69,084	—	—	166,537	69,084
Utah	143,522	40,612	—	—	143,522	40,612
Wyoming	448,953	97,463	—	—	448,953	97,463
Southeastern States (3)	90,862	70,150	—	—	90,862	70,150
	<u>3,139,112</u>	<u>1,471,135</u>	<u>—</u>	<u>—</u>	<u>3,139,112</u>	<u>1,471,135</u>
OTHER						
Australia	—	—	2,490,190	—	2,490,190	—
New Zealand	—	—	874,734	98,408	874,734	98,408
Oman	—	—	3,211,520	521,872	3,211,520	521,872
Tunisia	—	—	722,345	120,390	722,345	120,390
	<u>—</u>	<u>—</u>	<u>7,298,789</u>	<u>740,670</u>	<u>7,298,789</u>	<u>740,670</u>
TOTALS	<u>10,170,914</u>	<u>4,196,904</u>	<u>23,643,376</u>	<u>2,470,039</u>	<u>33,814,290</u>	<u>6,666,943</u>

(1) Includes mineral titles, mineral leases, royalty interest acreage.

(2) Includes 50,026 gross acres (10,005 net acres) owned by Scurry-Rainbow, which have subsequently been disposed of.

(3) Southeastern States includes Alabama, Kentucky, Louisiana, Mississippi.

PRODUCING ACREAGE **GROSS 948,326 ACRES** **NET 294,126 ACRES**



PRODUCTION

Sales of crude oil and natural gas liquids (condensate, propane and butane), before the deduction of royalties and minority interest, averaged 30,685 barrels per day in 1978, a decrease of nine per cent from 1977. Natural gas sales averaged 125.7 Mmcf per day in 1978 compared with 115.2 Mmcf per day in 1977. Sulphur sales for 1978 totalled 66,144 long tons compared with 50,963 long tons the previous year.

Production from newly-developed properties in the Eagle and West Pembina fields was not sufficient to offset the continued decline in oil productivity in some of the Company's older fields, particularly Swan Hills, our major producing field. The increase in natural gas sales resulted mainly from the inclusion of the Bridger Petroleum properties from March 1978, but was partly offset by reduced nominations from major purchasers.

Scurry-Rainbow's share of potential production from the West Eagle pool is approximately 1,600 barrels per day. Development drilling will continue in 1979; at least 15 more wells will be required to develop Company properties on a 160 acre spacing pattern. A concerted effort was made to follow up the West Stoddart oil discovery drilled late in 1977 and by the end of 1978 the Company had a 50 per cent interest in six producing wells and three wells awaiting completion. The Company's potential share of production at year end was 300 barrels per day. Further drilling to determine pool limits is scheduled for 1979.

The Company continued its program to develop shut-in gas reserves. The Big Bend-Tieland area gas plant in central Alberta, which has a rated capacity of 10 Mmcf per day, was placed in operation with Home's share being 22 per cent. The Sunchild Gas Unit No. 1 also in central Alberta was formed and facilities constructed. The current minimum contract rate is 4.5 Mmcf per day, the Company's share of which is 34 per cent. A major project is under way to develop Company reserves in the Leismer area of north-east Alberta. Initially, facilities will be designed to handle 22.7 Mmcf per day of which Home's share will be 12.5 Mmcf per day. The project is scheduled for start-up in March 1980 with sales contracted to Syncrude Canada Ltd.

In British Columbia reserves in the Attachie area were placed on production in late 1978. Gas collection schemes and compression facilities were placed on stream late in the year at both Eagle and West Eagle oil pools. Agreement on unitization of the North Pine "A" Pool at Cecil Lake was reached late in 1978 with the Company's share of potential production being approximately 2.0 Mmcf per day.

The movement towards world prices for crude oil resulted in the basic price increasing to \$12.75 per barrel in mid-1978. The \$1.00 per barrel increase expected at the beginning of 1979 has been deferred to mid-year. The weighted average wellhead price received by Home in 1978 for its Alberta production was \$12.44 per barrel before royalties compared with \$10.42 per barrel in 1977.

The Toronto City Gate gas price was increased from \$1.85 per Mcf to \$2.00 on August 1, 1978. Natural gas prices are subject to a one year Alberta-Ottawa agreement that ties gas prices to 85 per cent of oil commodity value and therefore a further increase is expected on August 1, 1979 following the scheduled increase in crude oil prices on July 1, 1979. Home's average Alberta gas sales price for December 1978 was \$1.65 per Mcf.

SOURCE OF PRODUCTION

(Before Deduction of Royalties)

PRODUCING AREA CRUDE OIL	1978	1978	1977
	Cubic Metres	Barrels	Barrels
ALBERTA			
Swan Hills	673 133	4,235,937	4,954,390
Mitsue	164 694	1,036,396	992,650
Pembina	98 013	616,783	624,496
Harmattan	83 288	524,119	581,251
Virginia Hills	82 591	519,734	603,200
Turner Valley	63 840	401,741	412,286
Redwater	30 698	193,181	206,311
Leduc-Woodbend	18 603	117,065	156,735
Others	102 733	646,489	619,610
	<u>1 317 593</u>	<u>8,291,445</u>	<u>9,150,929</u>
SASKATCHEWAN			
Workman	38 761	243,917	229,505
Others	94 376	593,896	692,005
	<u>133 137</u>	<u>837,813</u>	<u>921,510</u>
BRITISH COLUMBIA	124 082	780,834	623,756
MANITOBA	7 527	47,365	45,811
UNITED STATES	10 844	68,238	37,340
Total	<u>1 593 183</u>	<u>10,025,695</u>	<u>10,779,346</u>
Daily Average	<u>4 365</u>	<u>27,467</u>	<u>29,532</u>
NATURAL GAS LIQUIDS (SALES)			
ALBERTA			
Carstairs-Elkton	61 313	385,837	583,205
Harmattan	40 215	253,070	330,612
Nevis	24 346	153,205	166,762
Calgary	10 729	67,518	87,436
Others	50 030	314,829	321,415
Total	<u>186 633</u>	<u>1,174,459</u>	<u>1,489,430</u>
Daily Average	<u>511</u>	<u>3,218</u>	<u>4,081</u>
TOTAL CRUDE OIL AND NATURAL GAS LIQUIDS			
	<u>1 779 816</u>	<u>11,200,154</u>	<u>12,268,776</u>
Daily Average	<u>4 876</u>	<u>30,685</u>	<u>33,613</u>

NATURAL GAS (SALES)	1978	1978	1977
	Thousand Cubic Metres	Thousand Cubic Feet	Thousand Cubic Feet
ALBERTA			
Carstairs-Elkton	255 633	9,073,370	11,304,052
Nevis	126 658	4,495,557	5,008,720
Swan Hills	62 517	2,218,963	2,909,520
Marten Hills	62 117	2,204,762	2,551,380
Calgary	55 431	1,967,465	2,555,770
Harmattan	52 416	1,860,434	2,091,416
Wandering River	44 247	1,570,505	—
Crossfield	36 563	1,297,750	1,554,153
Jumping Pound	29 986	1,064,313	986,630
Hairy Hills	24 375	865,160	—
Turner Valley	22 707	805,964	785,076
Coleman	21 765	772,537	580,360
Myrnam	21 712	770,628	—
Nordegg-Brazeau	21 182	751,827	880,470
Whitecourt	20 979	744,621	787,060
Sarcee	20 133	714,583	718,820
Sunland	15 777	559,967	—
Tieland	15 637	555,008	—
Erskine	15 498	550,083	567,539
Retlaw	14 816	525,873	573,377
Others	183 730	6,521,280	6,616,704
	<u>1 123 879</u>	<u>39,890,650</u>	<u>40,471,047</u>
BRITISH COLUMBIA	26 526	941,532	724,018
UNITED STATES	142 612	5,061,824	864,030
TOTAL NATURAL GAS	<u>1 293 017</u>	<u>45,894,006</u>	<u>42,059,095</u>
Daily Average	<u>3 543</u>	<u>125,737</u>	<u>115,230</u>

CONVERSION FACTORS USED:

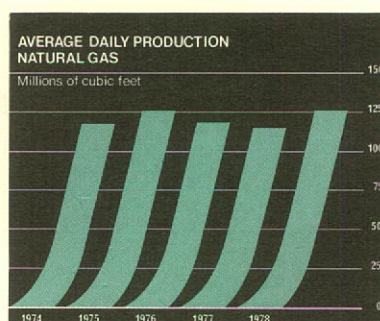
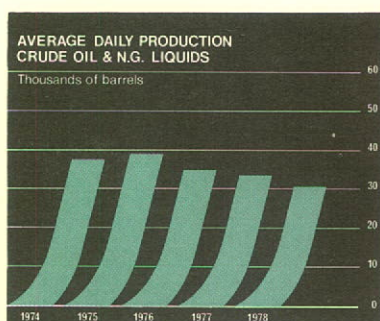
CRUDE OIL AND
NATURAL GAS LIQUIDS

— 1 Barrel @ 60°F = .158 91 Cubic Metre @ 15°C

NATURAL GAS

— 1 Cubic Foot @ 60°F and 14.65 psia

= .028 173 99 Cubic Metre @ 15°C and 101.325 kPa



RESERVES

The Company's gross proven crude oil marketable natural gas reserves at January 1, 1979 are summarized in the accompanying table. The Company's gross reserves are defined as the Company's share of reserves from working interests, overriding royalties and other beneficial interests but before the deduction of minority interests and any royalty interest owned by others.

