C

Hiram Walker Resources Ltd.

Annual Report 1984


Canadian Club
Canadian Whisky Canadien
C.C.
Distilled and Bottled in Bond under
Hiram Walker & Sons
Canadian Club
Classic
AGED 12 YEARS
CANADIAN WHISKY CANADIEN
Hiram Walker & Sons
Walkerville, Canada
40% alc./vol. 750ml

The year in brief

Financial	1984	1983	1982
	(expressed in millions except per share amounts)		
Operations			
Revenue	**$3,676**	$3,403	$3,360
Operating income	**$ 589**	$ 538	$ 524
Net income (loss)	**$ 245**	$ 186	$ (35)
Cash from operations	**$ 518**	$ 664	$ 485
Capital expenditures	**$ 325**	$ 263	$ 358
Per share			
Net income (loss), basic	**$ 2.51**	$ 2.03	$ (1.13)
Dividends	**$ 1.32**	$ 1.32	$ 1.32
Financial position			
Total assets	**$5,331**	$4,840	$4,964
Shareholders' equity	**$1,994**	$1,624	$1,703

Operating

Distilled spirits			
Gross revenue less excise taxes and import duties (millions)	**$1,107**	$1,054	$1,103
Natural resources			
Crude oil and liquids production (barrels per day)	**32,078**	31,249	32,934
Natural gas sales (million cubic feet per day)	**153**	155	190
Gas utility			
Volume of gas sold (billions of cubic feet)	**324**	284	309
Number of active customers (thousands)	**796**	760	724

Corporate profile

The three principal operating companies comprising Hiram Walker Resources Ltd. (the "Company") are among the oldest in Canada in their respective businesses. The historical roots of Hiram Walker-Gooderham & Worts Limited, a distiller, and The Consumers' Gas Company Ltd., a gas utility, each pre-date the 1867 Confederation of Canada. Home Oil Company Limited, an oil and gas exploration and production company, was incorporated in 1925. In 1980, Hiram Walker-Gooderham & Worts merged with Consumers' Gas and Home Oil and subsequently adopted the name Hiram Walker Resources. Common Shares are listed on the Toronto, Montreal and New York stock exchanges. The Company, with executive offices in Toronto, Ontario, employs 10,300 people.

Index

Report to shareholders

Financial results continued to improve in 1984, with net income increasing to $245 million, or $2.51 per share, compared with $186 million, or $2.03 per share, earned last year. Three factors contributing to the improvement were the healthy performance of the main business lines, the inclusion of the Company's share of earnings of Interprovincial Pipe Line Limited and the benefit of tax losses previously incurred in the United States natural resources business. It is anticipated that the balance of these prior years' losses will be recovered over the next few years.

The strong competitive position of premium brands, particularly Canadian Club Whisky, Ballantine's Scotch, Courvoisier Cognac and Kahlua Liqueur, contributed to a successful year in the distilled spirits segment. Sales revenue increased and the market share for most major brands was improved or maintained. During the year, the remaining 51 per cent ownership of Tia Maria, an internationally recognized premium liqueur, was acquired and a number of new products were introduced. One of the new products, Häagen-Dazs Cream Liqueur, provides an entry into the imported cream liqueur category, an important part of the United States market. Another, Canadian Club Classic, is a premium 12-year-old Canadian whisky.

The gas utility benefitted from the return to normal weather and greater demand for gas, particularly in the industrial and commercial sectors. The acceptance of gas as a safe, clean and economical fuel continued to attract new customers. The ability to restrain cost increases enabled the utility to enter 1985 without applying for a rate increase.

Substantial progress was made during the year on the program to expand Canadian oil and gas operations, strengthen the United States portion of the business and increase international activities. The number of wells participated in more than doubled to 549, resulting in 291 oil and 84 gas wells. Additions to proved reserves replaced production.

The operating philosophy of the Company reflects the need to maintain a degree of balance between the stable lines of business, on the one hand, and the higher risk, natural resources business, on the other. This balance is preserved by encouraging the distilled spirits and gas utility segments to expand and develop their businesses while directing excess financial capacity to the exploration and development of natural resources. Capital expenditures in the natural resources segment, which will continue at current levels, are being directed toward oil prospects having early cash flow potential, gas prospects yielding intermediate term cash flow and frontier ventures for the longer term.

The principal financial objectives of the Company are to generate a reasonable and growing return on shareholders' equity, to provide a high cash return in the form of dividends on Common Shares and to maintain the financial strength necessary to ensure the existing businesses grow and prosper.

The improved financial strength of the Company results from increased income, the reduction of non-utility debt by $369 million over the past three years and the expanded equity base created by the Interprovincial Pipe Line share exchange.

On November 21, 1984, the Board of Directors declared a quarterly dividend of 35 cents per Common Share, an increase of two cents, payable on January 1, 1985, to shareholders of record on December 6, 1984. Further increases will depend upon the level of earnings growth and the cash requirements of the Company.

The Company is pleased to welcome Mrs. Lucille M. Johnstone of Langley, B.C., to the Board of Directors. Mrs. Johnstone, Senior Vice President, RivTow Straits Limited, Vancouver, was appointed to the Board on November 21, 1984. She is also a director of Northland Bank and British Columbia Resources Investment Corporation.

On behalf of the Board of Directors:

A. E. Downing
Chairman

November 21, 1984

Operating review

DISTILLED SPIRITS

Financial highlights
millions

	1984	1983	1982
Operating revenue	**$1,448**	$1,406	$1,455
Operating income	**$ 278**	$ 267	$ 294
Assets	**$1,555**	$1,549	$1,569
Capital expenditures	**$ 21**	$ 24	$ 52

The Company's distilled spirits sales revenue increased in 1984 and the market share of most major brands was improved or maintained.

The Company and the industry, however, continued to operate in a difficult environment. The industry has entered a period of heavy brand advertising and sales promotion expenditures as companies seek to maintain or increase market share. Many world markets remain economically depressed with high unemployment and low consumer disposable income. Higher retail prices caused by increased taxes continue to restrain demand, particularly in Canada.

The improvement achieved by the Company in 1984 reflects its ability to maximize the competitive position of its brands in the mature North American market while pursuing opportunities for growth in selected, less developed international markets.

In recent years, the Company has strengthened the position of its principal brands – Canadian Club Whisky, Ballantine's Scotch, Kahlua Liqueur, Courvoisier Cognac and the line of Hiram Walker liqueurs marketed in the United States and Canada.

The completion in 1983 of a major capital program has created cost efficient plant and distribution systems to service all principal markets. This program, complemented by a strategy to optimize the profitable marketing of premium brands, creates the potential for above average performance as economic conditions improve.

Principal brands

Sales volumes of Kahlua continued to improve in the United States and held steady in Canada. In both markets Kahlua remains the leading imported liqueur.

Ballantine's improved its sales volumes in all major international markets, and continues to enjoy the position as the number one or two selling Scotch in most European countries.

Sales volumes of Courvoisier Cognac showed substantial improvement in the United States and Canada. Newly-designed packaging enhanced the attractiveness of the brand. In addition, the recent introduction in the Far East of new premium qualities improved its competitive position.

Canadian Club volumes declined slightly in the United States and increased modestly in international markets. Volumes were lower in Canada, reflecting the adverse impact of the indexed federal excise duty and high provincial taxes on retail prices.

Sales volumes of Hiram Walker domestic cordials were unchanged in the United States and market share was maintained. The addition of new flavours, such as Valenciana, an orange and brandy based cordial, continued to expand the choice available to consumers.

Acquisition and new products

In 1984, Häagen-Dazs Cream Liqueur was introduced in the United States. The introduction provides an entry in the profitable imported premium cream liqueur category, an attractive segment of the United States spirits market.

In addition, the Company introduced two new premium whiskies – Canadian Club Classic and Balblair. Canadian Club Classic is a 12-year-old, barrel-blended Canadian whisky which is being introduced in the United States and Canada; Balblair is a single malt Scotch which will be marketed initially in Italy, an important Scotch market.

The 51 per cent of Tia Maria Limited not previously owned was acquired in 1984 by the Company and a 53 per cent owned subsidiary for $25 million. The addition of Tia Maria further strengthens the Company's portfolio of internationally-known premium brands.

Taxation

Both the Company and its industry trade association maintained opposition to higher levels of taxation being imposed on the sale of distilled spirits, particularly in Canada and the United States.

In Canada, the federal government, acting on the recommendation of a task force established by the department of finance, changed the method of calculating the federal excise duty on distilled spirits. The duty is now indexed to the total Consumer Price Index instead of the beverage alcohol component. As a result, the duty increased by five per cent on September 1, 1984, instead of the eight per cent which would have resulted from the former system. Despite the modification, vigorous opposition is maintained to indexation which increases taxes without regard to the economic health of the industry being taxed. Since indexation began in 1981, the excise tax has increased 53 per cent. Combined federal and provincial government taxes and markups now represent 83 per cent of the average retail selling price of distilled spirits in Canada.

In the United States, the federal excise tax is scheduled to increase by 19 per cent on October 1, 1985. Combined federal and state taxes now represent about 47 per cent of the average retail selling price.

Personnel

During the year, an early retirement package was offered to certain production workers at the Walkerville distillery. One hundred employees elected to take early retirement under the plan, resulting in a permanent reduction in the Company's workforce.

NATURAL RESOURCES

Financial highlights
millions

	1984	1983	1982
Operating revenue	**$ 451**	$ 459	$ 477
Operating income	**$ 105**	$ 91	$ 42
Assets	**$1,997**	$1,852	$1,894
Capital expenditures	**$ 207**	$ 146	$ 208

During 1984, the Company conducted the most extensive Canadian drilling program in its history, improved operating performance in the United States and expanded international activities. Additions to proved reserves of oil and gas replaced production.

Working interest wells

	Canada		United States		International		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory								
Oil	42	14.4	2	1.2	4	0.3	48	15.9
Gas	26	5.2	4	1.7			30	6.9
Dry	73	19.2	23	13.4	10	1.4	106	34.0
	141	38.8	29	16.3	14	1.7	184	56.8
Development								
Oil	199	52.9	38	5.7	6	0.1	243	58.7
Gas	40	6.9	14	3.2			54	10.1
Dry	52	13.6	15	2.1	1		68	15.7
	291	73.4	67	11.0	7	0.1	365	84.5
Total	432	112.2	96	27.3	21	1.8	549	141.3

Gross refers to the number of wells in which a working interest is held; net is the aggregate of the number of gross wells multiplied by the percentage of the working interest held.

Canada

In Canada, capital spending in 1984 totalled $165 million, net of Petroleum Incentives Program ("PIP") grants of $143 million. By comparison, Canadian net capital expenditures in 1983 and 1982 were $97 million and $73 million, respectively. Of the 432 working interest wells in which the Company participated, 141 were exploratory and 291 development. Exploratory drilling resulted in 42 (14.4 net) oil wells and 26 (5.2 net) gas wells. Development drilling resulted in 199 (52.9 net) oil wells and 40 (6.9 net) gas wells.

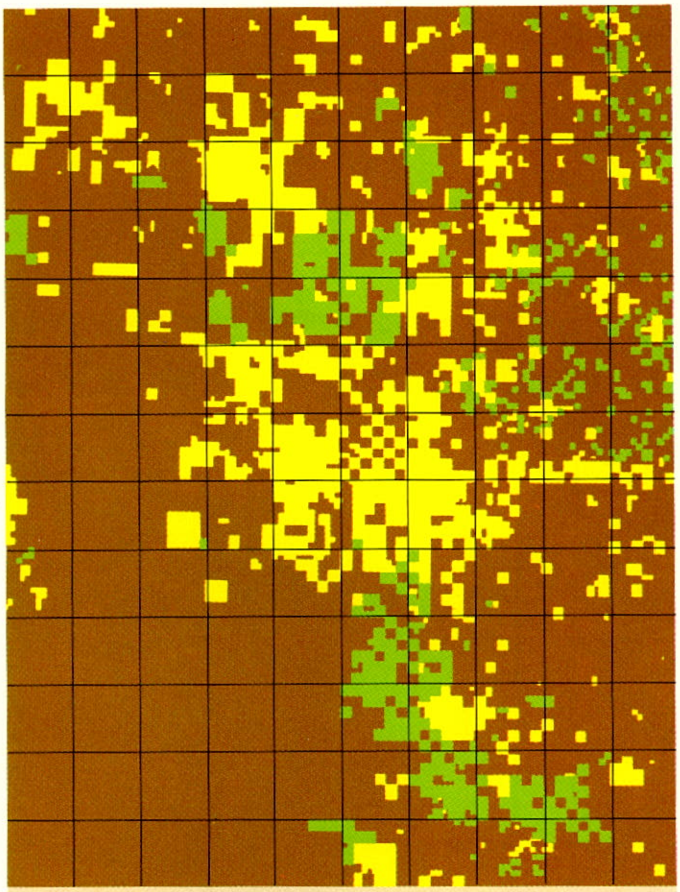
Particular emphasis was placed on the western provinces where the potential exists for important discoveries of both conventional oil and natural gas.