The remaining gross proven crude oil reserves as of January 1, 1979 were 114,431,000 stock tank barrels. Crude oil additions for 1978 were 6,048,000 stock tank barrels with the majority of the additions coming from the Eagle, West Pembina, Manyberries and Bowden areas. An additional 1,386,000 stock tank barrels of crude oil were added through the acquisition of Bridger Petroleum Corporation.

As of January 1, 1979, the remaining gross proven marketable natural gas reserves were 895,022 Mmcf. This represents a net increase for the year of 109,698 Mmcf, after allowing for production, additions to reserves and for reserves added through the Bridger acquisition. A total of 73,032 Mmcf of marketable gas was added to our reserves primarily through development drilling in Leismer and exploratory drilling in Moose Mountain, Gold Creek, Owl River and the Mustang Island Block (NE Chevron) offshore Texas. Only nominal reserves have been included for the Gold Creek and Moose Mountain gas discoveries as these reserves have yet to be delineated by development drilling.

This is the second consecutive year that a significant reserves increase has occurred but the first time since 1974 that proven reserve additions, on a barrel of oil equivalent basis, have exceeded production.

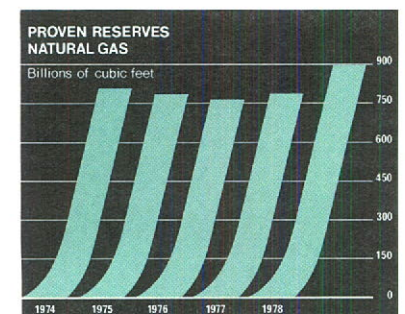
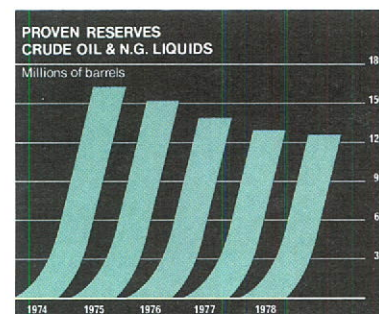
No major revisions or additions were made in natural gas liquids or sulphur reserves. As of January 1, 1979, natural gas liquid reserves were 11,269,000 barrels and sulphur reserves were 1,214,200 long tons.

GROSS PROVEN RESERVES

	OIL		NATURAL GAS	
	Mstb	m ³ x 10 ³	Mmcf	m ³ x 10 ⁶
Proven Reserves				
January 1, 1978	117,023	18,596	785,324	22,126
Purchase of Reserves	1,386	220	82,560	2,326
Additions to Reserves	6,048	961	73,032	2,057
Production	(10,026)	(1,593)	(45,894)	(1,293)
Proven Reserves				
January 1, 1979	<u>114,431</u>	<u>18,184</u>	<u>895,022</u>	<u>25,216</u>

The above figures exclude probable additional conventional reserves, the bitumen reserves underlying Home's jointly held leases in the Athabasca Oil Sands and the heavy oil reserves in the Christina Lake area.

Included in gross proven reserves are 2,589,000 barrels of oil, 22,629 Mmcf of natural gas relating to the minority interests owned by others in Scurry-Rainbow Oil Limited.



PIPELINES

Federated Pipe Lines Ltd.

Federated Pipe Lines Ltd., 50 per cent owned and operated by the Company, had a throughput averaging 232,812 barrels per day in 1978, down six per cent from 1977.

Federated Pipe Lines Ltd. serves the general Swan Hills area including Carson Creek, Judy Creek, Virginia Hills and House Mountain. All fields served are nearing the time when they will be unable to meet their allowables because good production practices will limit their producibility. Throughputs are therefore expected to decline by five per cent per year over the next few years.

A peak delivery of 288,120 barrels per day was experienced in 1978, compared with the 313,671 barrels per day reached in 1977. Federated has a system capacity of 328,000 barrels per day.

Cremona Pipe Line Division

Cremona Pipe Line Division's throughput of crude, condensate and butane averaged 37,480 barrels per day in 1978, down 9.4 per cent from 1977. The reduction was due in part to reduced exports to the Montana area in the United States. The 1979 average throughput is expected to remain at essentially the 1978 level.

Continued natural gas sales curtailments in Canada during the year led to a reduction in LPG production rates and, as a result, sales of propane and butane were 7.5 per cent lower in 1978. However, total revenues from the sale of these products were down by only three per cent.

Due to the generally depressed market for LPG products in the United States, Home Petroleum sustained a decline of 22 per cent in total volumes marketed and a 73 per cent decline in profit margin.

The Company continued to pursue a crude oil storage project in the Strait of Canso area of Nova Scotia. The Department of Energy of the United States has requested turnkey proposals for the storage of crude oil under their Strategic Petroleum Reserve Plan and the Company, a 50 per cent participant, has submitted a proposal to the Department of Energy. The Department's decision on the location of the strategic storage sites is expected to be reached in 1979.

Sulphur sales were 66,144 long tons, representing a 30 per cent increase over 1977. Sulphur revenues increased by 34 per cent, which is indicative of the gradual price improvement which is expected to continue during 1979.

MARKETING AND STORAGE

HUMAN RESOURCES AND COMMUNITY INVOLVEMENT

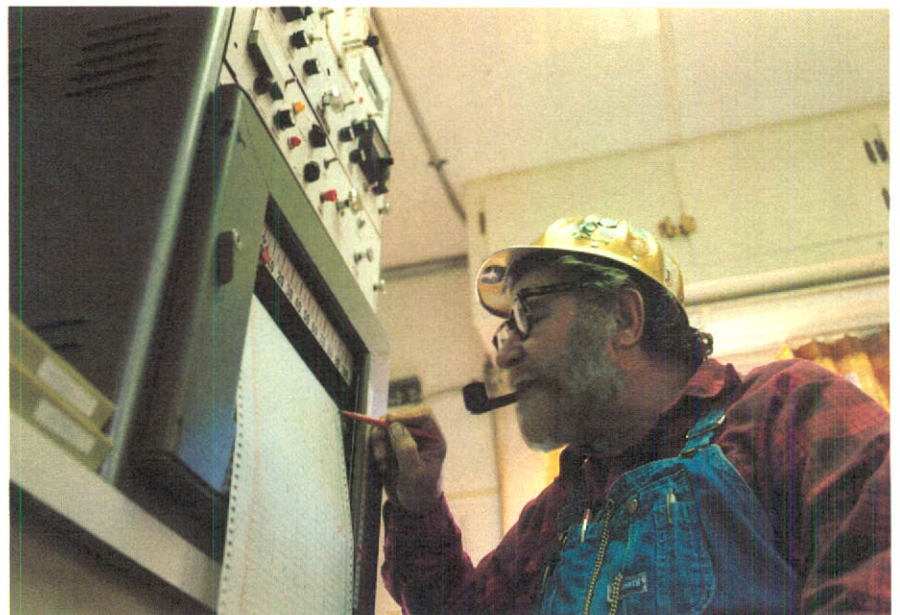
At year end Home and its subsidiaries employed 1,107 people, an increase of 204 over the previous year. The continuing high level of corporate activity in both Canada and the United States necessitated staff additions in the exploration division and in certain financial divisions of the Company. This growth was minimally offset by the closure of the Home Oil (U.K.) Limited office in London, England.