Significant exploration and development successes included:

- Fort St. John area of northeastern British Columbia. A 50 per cent average interest is held in 22 successful development wells which were drilled to extend an existing oilfield.
- Garrington area of central Alberta. Thirteen successful natural gas and gas liquids wells were drilled, with interests up to 44 per cent. Success in the area illustrates the benefits of gaining access to the widespread land holdings of Dome Petroleum Limited ("Dome") through the 1983 farmin agreement. As illustrated in the map on page 5, the Company held about 200,000 gross acres of land (shown in blue) before the farmin. The addition of Dome's lands provided access to an additional 650,000 gross acres.
- Sarcee area near Calgary. The Sarcee 7-16 discovery well yielded seven million cubic feet of natural gas and 84 barrels of natural gas liquids per day from a production test. The 42 per cent interest in this discovery added about eight billion cubic feet of gas and more than 100,000 barrels of gas liquids to proved reserves.
- Neptune – Skinner Lake area of southeastern Saskatchewan. Fourteen oil wells were drilled with interests ranging from eight to 100 per cent.
- Manyberries area of southeastern Alberta. Fifteen oil wells were drilled in the area where an average 23 per cent interest is held. An 80-mile pipeline will be completed and operated by the Company next year to replace the trucking method now used.
- The Company also participated in 25 oil wells, with interests ranging up to 15 per cent, at Desan in northeastern British Columbia, Sawn Lake and Gift in northern Alberta, and Valhalla in central Alberta.
- Further drilling is planned for 1985 to follow-up exploratory successes in the Rainbow area of northwestern Alberta and the Carrot Creek area of central Alberta.

Following regulatory approval, work commenced on an enhanced oil recovery project in a portion of the Swan Hills oilfield in northwestern Alberta. Total expenditures on the project in 1984 and 1985 are expected to be $105 million, of which the Company's share is 17 per cent.

The project involves injecting a light hydrocarbon based solvent into the reservoir to improve recovery of oil left behind by the current waterflood operations. During the year, the 32 additional wells required for the project were drilled and engineering work is nearing completion for the construction of a plant to blend and pressurize the solvent.



Land interests, Garrington area, central Alberta

Home lands

Dome lands

Scale miles 0 10 20

Federated Pipe Lines Ltd., 50 per cent owned, will benefit from the Swan Hills project and other similar enhanced oil recovery projects being implemented in nearby fields. The pipeline company transports oil production from Swan Hills and nearby fields to Edmonton and will spend $15 million on a program that includes the utilization of a spare pipeline to deliver solvent to the recovery projects.

Regulatory approval was also received for the construction of field and pipeline facilities to bring shut-in natural gas to market from the Moose Mountain area southwest of Calgary. The Company's initial share of sales, expected to commence late in 1985, will be three million cubic feet of gas per day, increasing gradually to eight million cubic feet per day as markets permit.

In frontier areas, where the potential exists to find very large oil and gas accumulations, the exploration program is focused on the Mackenzie Delta, the Beaufort Sea and offshore Nova Scotia, three areas having relatively early production potential.

In the Mackenzie Delta, the onshore Tuk well, in which a 10 per cent interest is held, flowed a total of 49 million cubic feet of gas and 2,660 barrels of gas liquids per day from four zones. A delineation well is also planned. Offshore in the Beaufort Sea, the Kadluk well, in which a 13 per cent interest is held, produced a total of 42 million cubic feet of natural gas per day from six zones. The Arluk and Havik wells were suspended due to ice conditions and testing will be completed in 1985; interests of 15 and 20 per cent will be earned, respectively. Drilling commenced on the Amerk well and, after the year end, on the Nipterk well. An interest of 11 per cent will be earned in these wells.

On the East Sable Block off Nova Scotia, the Louisbourg well encountered non-commercial quantities of natural gas. A second well, Citadel, will be drilled on the same block. A 22 per cent interest will be earned.

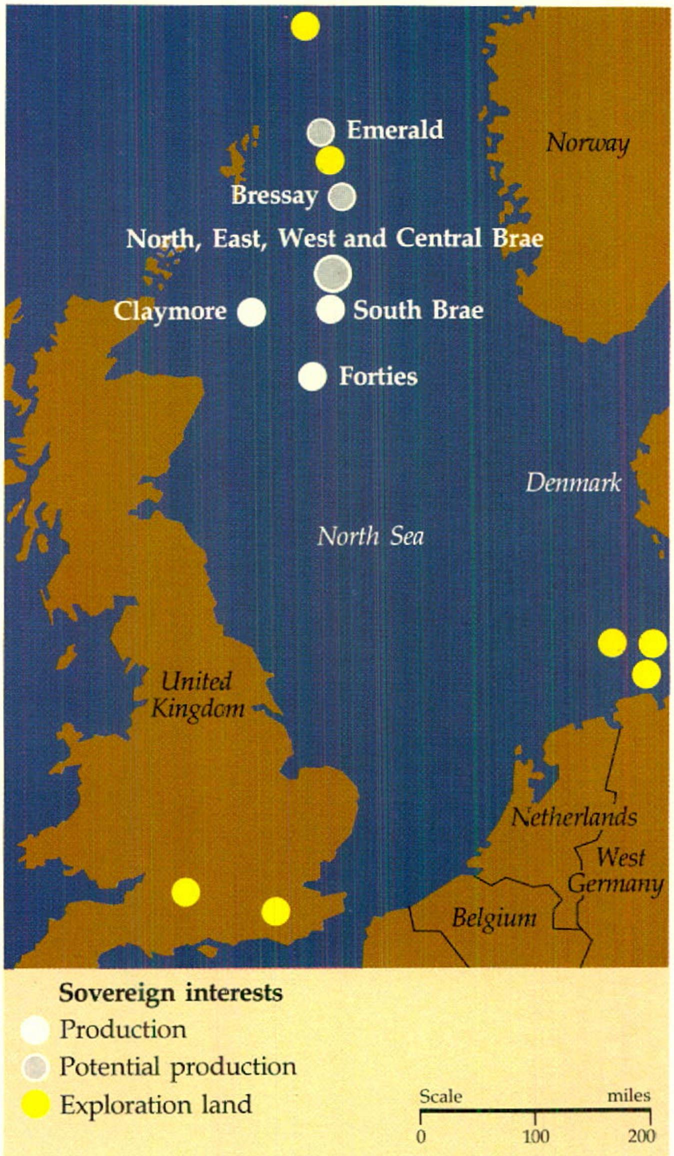
The 1983 farmin agreement with Dome covering the western Canada and Beaufort Sea lands was amended during the year. In western Canada, the Company will spend an additional $60 million for a total of $240 million, before PIP grants, to earn interests in the 20 million gross acres held by Dome. The period over which these expenditures may occur was extended until July of 1989. During 1984, a total of 211 wells were drilled under the western Canada agreement resulting in 90 oil and 43 gas wells. In the Beaufort Sea, the expenditure commitment of $225 million over a three year period ending in 1986 remained unchanged. However, the maximum interests that can be earned in Dome's 13 million gross acres were increased.

United States

Steps taken in 1984 to consolidate operations, coupled with a successful exploration and development program, strengthened the natural resources business in the United States. Capital expenditures in 1984 of $31 million were less than the $37 million in 1983 and down substantially from the 1982 level of $107 million.

An asset divestiture and acquisition program reduced interests in small scattered holdings, which were difficult and costly to administer, and increased interests in areas where substantial operations already exist. In 1984, the Company sold its small interests in 535 wells located in a number of producing regions. The wells sold, though representing 31 per cent of total wells, accounted for less than six per cent of proved reserves. Interests were acquired or expanded in 64 wells located in producing areas where the Company is already represented and the potential for additional reserves is favourable.

Eleven successful development wells were drilled in Campbell County, Wyoming, to follow-up a 1983 discovery. At Mims Creek in Freestone County, Texas, a 48 per cent interest is held in four successful development wells, the most prolific of which was producing 1.7 million cubic feet of gas per day at year end. A further six wells will be drilled in this area during 1985. At Caney Creek, 10 miles north, at least three step-out wells will be drilled in 1985 to delineate a 1984 gas discovery in which a 50 per cent interest is held.



International

The Company established a position in the North Sea and continued its activities in Australia and Indonesia. Capital expenditures, totalled $11 million. In 1983 and 1982, expenditures were $12 million and $28 million, respectively.

A 23 per cent interest in Sovereign Oil & Gas PLC was purchased at a cost of $40 million. Sovereign is a publicly-traded British company with about 240,000 net acres of exploratory rights consisting of interests in 15 blocks in the United Kingdom sector and five blocks in the West German sector of the North Sea, and four production licences and one exploration licence in southern England. Production by early 1985 is expected to reach 8,000 barrels per day. Sovereign's principal interests are illustrated in the accompanying map.

In the United Kingdom sector, Sovereign holds a four per cent interest in the South Brae field, a one-half per cent interest in the Forties field, and a two per cent interest in the Claymore field. Other interests in the United Kingdom sector offering potential for commercial development are the Emerald field, the North, Central, East and West Brae fields and the Bressay field.

In the Canning Basin of Western Australia, production from the Blina field averaged 800 barrels of oil per day in 1984. In order to increase production, a fifth well is planned. Following extended tests, the nearby Sundown field was placed on production late in the year at a rate of 285 barrels of oil per day. A 28 per cent interest is held in both fields.

The Tintaburra oil field in Queensland, Australia, is expected to be placed on production in 1985, following the drilling of the discovery well and two successful appraisal wells. A 10 per cent interest is held in the 1.8 million acre permit.

Interests are also held in exploration areas of the Bonaparte Basin and the Northwest Shelf of Western Australia.

In the Malacca Strait offshore Indonesia, the Lalang oilfield was placed on production at an average rate of 26,000 barrels per day. On nearby Padang Island, an exploratory well produced 1,600 barrels of oil and 2.2 million cubic feet of gas per day. Appraisal drilling to delineate the structure is underway. A two per cent interest is held in both the producing field and new discovery.

Production

Production of crude oil and natural gas liquids, before royalties, averaged 32,078 barrels per day in 1984 compared with 31,249 barrels per day the previous year. Production benefitted from successful development drilling in Canada and the United States and new production in Australia and Indonesia.

Natural gas sales at 153 million cubic feet per day declined marginally from the 155 million cubic feet per day achieved in 1983. Sales within Canada increased. Curtailments continued in the United States due to excess supply.

The wellhead price of the Company's oil production in Canada averaged $32.33 per barrel in 1984, an increase of nine per cent from 1983, due mainly to the higher percentage of production receiving the New Oil Reference Price ("NORP"). Approximately 33 per cent of the Company's oil production qualifies for the NORP compared with about 10 per cent in 1983. In the United States, the price of oil at $36.41 per barrel was virtually unchanged from last year. The average wellhead price of gas has remained unchanged in both countries over the two year period, with the Company receiving $2.94 per thousand cubic feet in Canada and $4.40 in the United States in 1984.

Undeveloped land holdings (thousands of acres)

	Gross	Net
Canada		
Alberta	3,150	1,068
Arctic Islands	4,828	355
Beaufort/Mackenzie Delta	1,179	176
British Columbia	885	269
East Coast offshore	392	29
Saskatchewan	759	654
Other	474	73
	11,667	2,624
United States		
Montana	323	181
North Dakota	175	53
Oklahoma	20	1
Texas	177	26
Wyoming	914	257
Other	613	310
	2,222	828
International		
Australia	4,719	554
Guyana	1,282	923
Indonesia	2,966	58
Netherlands	105	2
New Zealand	1,866	187
United Kingdom	281	29
	11,219	1,753
Total	25,108	5,205

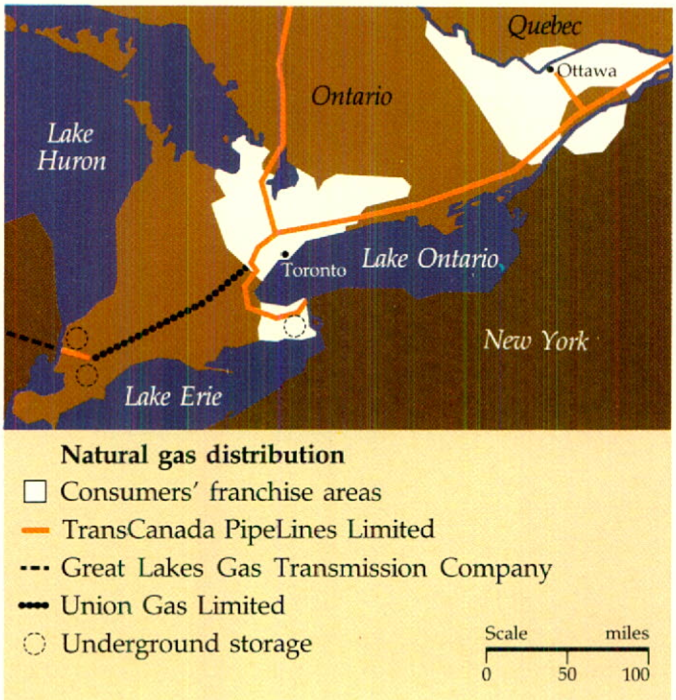
"Undeveloped acreage" refers to exploratory lands on which wells have not been drilled or completed to a point that would permit production. "Gross" refers to the total number of acres in which the Company holds either a working or overriding royalty interest. "Net" is determined by multiplying the gross acres by the percentage of the working interests held by the Company in the gross acres. Overriding royalty interests are excluded in calculating net acres. Also excluded are 2,420 thousand gross acres (508 thousand net) of developed lands from which production is being obtained or is capable of being obtained. Land holdings decreased in 1984 principally as a result of relinquishing acreage in the United States and offshore Newfoundland.

Reserves

Total proved reserves of crude oil and natural gas liquids at year end were unchanged at 116 million barrels. In Canada, additions from successful development activities and net upward revisions were more than sufficient to offset production, whereas in the United States additions and net upward revisions replaced 58 per cent of production.

Total proved reserves of natural gas increased marginally to 1,106 billion cubic feet from 1,089 billion cubic feet in 1983. Additions to reserves as the result of successful drilling and net upward revisions more than offset production in both Canada and the United States.