Service awards presented during 1978 included one award for 35 years of service, nine for 25 years of service, 13 for 20 years of service and nine for 10 years of service.

At December 31, 1978 assets in the Pension Trust Fund amounted to approximately \$14.6 million, with pension benefits being paid to 79 former employees or spouses of former employees. The Company currently contributes an amount equal to approximately 190 per cent of the contributions made by the employees. The liabilities under the Pension Trust Fund are fully funded, except for the liability aggregating approximately \$893,000 arising as a result of the changes to the pension program, referred to below, which became effective January 1, 1979.

A major review of Home's compensation and benefit programs was essentially completed in 1978 and it is the intent that such reviews be ongoing. Various improvements have been made to the Employee Benefits Program, including the addition of a full service dental plan. Effective January 1, 1979, service of both active or retired employees prior to July 1, 1953, when the Company's Pension Plan was enacted, will be recognized in the calculation of pension benefits. Sixty-one active employees and pensioners or their surviving spouses will benefit from the improvement to the Plan. The resulting liability will be funded by the Company over a 15 year period.

To stimulate initiative and innovative ideas by our employees Home introduced an Employee Suggestion Awards Plan. Cash awards are granted under this Plan to recognize employees' ideas which, when implemented, result in significant gains in operating economy and effectiveness.



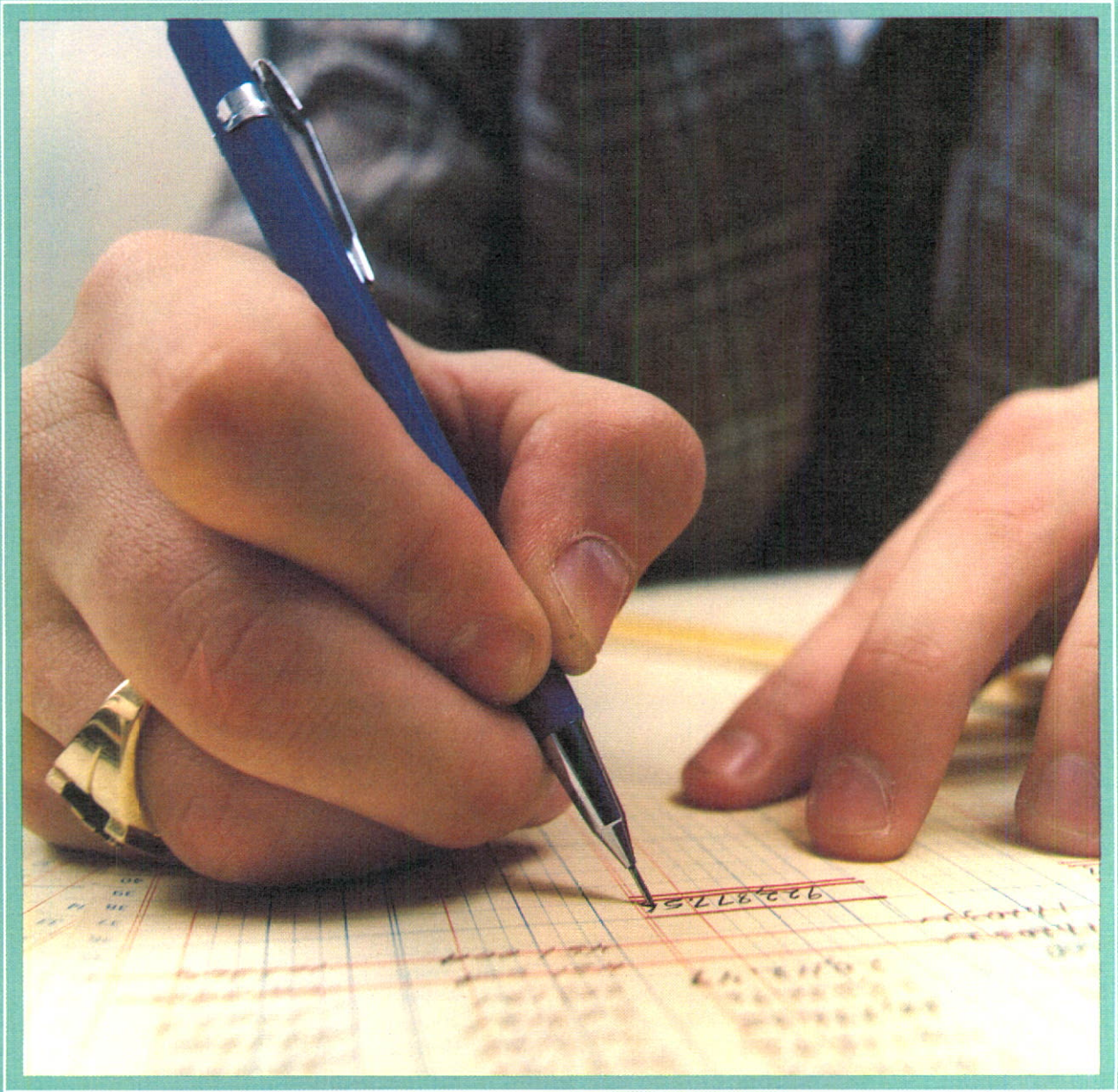
Home's Scholarship Program provided assistance to students at the Universities of Calgary, Lethbridge and Alberta, Camrose Lutheran College, Mount Royal College and the Southern Alberta Institute of Technology.

The R. A. Brown Jr. Memorial Scholarship Program was enthusiastically received by employees. This new program offers scholarships, with amounts related to tuition levels, to all employees' dependent children attending approved post-secondary educational institutions. The program was established in honour of the late Mr. R. A. Brown, Jr., President and Chief Executive Officer of the Company from 1955 to 1972.

The Company's success is not only attributable to the economic conditions of the industry but also to the contributions of our staff. Our staff is a well-balanced group of long-service employees who provide the stability and background for our endeavours and new employees who bring fresh thoughts and new ideas to their jobs.

As the Company grows, so does its employees' involvement in the community life of the cities and towns in which its operations are located. Your Company is particularly proud of its employees who give so much of their spare time as volunteers to various charitable groups, sports programs, health and welfare agencies and cultural, civic and educational organizations.





FINANCIAL

FINANCIAL REVIEW AND MANAGEMENT'S DISCUSSION OF EARNINGS

Consolidated net earnings for 1978, before extraordinary gains, amounted to \$38,452,000 (\$4.68 per share), virtually unchanged from \$38,342,000 (\$4.68 per share) for 1977. Net earnings, after extraordinary items, totalled \$43,891,000 (\$5.34 per share) compared with \$36,997,000 (\$4.52 per share) in 1977. Proceeds received on the disposition of 696,500 common shares of TransCanada PipeLines Limited and the disposal of Scurry-Rainbow's investment in Minerales Santa Rita S.A. de C.V., in excess of its carrying values, accounted for the extraordinary gain of \$5,439,000.

In 1978 the Company acquired all of the outstanding shares of Bridger Petroleum Corporation Ltd. for a consideration of \$58,573,000. The accounts of Bridger Petroleum were included with those of Home as of March 1, 1978, the effective date of the acquisition.

During 1978 and early 1979 the Company undertook a number of significant financial transactions which have had the effect of substantially improving the Company's working capital position. The Company sold its remaining 696,500 common shares of TransCanada PipeLines Limited for a net consideration of \$10,665,000 and the proceeds of this sale, together with the proceeds of the issuance of \$60 million principal amount of 9⁷/₈ per cent debentures due October 31, 1998, were used to retire short term bank debt primarily incurred for the acquisition of Bridger Petroleum. Early in 1979 Scurry-Rainbow finalized the sale of its interest in Block 3/7 in the United Kingdom sector of the North Sea for a total consideration of approximately \$11.2 million. The effect of these transactions, together with anticipated cash flow for 1979, places the Company in a strong financial position to undertake its 1979 capital expenditure program of approximately \$160 million.

Net flow of funds from operations totalled \$90,815,000 in 1978, an increase of five per cent over 1977. Reduced current taxes as a result of the increased capital expenditure programs and higher average prices for crude oil and natural gas account for the increase.

The Company's capital expenditure program in 1978 amounted to \$110 million, an 11 per cent increase over that of 1977. Oil and gas expenditures comprised \$62 million for land and exploratory activity and \$39 million for development. The exploration program in the Foot-hills/Deep Basin area and the development of the Fort St. John and United States Gulf Coast areas accounted for a substantial portion of the expenditure. Mining capital expenditures comprised \$3 million and other capital expenditures amounted to \$6 million.

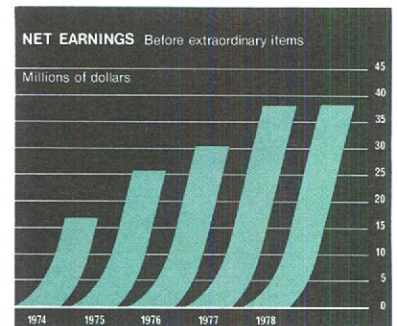
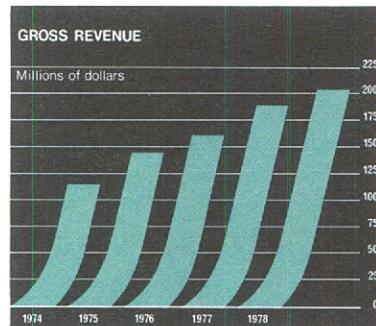
The Securities and Exchange Commission announced its intention to develop a new method of accounting for oil and gas companies to be implemented in 1981. For purposes of SEC reporting, oil and gas companies may continue to utilize either the Successful Efforts or modified Full Cost methods of accounting prior to the implementation of Reserve Recognition Accounting. There are a number of valuation problems to be overcome before implementation of Reserve Recognition Accounting.

The following table indicates the percentage of gross revenue contributed by the three major sources during each of the five years ended December 31, 1978:

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Crude Oil	36.25%	35.31%	36.74%	40.07%	40.03%
Natural Gas and Related Products	31.43%	28.10%	26.25%	23.52%	16.36%
LPG Marketing and Storage	27.32%	32.67%	30.12%	30.54%	36.63%

The Five Year Review provides a comparison of the Statement of Earnings for each of the five years ended December 31, 1978. Gross revenues reflect gains over the prior periods with 1977 gross revenue of \$188.7 million, after royalties, increasing 17 per cent over 1976 primarily due to higher product prices. Expenses have increased over the period with 1977 expenses increasing 21 per cent over 1976 due mainly to the effects of inflation. Extraordinary items relate to the gains or losses on the sale of investments. Additional operating data is provided in the Five Year Review.

Semi-annual dividend payments of \$0.45 per share were made on each of January 1 and July 1, 1978. The January 1, 1979 dividend on Class A and Class B shares was increased to \$0.65 per share.



HOME OIL COMPANY LIMITED

Consolidated Statement of Changes in Financial Position

(Thousands of Canadian Dollars)

	For the years ended December 31	
	1978	1977
Funds Were Obtained From		
Operations	\$ 90,815	\$ 86,855
Sale of investments	14,802	4,996
Disposal of assets	18,911	7,409
Issuance of capital stock	582	583
Long term borrowings	74,410	5,806
Dividends	2,050	2,249
Deferred production revenue	3,400	—
Repayment of advances	—	2,642
	<u>204,970</u>	<u>110,540</u>
Funds Were Used For		
Acquisition of Bridger Petroleum Corporation Ltd. (Note 2)	57,667	—
Property, plant and equipment	109,699	98,810
Reduction in long term debt	36,552	13,569
Dividends	9,045	6,764
Acquisition of minority interest	3,650	—
Investments and advances	11,105	20,377
Other	2,481	3,400
	<u>230,199</u>	<u>142,920</u>
Decrease in Working Capital	(25,229)	(32,380)
Working Capital at beginning of year	21,090	53,470
Working Capital (Deficiency) at end of year	<u>\$ (4,139)</u>	<u>\$ 21,090</u>
Changes in Components of Working Capital		
Increase (Decrease) in Current Assets		
Cash and short term deposits	\$ (14,698)	\$ (41,273)
Accounts receivable	9,393	16,294
Inventories	3,499	5,869
	<u>(1,806)</u>	<u>(19,110)</u>
Decrease (Increase) in Current Liabilities		
Bank indebtedness	(12,295)	(1,707)
Accounts payable and accrued charges	(10,408)	(9,136)
Dividends	(1,657)	(627)
Income taxes	553	(516)
Current maturities on long term debt	384	(1,284)
	<u>(23,423)</u>	<u>(13,270)</u>
Decrease in Working Capital	<u>\$ (25,229)</u>	<u>\$ (32,380)</u>

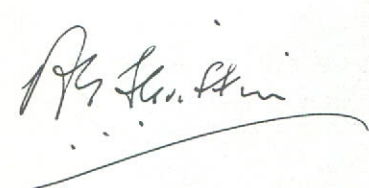
HOME OIL COMPANY LIMITED

Consolidated Balance Sheet as at December 31, 1978 and 1977

(Thousands of Canadian Dollars)

Assets	1978	1977
CURRENT ASSETS		
Cash and short term deposits	\$ 3,701	\$ 18,399
Accounts receivable	53,487	44,094
Inventories, at lower of cost and realizable value	15,842	12,343
	73,030	74,836
INVESTMENTS AND ADVANCES (Note 3)		
Quoted securities	—	5,885
Companies and partnership interest accounted for on the equity basis	8,313	11,926
Panarctic Oils Ltd.	22,556	12,146
	30,869	29,957
UNDEVELOPED REAL ESTATE	5,538	—
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 4)	735,569	571,226
Accumulated depletion and depreciation	224,665	193,436
	510,904	377,790
OTHER ASSETS (Note 5)	9,318	6,544
	\$629,659	\$489,127

Approved on behalf of the Board:

 Director

 Director

Liabilities

	<u>1978</u>	<u>1977</u>
CURRENT LIABILITIES		
Bank indebtedness (Note 6)	\$ 16,887	\$ 4,592
Accounts payable and accrued charges	41,446	31,038
Dividends	5,347	3,690
Income taxes	—	553
Current maturities on long term debt	13,489	13,873
	<u>77,169</u>	<u>53,746</u>
DEFERRED PRODUCTION REVENUE	3,400	—
LONG TERM DEBT (Notes 5 and 7)	133,756	77,200
DEFERRED INCOME TAXES	97,813	75,721
MINORITY INTEREST	6,520	6,887

Shareholders' Equity

CAPITAL STOCK (Note 9)

Authorized

- 1,000,000 preferred shares, par value \$50 each
- 10,000,000 class A shares of no par value
- 5,000,000 class B shares of no par value

Issued

5,653,975 class A shares (1977 - 5,629,076)	114,856	114,274
2,572,905 class B shares	20,619	20,619
	<u>135,475</u>	<u>134,893</u>
RETAINED EARNINGS	175,526	140,680
	<u>311,001</u>	<u>275,573</u>
	<u>\$629,659</u>	<u>\$489,127</u>

Auditors' Report

To the Shareholders of Home Oil Company Limited

We have examined the consolidated balance sheet of Home Oil Company Limited as at December 31, 1978 and 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for minority interest described in Note 1, on a consistent basis.

Calgary, Canada
February 22, 1979

THORNE RIDDELL & CO.
Chartered Accountants

HOME OIL COMPANY LIMITED

Consolidated Statement of Earnings

(Thousands of Canadian Dollars)

	For the years ended December 31	
	1978	1977
Revenue		
Operating	\$201,145	\$185,213
Equity income (loss)	1,132	(850)
Investment income	2,422	4,347
	<u>204,699</u>	<u>188,710</u>
Expense		
Cost of sales and operating	80,462	73,610
General and administrative	9,703	6,894
Depreciation and depletion	34,188	28,584
Interest and expense on long term debt	10,261	8,154
Other interest	4,523	225
Minority interest	751	528
	<u>139,888</u>	<u>117,995</u>
	<u>64,811</u>	<u>70,715</u>
Provision for Income Taxes (Note 8)		
Current	7,723	13,803
Deferred	18,636	18,570
	<u>26,359</u>	<u>32,373</u>
Net Earnings before extraordinary items	38,452	38,342
Extraordinary items (Note 10)	5,439	(1,345)
Net Earnings	\$ 43,891	\$ 36,997
Earnings per share		
Net earnings before extraordinary items	\$4.68	\$4.68
Extraordinary items . . . . .	.66	(.16)
Net earnings	<u>\$5.34</u>	<u>\$4.52</u>

Consolidated Statement of Retained Earnings

(Thousands of Canadian Dollars)

	For the years ended December 31	
	1978	1977
Balance, at Beginning of Year	\$140,680	\$110,447
Net Earnings	43,891	36,997
	<u>184,571</u>	<u>147,444</u>
Dividends Declared		
Class A shares	6,215	4,642
Class B shares	2,830	2,122
	<u>9,045</u>	<u>6,764</u>
Balance, at End of Year	\$175,526	\$140,680

HOME OIL COMPANY LIMITED

Notes to 1978 and 1977 Consolidated Financial Statements

(Tabular amounts shown in thousands of Canadian dollars)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements as prepared by management are in accordance with generally accepted accounting principles. Due to the nature of the Company's operations certain estimates are involved in the preparation of such statements. In the opinion of management these financial statements have been prepared within reasonable limits of materiality and in accordance with the principles as outlined below.