Proved reserves, before the deduction of royalties, are the estimated quantities of crude oil and natural gas liquids, and natural gas, which geological and engineering data demonstrate with reasonable certainty to be economically recoverable in future years from known reservoirs under existing operating and economic conditions.



GAS UTILITY

Total volumes of gas sold in 1984 increased 14 per cent to 324 billion cubic feet due to the return to normal weather in 1984, and stronger industrial and commercial demand as a result of the improved economy.

The number of customers served continued to grow, reaching 796,000 in 1984, an increase of 36,000 over the previous year.

Financial highlights
millions

	1984	1983	1982
Operating revenue	**$1,777**	$1,538	$1,428
Operating income	**$ 206**	$ 180	$ 188
Assets	**$1,534**	$1,439	$1,501
Capital expenditures	**$ 97**	$ 93	$ 98

Higher demand from customers in all markets served – residential, commercial and industrial – contributed to the volume increase. The residential sector, which accounted for 28 per cent of total sales volumes, benefited from the larger number of customers and the weather which was 13 per cent colder than 1983. Conversions to gas totalled 16,000, compared with 12,000 in 1983. Customer additions from new housing starts were unchanged at 20,000. Natural gas service, due to the merits of economy, cleanliness and convenience, continues to be installed in about 85 per cent of new homes constructed within the serviced areas.

Sales in the commercial sector, which accounted for 36 per cent of sales, and the industrial sector, which accounted for the remainder, increased by 10 and 16 per cent, respectively. The strength of the economic recovery and the addition of new customers, were the primary factors contributing to the improvement. It is anticipated the Natural Gas Incentive Pricing Plan, announced by the federal government during the year, will provide further incentive to retain and develop customers in the industrial sector. The plan provides for reduced prices for qualifying large industrial users.

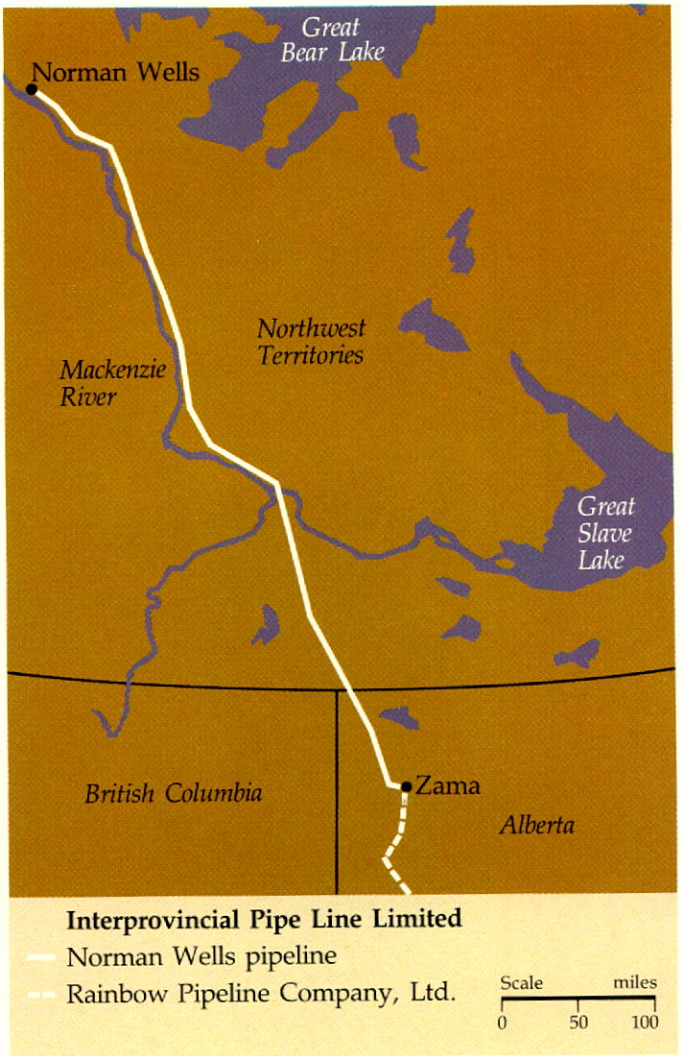
A full line of gas and other appliances are retailed through 17 stores in franchised areas. In 1984, merchandizing revenue increased six per cent to $15 million.

Supply

Long term purchase contracts are entered into to secure natural gas supplies for existing customers and to provide for orderly growth in future years. Substantially all requirements are purchased from TransCanada PipeLines Limited ("TransCanada") which, in turn, obtains its supplies from abundant reserves in western Canada, principally Alberta. Company-owned reserves, as well as purchases of natural gas from Ontario producers, supplement supply.

The contracts with TransCanada provide for annual deliveries of up to 309 billion cubic feet, subject to the Company's right to reduce total contract volumes by nine billion cubic feet in any contract year. This right has been exercised since 1980 and will be exercised for the 1985 contract year.

As a result of the inability to take complete delivery in 1983 of the reduced annual contracted volume, the Company paid TransCanada $20 million for the fixed



cost component of its price and entered into a contract with that company which provides the opportunity to apply the payment against purchases in future years. Higher than anticipated sales volumes enabled the Company to purchase additional volumes of gas in 1984 against which approximately $6 million of the 1983 payments were applied.

Pricing

The price paid for gas comprises the Alberta Border Price (a commodity cost), the TransCanada transportation toll, and federal excise taxes (the Canadian Ownership Special Tax and the Natural Gas and Gas Liquids Tax which was eliminated during the year). On June 30, 1983, the federal and Alberta governments amended a previous 1981 pricing agreement to ensure the Toronto City Gate price of natural gas did not exceed 65 per cent of the Toronto Refinery Gate price of crude oil. As a result, increases scheduled for February and August of 1984 were not implemented. In 1985, unless the agreement is amended further, the Alberta Border Price will increase semi-annually with the next increase of 25 cents per thousand cubic feet scheduled for February 1.

Regulation

In Ontario, the rates charged to customers are approved by the Ontario Energy Board ("OEB"). After public hearings, the OEB determines the utility's rate base and the fair rate of return to be earned on its investment base.

The allowable rate of return for 1984 was 12.8 per cent on the estimated rate base of $1.2 billion. This rate provides for a return to the common shareholders of 15.3 per cent.

In view of stabilized interest rates and lower inflation, an application to the OEB to revise 1985 rates was considered unnecessary.

INTERPROVINCIAL PIPE LINE LIMITED

A share exchange was completed with Interprovincial Pipe Line Limited on October 1, 1983, making the Company the largest shareholder of Interprovincial, with a 34 per cent interest, and Interprovincial the largest shareholder of the Company, with a 16 per cent interest. Interprovincial is the operator of the longest crude oil and liquid hydrocarbon pipeline system in North America.

During the 1983-84 winter, construction began on a 12 inch diameter line from the Norman Wells oilfield in the Northwest Territories to Zama, Alberta, a distance of 538 miles, where it will join the facilities of the Rainbow Pipeline Company, Ltd., an unrelated company. It is expected that the pipeline will start operations in mid 1985. Cost of the project is expected to be $400 million.

For the nine months ended September 30, 1984, earnings before the inclusion of Interprovincial's share of the Company's earnings were $27 million compared with $22 million for the same period of 1983. Higher volumes transported, a more favorable United States exchange rate and higher investment income contributed to the improvement. The quarterly dividend, effective with the dividend payable September 1, 1984, was increased from 40 cents to 45 cents per common share. For additional financial information, see note 8, page 21.

Financial review

The following discussion of the results of operations and financial position of the Company for the three year period ended September 30, 1984, should be read in conjunction with the "Consolidated financial statements" and related notes, the "Supplementary information", and the "Five year financial and operating review".

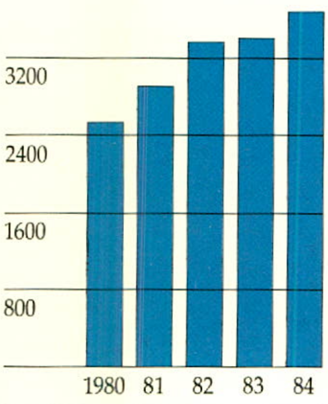
Results of operations

In 1984, net income was $245 million, compared with $186 million in 1983 and $142 million before the unusual item in 1982.

The 1984 increase in income of $59 million was primarily attributable to improvements in operating income in all segments, the inclusion of the Company's share of earnings of Interprovincial Pipe Line Limited, the reduction in finance charges, net and the benefit of prior years' tax losses offset, in part, by higher income taxes.

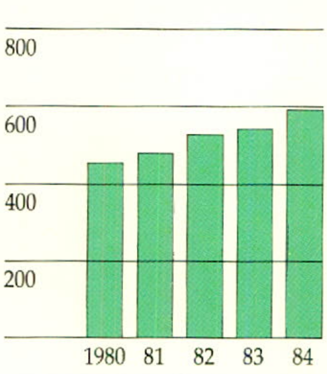
Operating revenue

$ millions



Operating income

$ millions



The improvement of $44 million in income in 1983 resulted from a significant reduction in finance charges, net, lower effective income tax rates and increased operating income in the natural resources segment. The increase was partially offset by lower operating incomes in the distilled spirits and gas utility segments as well as an increased minority interest.

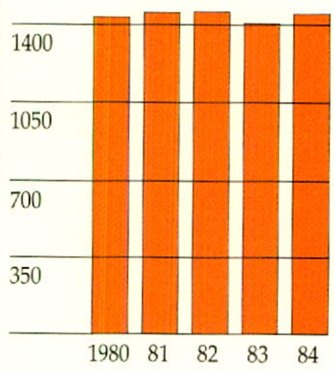
Distilled spirits

Operating revenue increased in 1984, reflecting a favourable product mix and higher selling prices for certain brands, primarily in international markets. In 1983, operating revenue declined slightly as the impact of higher selling prices was more than offset by lower volumes and the effect of unfavourable currency translation rates applied to revenues of European subsidiaries.

Operating income increased by $11 million in 1984 as a result of improved gross profit margins, partially offset by an increase in advertising and sales promotion expenses. This compares with a $27 million decline in operating income in 1983 caused by pressures on gross profit and increased levels of selling and general expenses.

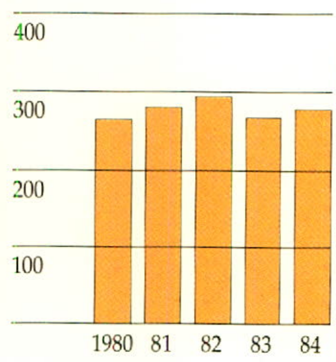
Operating revenue: distilled spirits

$ millions



Operating income: distilled spirits

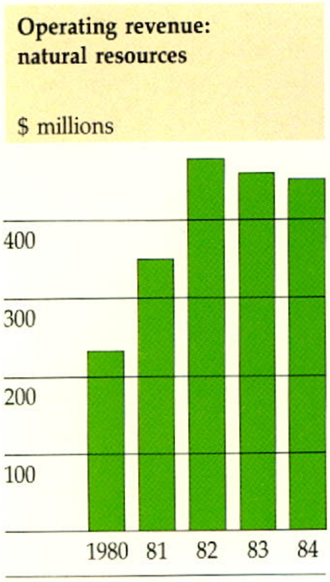
$ millions

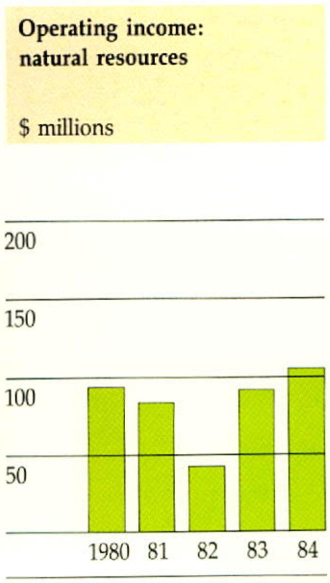


Natural resources

Operating revenue declined slightly in 1984. Lower volumes sold in the United States exceeded the increase in revenue in Canada caused by higher volumes and prices. The decline in 1983 was primarily a result of significantly reduced volumes and the phase-out of the liquefied petroleum gas marketing operations in the United States, partially offset by higher prices for crude oil and natural gas and a reduction in Canadian Crown royalties.

Operating income has increased steadily over the past three years despite declining operating revenue. The improvement in performance in 1984 and 1983 reflects significantly lower depletion charges as well as reduced expenses in the United States resulting from administrative efficiencies.

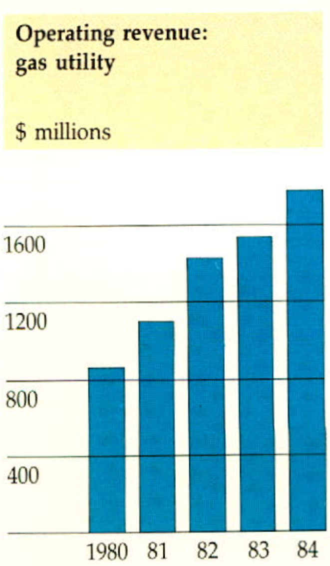


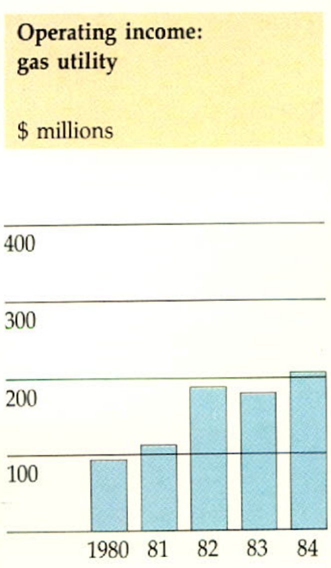


Gas utility

Operating revenue increased during 1984 due to the higher volume of gas delivered, reflecting the return to normal weather and the improved economy. The increase in operating revenue in 1983 was the result of recovering in rates the higher costs of gas, partially offset by lower sales volumes. Throughout the three year period, the number of customers served increased steadily.