PRINCIPLES OF CONSOLIDATION

- (a) The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock.
- (b) The Company follows the equity method of accounting for its investment in companies over which it has significant influence and in a 20% partnership interest. Under this method the Company's investment in such entities is carried on the balance sheet at cost plus its share of undistributed earnings or losses.
- (c) The excess of the cost of shares in subsidiaries and companies accounted for by the equity method over the underlying book value at dates of acquisition has been allocated to property, plant and equipment and is subject to the accounting policies outlined below.

OIL AND GAS OPERATIONS

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

- (a) North America — Canada and the United States.
- (b) Northwestern Europe — the United Kingdom and the Northwestern European Continental Shelf which presently encompasses all sectors of the North Sea, the Celtic Sea, and the English Channel.
- (c) Other Areas — a separate cost centre for the Athabasca Oil Sands and for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in the North America cost centre are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. Natural gas and sulphur reserves and production in 1978 are converted to equivalent barrels of crude oil based on the relative energy content of each product. In 1977, such reserves and production were converted based on the relative sales value of each product. The effect of this change is not significant.

Expenditures in the areas outlined in (b) and (c) above are amortized on a straight-line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the unamortized balance in that cost centre will be depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to earnings (included in depletion).

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

MINING OPERATIONS

Mining costs are charged to earnings in the year of expenditure (included in depletion) until such time as the presence of economically recoverable reserves is established. Subsequent expenditures are capitalized and charged to earnings as set out below. Economically recoverable reserves are defined by Company engineers as reserves which are capable or have a reasonable prospect of sustaining commercial production. Proceeds on partial disposition of non-producing properties are deducted from the related costs without recognition of gain or loss.

Costs are accumulated by producing area and are depleted using the unit of production method based upon estimated recoverable reserves, as determined by Company engineers.

DEPRECIATION

Depreciation of buildings, plant, property, pipeline and equipment has been provided in the accounts of the Company on a straight-line basis at rates which are estimated to amortize the costs of the assets less salvage value over their useful lives.

FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities are translated to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities are translated at the rate in effect at the time the original transactions took place. Revenue and expense items (excluding depletion and depreciation which are translated at the rate of exchange applicable to the related asset) are translated using average rates of exchange throughout the year.

RECLASSIFICATION OF 1977 ACCOUNTS

Certain of the 1977 accounts have been reclassified to conform with the 1978 financial statement presentation.

Note 1 Change in Accounting

On the acquisition of Scurry-Rainbow Oil Limited (Scurry) in 1974 the minority interest in that Company was determined as the proportionate interest of the minority in the assigned value of the net assets of Scurry. During 1978 it was decided that such minority interest would be more appropriately measured in terms of the historical carrying value of the net assets recorded in the accounting records of Scurry. Accordingly, the financial statements have been retroactively adjusted to reflect this change in accounting. The change results in a restatement of the amounts previously recorded for property, plant and equipment, accumulated depletion and depreciation and minority interest in the consolidated balance sheets and of the amounts previously reported for depletion and depreciation and minority interest in the consolidated statements of earnings. This change in accounting had no effect on net earnings.

Note 2 Business Combination

Effective March 1, 1978, Home purchased Bridger Petroleum Corporation Ltd., a publicly traded natural resource company, for a cash consideration of \$58,573,000. The acquisition has been accounted for as a purchase. The excess of the cost of shares over the book value of acquired net assets has been assigned to property, plant and equipment and is subject to the accounting policies outlined in the above summary.

Had this business combination occurred January 1, 1977, consolidated revenue would have been \$207,215,000 for the year ended December 31, 1978, and \$201,365,000 for the year ended December 31, 1977, and net earnings and earnings per share would not have changed significantly.

On the acquisition funds were used for:

Property, plant and equipment	\$33,140
Undeveloped real estate	9,712
Other assets	446
Long term debt	(18,698)
Deferred income taxes	(3,455)
	<hr/>
	21,145
Excess of cost of shares over underlying net book value	36,522
	<hr/>
Cost of net assets, except working capital	57,667
Working capital acquired	906
	<hr/>
Purchase consideration	\$58,573
	<hr/>

Note 3 Investments and Advances

Investments in and advances to companies and a partnership interest accounted for on the equity basis consist of:

	Percentage Interest	1978	1977
Federated Pipe Lines Ltd.	50.0	\$7,236	\$ 7,212
Minerals Ltd.	50.0	1,077	1,105
Minerales Santa Rita S.A. de C.V.	49.0	—	261
Partnership interest	20.0	—	3,348
		<hr/>	<hr/>
		\$8,313	\$11,926
		<hr/>	<hr/>

The investment in and advances to Minerales Santa Rita S.A. de C.V. (including claims resulting from

payments under the guarantee — see Note 7) were written down in 1977 to their estimated residual value of \$261,000.

Investment in quoted securities in 1977 consists of 696,500 common shares of TransCanada PipeLines Limited having a quoted market value of \$10,535,000.

Note 4 Property, Plant and Equipment

	1978			1977		
	Cost	Accumulated Depletion and		Cost	Accumulated Depletion and	
		Depreciation	Net		Depreciation	Net
Petroleum and natural gas leases and rights including exploration and development						
— North America	\$555,784	\$165,029	\$390,755	\$420,445	\$142,056	\$278,389
— Northwestern Europe	22,416	11,677	10,739	21,340	9,605	11,735
— Other areas	10,159	6,527	3,632	9,438	7,613	1,825
Mining properties						
— Producing	5,338	660	4,678	6,415	360	6,055
— Non-producing	26,200	5,063	21,137	24,088	3,420	20,668
Production equipment						
— Petroleum and natural gas	74,683	22,693	51,990	55,347	19,400	35,947
— Mining	2,742	303	2,439	1,595	95	1,500
Land, buildings, pipeline property and other equipment	38,247	12,713	25,534	32,558	10,887	21,671
	<u>\$735,569</u>	<u>\$224,665</u>	<u>\$510,904</u>	<u>\$571,226</u>	<u>\$193,436</u>	<u>\$377,790</u>

Note 5 Other Assets

Other assets consist of:

	1978	1977
Term deposits pledged as collateral	\$4,000	\$ —
Share subscription notes (note 9)	622	941
Unamortized debt discount and issue expense	2,226	830
Prepayments, drilling deposits and miscellaneous assets	2,470	4,773
	<u>\$9,318</u>	<u>\$6,544</u>

During 1978, the Company sold shares of TransCanada PipeLines Limited which had been pledged as security for certain of the long term debt. A portion of the proceeds from the sale of these shares was used to purchase term deposits which have been substituted as security for this debt. At December 31, 1978, term deposits of \$5,000,000 have been pledged as security, of which \$4,000,000 has been included in other assets and \$1,000,000 (corresponding to the current portion of the related debt) has been included in current assets.

Note 6 Bank Indebtedness

Bank indebtedness in 1978 is secured by accounts receivable and certain interests in petroleum and natural gas leases.