The increase in revenue during 1984 led to an improvement in operating income of $26 million.





The decline in 1983 operating income was primarily the result of reduced sales volumes caused by the exceptionally mild heating season and the impact of the economic recession on industrial customers. The increase in the number of customers and higher rates were insufficient to overcome the impact of lower volumes.

Finance charges, net

Finance charges, net, declined from $269 million in 1982 to $196 million in 1984. The reduction was attributable in part to lower average interest rates for short term debt and overall lower average borrowing levels through the period. Foreign exchange gains from the retirement of sterling denominated debt contributed to the decline in 1983.

Income taxes

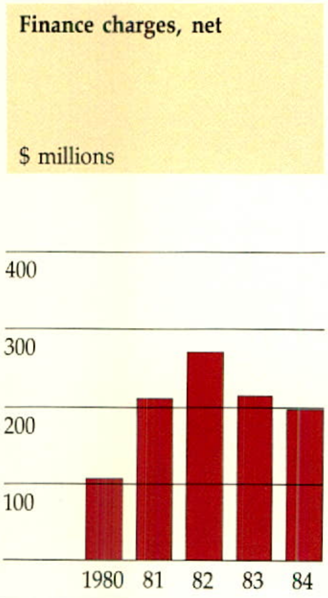
Income taxes in 1984 increased by $48 million, reflecting a higher effective tax rate of 45 per cent compared with 40 per cent in 1983. The increase in rate was attributable to higher rates in foreign jurisdictions, a decrease in tax-deductible items as a percentage of income in the gas utility segment, as well as a decline in the type of income attracting lower rates of tax.

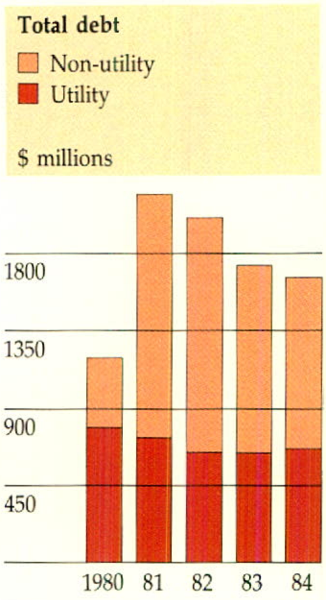
The 1983 effective tax rate of 40 per cent was significantly lower than the 49 per cent rate in 1982. The lower rate resulted from increased income in foreign subsidiaries with lower tax rates, as well as an increase in tax-deductible items as a percentage of income in the gas utility segment.

The benefit of prior years' tax losses resulted from the utilization of a portion of the operating losses related to the United States natural resource operations. It is anticipated that the balance of these losses of $122 million will be recognized over the next few years.

Financial position

The program to reduce debt in the non-utility operations, which began in 1983, resulted in a further decrease in 1984. However, the debt position was affected by new borrowings amounting to approximately $65 million to finance the investments in Sovereign Oil & Gas and Tia Maria. Investments of $115 million remain from the $185 million of cash resources invested during 1983 to satisfy the debt service and repayment requirements of a number of outstanding debt issues. One of these debt issues was repaid in 1984.





Shareholder participation in the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan continued to increase, contributing $30 million compared with $12 million in 1983.

The Company retired some other higher cost debt during the year, using the proceeds from the issue early in 1984 of $175 million 8½% debentures. A portion of the current floating rate debt will be replaced by suitable longer term fixed rate debt as market opportunities permit.

In October of 1983, the Company issued 13.6 million shares in exchange for the same number of common shares of Interprovincial Pipe Line. This transaction, along with the continuing program to reduce overall debt, enabled the Company to achieve a debt to equity ratio of 46/54 at September 30, 1984, compared with 52/48 in 1983.

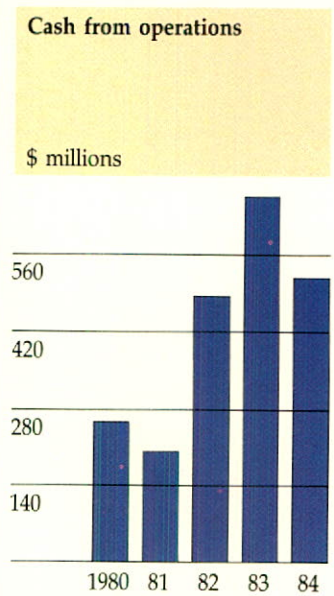
Cash from operations declined in 1984 by $146 million or 22 per cent due primarily to higher working capital requirements, partially offset by increased operating income in all segments. These additional requirements were the result of increased levels of activity during 1984, particularly in the natural resources business.

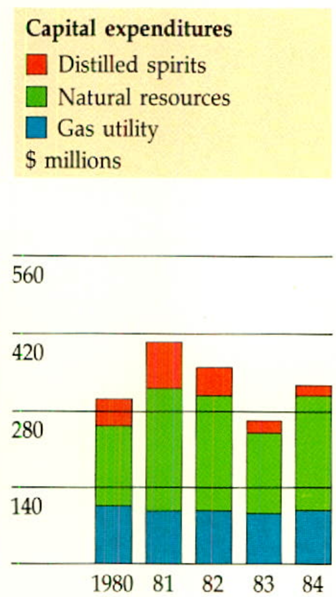
In 1983, the increase in cash from operations was primarily due to the reduced working capital requirements as a result of lower levels of economic activity.

Capital expenditures increased in 1984 by $62 million to $325 million. The higher spending was directed almost entirely to oil and gas exploration in Canada. The decrease of $95 million in 1983 reflected the completion of projects in the distilled spirits business in early 1983, decreased natural resource activity in the United States and internationally, partially offset by increased activity in Canada.

Cash from operations of the distilled spirits and natural resources segments in 1985 should be sufficient to cover both planned capital expenditures and dividend requirements as well as provide excess funds with which to reduce modestly the level of non-utility borrowings.

The Company's ownership of the utility will decrease to approximately 82 per cent from the 88 per cent held at September 30, 1984, if the balance of the utility's common share purchase warrants are exercised in 1985. Assuming all warrants are exercised, an additional $37 million will be generated.





It is expected that the cash requirements of the Company, primarily dividend payments, will be satisfied largely from dividends received from the operating subsidiaries. The payment of dividends to the Company by one of its principal subsidiaries, Walker-Home Oil Ltd., is subject to certain restrictions described in note 15 (a) of the "Notes to consolidated financial statements." However, in view of present and future expected levels of earnings and cash flow, this limit on the transfer of funds has no implications for the Company's plans.

Outlook

The outlook for the Company is incorporated in the "Report to shareholders" on page 2.