Note 7 Long Term Debt

	Maturity	1978	1977
11.50% Secured bonds (1)	1986	\$ 11,250	\$12,750
8.20% Secured bonds (1977 — \$2,632,000 U.S.)	1980	—	2,880
6.25% Collateral trust bonds (2)	1983	5,000	6,000
8.10% Secured bonds (1977 — \$1,402,000 U.S.)	1980	—	1,519
8.10% Promissory note (1978 — \$710,000 U.S.)	1980	842	—
9.50% Debentures (1978 — \$23,000,000 U.S.; 1977 — \$24,000,000 U.S.)	1986	22,369	23,354
9.875% Unsecured debentures	1998	60,000	—
7.25% Subordinated debentures of a subsidiary (3)	1988	12,936	14,201
Bank production loans (4)	1981	11,375	15,875
Bank production loans (1978 — \$6,950,000 U.S.) (4)	1983	7,867	—
Non-interest bearing advances (1978 — \$7,642,000 U.S.; 1977 — \$7,695,000 U.S.)	1983	7,726	7,696
Liability under guarantee (1977 — \$4,700,000 U.S.)		—	5,144
Non-recourse notes on undeveloped real estate (1978 — \$5,097,000 U.S.)	1988	5,694	—
Other		2,186	1,654
		<u>147,245</u>	<u>91,073</u>
Less: Current minimum maturities		<u>13,489</u>	<u>13,873</u>
		<u>\$133,756</u>	<u>\$77,200</u>

- (1) Secured by mortgages on various producing properties.
- (2) Secured by term deposits in 1978 and by shares of TransCanada PipeLines in 1977 (see note 5).
- (3) Convertible into shares of Scurry-Rainbow Oil Limited prior to May 1, 1978 at \$33¹/₃ per share.
- (4) Secured by accounts receivable, inventory, and certain oil and gas leases.

At December 31, 1977, a subsidiary had guaranteed the bank indebtedness of Minerales Santa Rita S.A. de C.V. amounting to \$4,700,000 U.S. The full amount of the indebtedness guaranteed was recorded as a liability at that date. During 1978, the liability under the guarantee was discharged from the proceeds of a bank production loan.

The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to December 31, 1978 are as follows:

1979 — \$13,489,000; 1980 — \$11,195,000; 1981 — \$6,978,000; 1982 — \$6,587,000; 1983 — \$8,440,000.

Note 8 Income Taxes

Income tax expense differs from the amounts which would be obtained by applying the Canadian federal income tax rate to the respective years' pretax earnings, before extraordinary items. These differences result from the following items:

	1978		1977	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
Computed "expected" tax expense	\$29,813	46.0%	\$32,529	46.0%
Royalties and other payments to provincial governments	28,582	44.1	24,782	35.0
Other non-deductible costs	3,466	5.4	3,017	4.3
Equity income	(941)	(1.5)	345	0.5
Depletion allowances on Canadian oil and gas production income	(10,027)	(15.5)	(8,094)	(11.4)
Federal resource allowance	(19,447)	(30.0)	(17,305)	(24.5)
Frontier exploration allowance	(1,002)	(1.6)	—	—
Provincial income taxes less federal abatements	1,015	1.6	788	1.1
Refund of taxes under incentive plans	(5,100)	(7.8)	(3,689)	(5.2)
Actual tax expense — current and deferred	<u>\$26,359</u>	<u>40.7%</u>	<u>\$32,373</u>	<u>45.8%</u>

Note 9 Capital Stock

(a) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1978 and December 31, 1977 for issuance upon the exercise, on or before April 30, 1980, of warrants to purchase 76,975 shares at \$14.55 U.S. per share and 32,990 shares at \$17.66 U.S. per share.

(b) Options to Purchase Capital Stock

As at December 31, 1978 there were 68,189 Class A shares (1977 — 95,256 Class A shares) reserved for exercise to 1987 of employee stock options at prices ranging from \$20 to \$38.50 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. In the case of options granted to senior officers, the Company has agreed to accept notes in payment of the optioned shares. A summary of transactions relating to optioned shares is as follows:

Class A Shares	Directors and Officers	Other Employees	Total	Consideration
Outstanding January 1, 1977	53,034	41,726	94,760	
Surrendered and Cancelled	—	(1,669)	(1,669)	
Granted at \$28.375	—	1,500	1,500	
Granted at \$28.75	—	2,500	2,500	
Granted at \$38.50	13,800	10,000	23,800	
Exercised at \$20	(9,000)	(6,970)	(15,970)	\$320
Exercised at \$24.50	(5,133)	—	(5,133)	\$126
Exercised at \$27.375	(3,000)	(332)	(3,332)	\$ 91
Exercised at \$38.50	(1,200)	—	(1,200)	\$ 46
Outstanding December 31, 1977	48,501	46,755	95,256	

<u>Class A Shares</u>	<u>Directors and Officers</u>	<u>Other Employees</u>	<u>Total</u>	<u>Consideration</u>
Reclassification	(4,200)	4,200	—	
Surrendered and cancelled	—	(2,168)	(2,168)	
Exercised at \$20	(3,000)	(11,087)	(14,087)	\$281
Exercised at \$24.50	(6,233)	—	(6,233)	\$153
Exercised at \$27.375	—	(798)	(798)	\$ 22
Exercised at \$28.75	—	(648)	(648)	\$ 19
Exercised at \$29.625	—	(1,500)	(1,500)	\$ 44
Exercised at \$38.50	(1,200)	(433)	(1,633)	\$ 63
Outstanding December 31, 1978	<u>33,868</u>	<u>34,321</u>	<u>68,189</u>	

All options were granted under the Officers and Key Employees Share Plan which terminates in 1979 or the Incentive Share Option Plan which terminates in 1986. At December 31, 1978, 161,573 Class A shares (1977 — 159,405 Class A shares) were reserved for options that may be granted under the plans.

(c) During 1978, 24,899 (1977 — 25,635) Class A shares were issued for cash and notes of \$582,000 (1977 — \$583,000) on exercise of employee share options.

Other assets at December 31, 1978 include notes totalling \$622,000 (1977 — \$941,000) received in payment of 26,000 (1977 — 41,933) Class A shares of the Company subscribed for by officers pursuant to share option agreements.

Note 10 Extraordinary Items

	<u>1978</u>	<u>1977</u>
Gain on sale of investments (net of applicable income taxes of \$691,000; 1977 — \$236,000)	\$4,780	\$ 2,039
Recovery (write-down) of investment in Minerales Santa Rita S.A. de C.V. (net of minority interest)	659	(5,309)
Gain on sale of office building (net of applicable income taxes of \$22,000)	—	1,925
	<u>\$5,439</u>	<u>\$(1,345)</u>

Note 11 Commitment and Contingent Liabilities

The Company has entered into an agreement to subscribe for common shares of Panarctic Oils Ltd. As consideration for the Panarctic shares, the Company agreed to incur drilling and exploration expenses on Panarctic lands. At December 31, 1978, \$10.2 million remains to be expended during 1979 under the terms of the agreement.

The Company has guaranteed the indebtedness and certain other obligations of associated entities to the extent of approximately \$3.1 million (1977 — \$6.0 million).

The Company has certain lease obligations, primarily covering the rental of office space and railroad tank cars. Some of the leases by their terms can be cancelled but only upon payment of substantial penalties and some of the leases contain options to purchase the related asset. The minimum rental commitments under all leases (excluding leases relating to oil and gas production rights and mineral rights) are as follows: 1979 — \$4,539,000; 1980 — \$4,409,000; 1981 — \$4,292,000; 1982 — \$3,606,000 and 1983 — \$2,770,000.

Note 12 Legal Proceedings

On December 5, 1977, Chevron Standard Limited served the Company with a Statement of Claim alleging that the Company and one of its employees had made improper use of certain confidential information relating to the West Pembina Basin in the Province of Alberta. The Statement of Claim asks the court, inter alia, for certain injunctive relief, general and special damages and a declaration that the Company is trustee for Chevron Standard Limited for and in respect of all oil and gas rights, properties, and interests acquired by the Company of Upper Devonian Age in the West Pembina Basin and requiring the Company to hold the same in trust for Chevron Standard Limited.

The Company has filed a Statement of Defence to that claim denying the improper use of any confidential information. Production of documents and Examinations for Discovery have been completed but no date has yet been set for the trial of the action. Based on the advice of counsel, management does not consider it necessary to make any provision for the claim in the accounts.

Note 13 Business Segments

The Company's operations consist of four business segments; petroleum and natural gas production, pipelines, LPG marketing and storage and mining. Presented below are segmented data relative to these activities.

	1978		1977	
	Operating Revenue	Segment Earnings (Loss)	Operating Revenue	Segment Earnings (Loss)
Petroleum and natural gas	\$138,553	\$ 83,355	\$119,661	\$ 75,311
Pipelines	2,546	1,313	2,805	1,409
LPG marketing and storage	58,982	6,108	66,252	8,796
Mining	4,128	(3,596)	1,092	(1,906)
	<u>204,209</u>	<u>87,180</u>	<u>189,810</u>	<u>83,610</u>
Inter-segment sales	3,064	—	4,597	—
	<u>\$201,145</u>	<u>87,180</u>	<u>\$185,213</u>	<u>83,610</u>
Equity income		1,132		(850)
Investment income		2,422		4,347
General and administrative		(9,703)		(6,894)
Corporate depreciation		(685)		(591)
Interest expense		(14,784)		(8,379)
Minority interest		(751)		(528)
Income taxes		(26,359)		(32,373)
Net earnings before extraordinary items		<u>\$ 38,452</u>		<u>\$ 38,342</u>
Identifiable assets				
Petroleum and natural gas		\$499,184		\$362,182
Pipelines		1,700		1,939
LPG marketing and storage		39,067		34,295
Mining		30,103		29,885
Corporate assets		28,736		30,869
Investment in affiliates		30,869		29,957
		<u>\$629,659</u>		<u>\$489,127</u>
Capital expenditures				
Petroleum and natural gas		\$101,384		\$ 87,311
Pipelines		24		27
LPG marketing and storage		3,251		1,014
Mining		2,536		5,749
Corporate		2,504		4,709
		<u>\$109,699</u>		<u>\$ 98,810</u>
Depreciation and depletion				
Petroleum and natural gas		\$ 30,184		\$ 25,459
Pipelines		275		387
LPG marketing and storage		760		676
Mining		2,284		1,471
Corporate		685		591
		<u>\$ 34,188</u>		<u>\$ 28,584</u>

Note 14 Remuneration of Directors and Officers

The Company had 14 directors and 15 senior officers in 1978 (20 and 13 respectively in 1977). Two of the senior officers are directors of the Company. Remuneration paid to directors and senior officers in their respective capacities was \$86,000 and \$866,000 (1977 — \$88,000 and \$802,000).

Note 15 Subsequent Event

Subsequent to December 31, 1978, a subsidiary, Scurry-Rainbow Oil Limited, sold its petroleum and natural gas interests in the United Kingdom for \$9,400,000 (U.S.) cash.

HOME'S SHARES

The Company has two classes of shares outstanding, Class A and Class B, which are listed on the Alberta, Montreal, Toronto and Vancouver stock exchanges in Canada and on the American Stock Exchange in the United States.

Class A shares are entitled to a fixed cumulative dividend of \$0.25 per year in priority to dividends on the Class B shares. After payment of this annual dividend on the Class A shares a dividend of up to \$0.25 per share may be paid during the year on the Class B shares. Any further dividend in any year is payable equally on the Class A and Class B shares. Only the Class B shares carry voting rights under normal circumstances.

The Consumers' Gas Company of Toronto has effective control of the Company through its ownership, at December 31, 1978, of approximately 96 per cent of the outstanding shares of Cygnus Corporation Limited. The 1,000,000 Class B shares of Home held by Cygnus, together with the 276,788 Class B shares of Home held by Consumers', brings Consumers' effective control of Home's Class B voting shares to 49.6 per cent at December 31, 1978. In addition, Consumers' owned, directly and through a 100 per cent owned subsidiary, 1,716,015 Class A shares of Home at December 31, 1978, while on this same date Cygnus owned 195,600 Class A shares of Home and all of the outstanding warrants to purchase 109,965 Class A shares of Home. These shareholdings give Consumers' a 38.2 per cent equity position in the Company at December 31, 1978.

	CLASS A		CLASS B	
	1978	1977	1978	1977
Shares Authorized . . .	10,000,000	10,000,000	5,000,000	5,000,000
Shares Issued at				
December 31	5,653,975	5,629,076	2,572,905	2,572,905
Shares Reserved for:				
Warrants	109,965	109,965	—	—
Options	229,762	254,661	—	—
Number of Shareholders	7,246	8,033	2,365	2,559
Distribution of Shares				
at December 31				
Canada	88.7%	90.2%	96.7%	96.5%
United States	10.4%	7.4%	3.0%	2.7%
United Kingdom . . .	.5%	.6%	.1%	.1%
Other . . . . .	.4%	1.8%	.2%	.7%
	100.0%	100.0%	100.0%	100.0%
Volume of Shares				
Traded	3,017,182	2,318,563	540,097	624,034
Price Ranges (High-Low)				
Toronto Stock				
Exchange (CDN \$)				
First Quarter	46 ³ / ₈ - 36 ¹ / ₂	30 ¹ / ₂ - 26 ³ / ₈	43 ¹ / ₂ - 34 ¹ / ₂	26 ³ / ₄ - 24 ¹ / ₄
Second Quarter . . .	45 - 38 ¹ / ₄	31 ³ / ₄ - 27 ³ / ₄	42 - 36 ¹ / ₂	27 ¹ / ₄ - 24
Third Quarter	44 - 38 ⁵ / ₈	34 ¹ / ₄ - 29 ¹ / ₂	41 - 36	29 ¹ / ₂ - 26 ¹ / ₈
Fourth Quarter	46 ¹ / ₂ - 40 ¹ / ₄	47 ¹ / ₂ - 34 ¹ / ₄	43 - 37	45 - 29 ³ / ₄
American Stock				
Exchange (U.S. \$)				
First Quarter	42 - 33 ¹ / ₄	30 - 26 ¹ / ₄	37 ³ / ₄ - 30 ¹ / ₂	26 ⁷ / ₈ - 23 ³ / ₄
Second Quarter . . .	39 ¹ / ₂ - 33 ³ / ₄	30 ¹ / ₄ - 27 ¹ / ₈	36 ¹ / ₂ - 32 ¹ / ₂	26 - 22 ⁷ / ₈
Third Quarter	38 ³ / ₄ - 33 ¹ / ₄	32 ¹ / ₄ - 28 ¹ / ₂	35 ¹ / ₂ - 32 ¹ / ₂	27 ⁷ / ₈ - 24
Fourth Quarter	39 ³ / ₈ - 34 ¹ / ₈	43 ¹ / ₂ - 31 ³ / ₄	36 - 31 ¹ / ₂	40 ¹ / ₂ - 27 ¹ / ₂
Dividends Declared				
Per Share	\$1.10	\$0.825	\$1.10	\$0.825
Federal Government				
Valuation Day Values .	\$33.38 per share		\$33.00 per share	

FIVE YEAR REVIEW / 1974-1978

	1978	1977	1976	1975	1974	
CONSOLIDATED STATEMENT OF EARNINGS	Gross Revenue					
	Crude Oil	\$ 74,206	\$ 66,635	\$ 59,175	\$ 58,289	\$ 45,742
	Gas and Products	64,347	53,026	42,277	34,219	18,700
	Pipeline	2,546	2,805	2,689	2,615	2,570
	LPG Marketing & Storage	55,918	61,655	48,500	44,422	41,859
	Mining	4,128	1,092	57	—	—
	Investment Revenue	2,422	4,347	6,816	3,673	2,681
	Equity Income (Loss)	1,132	(850)	1,532	2,257	2,717
		<u>204,699</u>	<u>188,710</u>	<u>161,046</u>	<u>145,475</u>	<u>114,269</u>
	Expenses					
	Operating, Cost of Sales and General	90,916	81,032	66,082	58,001	50,852
	Depletion & Depreciation	34,188	28,584	24,191	24,056	20,268
	Interest	14,784	8,379	7,459	7,275	6,626
		<u>139,888</u>	<u>117,995</u>	<u>97,732</u>	<u>89,332</u>	<u>77,746</u>
	Net Earnings before undernoted	64,811	70,715	63,314	56,143	36,523
	Income Tax — Current	7,723	13,803	26,014	27,447	11,761
	— Deferred	18,636	18,570	6,864	2,151	7,344
		<u>38,452</u>	<u>38,342</u>	<u>30,436</u>	<u>26,545</u>	<u>17,418</u>
	Extraordinary Items	5,439	(1,345)	—	(963)	(3,902)
	Net Earnings	\$ 43,891	\$ 36,997	\$ 30,436	\$ 25,582	\$ 13,516
	Earnings per share—					
	Before Extraordinary Items	\$ 4.68	\$ 4.68	\$ 3.73	\$ 3.26	\$ 2.14
	After Extraordinary Items	\$ 5.34	\$ 4.52	\$ 3.73	\$ 3.14	\$ 1.66
BALANCE SHEET	Working Capital (Deficiency)	\$ (4,139)	\$ 21,090	\$ 53,470	\$ 33,721	\$ (16,884)
	Investment in Other Companies	\$ 30,869	\$ 29,957	\$ 22,799	\$ 28,113	\$ 56,579
	Property, Plant and Equipment — Net	\$510,904	\$377,790	\$312,447	\$283,364	\$278,282
	Deferred Production Revenue	\$ 3,400	\$ —	\$ —	\$ —	\$ —
	Long Term Debt (Less Current Maturities)	\$133,756	\$ 77,200	\$ 85,111	\$ 72,600	\$ 68,119
	Deferred Income Taxes	\$ 97,813	\$ 75,721	\$ 57,192	\$ 49,918	\$ 47,858
	Minority Interest	\$ 6,520	\$ 6,887	\$ 7,360	\$ 6,817	\$ 6,773
	Capital Stock	\$135,475	\$134,893	\$134,310	\$133,897	\$133,632
	Retained Earnings	\$175,526	\$140,680	\$110,447	\$ 85,115	\$ 63,611
EXPLORATION AND DEVELOPMENT	Exploration Expenditures	\$ 64,373	\$ 75,345	\$ 36,486	\$ 20,199	\$ 31,445
	Development Expenditures	\$ 39,483	\$ 17,359	\$ 17,319	\$ 9,885	\$ 3,745
	Gross Exploration					
	Acreage (thousands of acres)	33,814	34,363	36,264	33,850	43,247
	Net Exploration Acreage (thousands of acres)	6,667	6,971	7,451	7,976	11,797
DRILLING ACTIVITY	Gross Working Interest					
	Wells	349	166	134	92	107
	Net Oil Wells	24	10	5	1	4
	Net Gas Wells	38	25	20	8	9
	Net Dry Wells	26	17	19	15	25
	(Excludes wells drilled by others under farmout agreements)					
PROVEN DEVELOPED RESERVES	Crude Oil and Natural Gas Liquids — thousands of barrels	125,700	129,416	140,816	152,725	166,593
	Natural Gas — Mmcf	895,022	785,324	758,578	782,570	810,822
	Sulphur — thousands of long tons	1,214	1,442	1,303	1,786	2,154
PRODUCTION AND OPERATIONS	Crude Oil and Natural Gas Liquids					
	Production — barrels per day	30,685	33,613	34,959	39,656	37,803
	Natural Gas Sales — Mcf per day	125,737	115,230	119,165	125,174	119,523
	Sulphur Sales — long tons	66,144	50,963	47,211	35,801	54,886
	Daily Average Gatherings — barrels					
	Cremona Pipe Line Division	37,480	41,386	40,978	43,759	46,517
	Federated Pipe Lines Ltd. (50% owned)	232,812	247,612	262,559	294,738	314,524
SHARES AND DIVIDENDS	Dividends Declared Per Class A Share	\$ 1.10	\$ 0.82½	\$ 0.62½	\$ 0.50	\$ 0.50
	Dividends Declared Per Class B Share	\$ 1.10	\$ 0.82½	\$ 0.62½	\$ 0.50	\$ 0.50
	Number of Shares Outstanding (thousands)	8,227	8,202	8,176	8,157	8,144
	Number of Shareholders	9,611	10,592	11,779	12,570	11,200

NOTES: (1) Financial and operating results are included from June 1, 1974 for Scurry-Rainbow Oil Limited and from March 1, 1978 for Bridger Petroleum Corporation Ltd.
(2) Earnings per share are calculated on the basis of average number of shares outstanding during the year.
(3) Above data incorporates retroactive adjustments.
(4) All dollar amounts are in thousands except per share figures.

HEAD OFFICE

2300 Home Oil Tower,
324 Eighth Avenue South West,
Calgary, Alberta,
T2P 2Z5
403-232-7100

AUDITORS

Thorne Riddell & Co.

TRANSFER AGENTS

Crown Trust Company
The Chase Manhattan Bank

LISTINGS

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange
American Stock Exchange

ACTIVE SUBSIDIARY COMPANIES

Bridger Petroleum Corporation
Home Oil Australia Limited
Home Oil New Zealand Limited
Home Oil Tunisia Limited
Home Oil (U.K.) Limited
Home Petroleum Corporation
Oman Home Oil Limited
Plains Petroleum Limited
Scurry-Rainbow Oil Limited
Scurry-Rainbow Oil (Sask) Ltd.
Transalta Minerals Ltd.
Westcoast Oil & Gas Corp.

50% OWNED COMPANY

Federated Pipe Lines Ltd.

UNITED STATES OFFICES

HOME PETROLEUM CORPORATION

Executive Vice-President and
General Manager: W. D. Lundberg
2600 North Loop West,
Suite 400,
Houston, Texas, 77092

MARKETING DIVISION

Vice-President, Marketing: D. G. Reyburn
P. O. Box 1649,
5800 East Skelly Drive,
Tulsa, Oklahoma, 74135

EXPLORATION AND OPERATIONS DIVISIONS

Vice-President, Exploration: D. L. Brite
Vice-President, Operations: G. B. Sullaway, Jr.
2600 North Loop West,
Suite 400,
Houston, Texas, 77092

METRIC CONVERSION (SI)

In accordance with the world-wide program to adopt SI, the International System of Units, Home Oil is converting its measuring and reporting systems in order to satisfy the schedule for conversion established by the petroleum industry. Working in conjunction with other petroleum companies and government agencies, Home's conversion plan enabled the Company to commence external communication and reporting in SI units on 1979-01-01 (Year, Month, Day), as established by the industry schedule.

Three levels of training programs were developed and made available to all employees. These programs covered the general information level, the technical level (primarily for field personnel) and the professional technical level. Training in SI will be continued for some time as a familiarization program for new employees.

Measurement units stated in this report will, in some instances, be given in SI units. The ratios between SI units and traditional units as specified by Canadian Petroleum Industry Metric Practice Guide are as follows:

VOLUME MEASUREMENTS

One thousand cubic feet (Mcf) = 28.173 99 cubic metres (m³).
One million cubic feet (Mmcf) = 28 173.99 cubic metres (m³) or 28.173 99 cubic decametres (dam³).
One thousand cubic metres (10³m³) or one cubic decametre (dam³) = 35.493 843 thousand cubic feet (Mcf).
One million cubic metres (10⁶m³) or one cubic hectometre (hm³) = 35.493 843 million cubic feet (Mmcf).
One barrel (bl) = 0.158 91 cubic metres (m³).
One cubic metre (m³) = 6.292 870 barrels (bls).

MASS MEASUREMENTS

One ton (short-2,000 lb) = 907.185 kilograms (kg) or 0.907 185 tonnes (t).
One ton (long-2,240 lb) = 1016.047 kilograms (kg) or 1.016 147 tonnes (t).
One tonne (t) = 1.102 311 short tons (2,000 lb).
= 0.984 206 long tons (2,240 lb).

SURFACE AREA MEASUREMENT

One acre = 0.404 686 hectares (ha).
One hectare (ha) = 2.471 054 acres.

LINEAR MEASUREMENT

One mile = 1.609 344 kilometres (km).
One kilometre (km) = 0.621 371 miles.
One foot = 0.3048 metres (m).

All conversion factors ref: Canadian Metric Practice Guide CAN 3-Z234.1-76 and Supplementary Metric Practice Guide for the Canadian Petroleum Industry, Third Edition 1977.

SHAREHOLDERS' MEETING

The Annual General Meeting of Shareholders will be held at 11 a.m., May 2, 1979, in the Turner Valley Room of the Hotel Palliser, Calgary, Alberta.

SUPPLEMENTARY INFORMATION

The Company files annually with the United States Securities and Exchange Commission a report on its operations known as the Annual Report on Form 10-K. The Company also publishes annually a statistical supplement. Copies of this supplement and the SEC Form 10-K are available free of charge upon written request to E. Jorgensen, Comptroller, Home Oil Company Limited, 2300 Home Oil Tower, 324 Eighth Avenue South West, Calgary, Alberta, T2P 2Z5.



HOME OIL COMPANY LIMITED
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