Statement of responsibility and auditors' report

Management's responsibility for financial statements

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada consistently applied, except for the change in the method of accounting for foreign currency translation in 1983 (see note 2, page 19). The significant accounting policies, which management believes are appropriate for the Company, are described in the accompanying "Summary of significant accounting policies". The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. In the preparation of these statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Such estimates are based on careful judgements and have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is composed of directors who are not employees of the Company. The Committee meets with management as well as with the internal and external auditors to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

A. E. Downing
Chairman

A. R. McCallum
Senior Vice President and
Chief Financial Officer

Auditors' report

To the Shareholders of Hiram Walker Resources Ltd.

We have examined the consolidated statement of financial position of Hiram Walker Resources Ltd. as at September 30, 1984 and 1983 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended September 30, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years in the period ended September 30, 1984 in accordance with generally accepted accounting principles in Canada applied, except for the change with which we concur in the method of accounting for foreign currency translation explained in Note 2 to the consolidated financial statements, on a consistent basis.

Toronto, Canada
November 20, 1984

Price Waterhouse
Chartered Accountants

Summary of significant accounting policies

Hiram Walker Resources Ltd.

The Company's accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies.

Substantially all of the Company's natural resource activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities. Investments in companies over which the Company exercises significant influence are accounted for using the equity method. Other investments are stated at cost.

Selected subsidiary companies and investments are listed on page 40.

Inventories

Inventories are stated at amounts not exceeding manufactured or purchased cost. They include substantial quantities of whiskies and cognac which will remain in storage over a period of years, but are classified as current assets in accordance with the general practice of the distilling industry.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes interest capitalized on costs of acquiring and evaluating individually significant unproved properties and major development projects during the period of exploration and development and on costs incurred during construction of major additions.

Gains or losses on major items of property sold or otherwise disposed of are included in income. Other gains or losses are included in accumulated depletion or depreciation.

Production equipment used in petroleum operations is depreciated using the unit of production method. Other assets are depreciated on a straight line basis over their estimated service lives.

The Company follows the full cost method of accounting for oil and gas operations whereby all exploration and development costs are capitalized.

Such costs include land acquisition costs, geological and geophysical expenses, lease rentals and related charges applicable to non-producing property, costs of drilling both productive and non-productive wells and direct overhead charges. These costs are accumulated in cost centres established on a country-by-country basis. Costs accumulated are generally limited to the future net revenues from estimated production of proved reserves at current prices and costs and the estimated fair market value of unproved properties. Such costs are depleted using the unit of production method based upon estimated proved reserves, as determined by Company petroleum engineers. Natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative energy content. Costs of acquiring and evaluating significant unproved properties and costs of major development projects are excluded from computation of depletion until such time as additional reserves are proved, the project is completed or an impairment in value has occurred.

Foreign currency translation

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis: assets and liabilities are translated into Canadian dollars using exchange rates at the year end dates; translation adjustments are reflected in shareholders' equity; revenue and expense items are translated using the average rates of exchange throughout the year.

Transactions in a currency other than a domestic currency are translated into that domestic currency on the following basis: at the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date; at the year end dates, monetary assets and liabilities are translated using exchange rates at that date; foreign exchange gains and losses are included in income in the current period, except for unrealized gains and losses related to monetary items with a fixed or ascertainable life extending beyond the end of the following fiscal year. These unrealized gains and losses are deferred and subsequently included in income over the remaining life of the assets and liabilities (see note 2, page 19).

Pension plans

The Company has various pension plans covering a majority of its employees. The plans, some of which require contributions by participating employees, provide pension benefits at normal retirement age. Unamortized prior years' service costs for these plans are being funded and charged to operations over periods varying from 5 to 30 years.

Consolidated statement of income

Hiram Walker Resources Ltd.

	Year ended September 30 **1984**	1983	1982
	(expressed in millions except per share amounts)		
Revenue			
Distilled spirits	**$1,448**	$1,406	$1,455
Natural resources	**451**	459	477
Gas utility	**1,777**	1,538	1,428
	3,676	3,403	3,360
Operating costs and expenses			
Cost of sales			
Distilled spirits	**778**	771	812
Natural resources	**133**	150	160
Gas utility	**1,450**	1,248	1,136
Selling and general	**493**	446	434
Depletion and depreciation	**233**	250	294
	3,087	2,865	2,836
Operating income	**589**	538	524
Other income	**19**	22	22
Finance charges, net (note 3)	**(196)**	(213)	(269)
Income before undernoted items	**412**	347	277
Income taxes (note 4)	**(186)**	(138)	(136)
Foreign currency translation gain (note 2)			10
Equity in earnings of Interprovincial Pipe Line Limited (note 8)	**30**		
Minority interest	**(27)**	(23)	(9)
Income before unusual item	**229**	186	142
Benefit of prior years' tax losses (note 4)	**16**		
Provision for impairment (note 9)			(177)
Net income (loss) (note 5)	**$ 245**	$ 186	$ (35)

	1984	1983	1982
Net income (loss) per share (note 5)			
Before unusual item			
Basic	**$ 2.32**	$ 2.03	$ 1.43
Fully diluted	**$ 2.19**	$ 2.01	$ 1.43
After unusual item			
Basic	**$ 2.51**	$ 2.03	$ (1.13)
Fully diluted	**$ 2.34**	$ 2.01	$ (1.13)

Consolidated statement of financial position

Hiram Walker Resources Ltd.

	September 30 1984	1983
	(expressed in millions)	
Assets		
Current assets		
Cash and short term investments	**$ 197**	$ 143
Accounts receivable	**583**	465
Inventories (note 7)	**1,052**	1,049
Other	**33**	49
	1,865	1,706
Investments (note 8)	**539**	318
Property, plant and equipment (note 9)	**2,854**	2,739
Other assets and deferred charges	**73**	77
	$5,331	$4,840
Liabilities and shareholders' equity		
Current liabilities		
Loans and notes payable (note 10)	**$ 471**	$ 339
Accounts payable and accruals	**480**	395
Income and other taxes payable	**90**	117
Dividends payable	**39**	35
Current portion of long term debt	**37**	25
	1,117	911
Deferred production revenue	**42**	38
Long term debt (note 10)	**1,453**	1,621
Deferred foreign exchange gain	**21**	22
Deferred income taxes (note 4)	**402**	339
Minority interest	**130**	102
Preference shares of subsidiary companies (note 11)	**172**	183
Commitments and contingencies (note 15)		
Shareholders' equity		
Capital stock (notes 12 and 13)		
Preference shares	**739**	508
Common shares	**223**	183
Cumulative translation adjustments	**(144)**	(147)
Retained earnings	**1,176**	1,080
	1,994	1,624
	$5,331	$4,840

Approved by the Board:

A. E. Downing, Director

G. C. Gray, Director

Consolidated statement of changes in financial position

Hiram Walker Resources Ltd.

	Year ended September 30 **1984**	1983	1982
	(expressed in millions)		
Cash was obtained from			
Operations			
Income before unusual item	**$ 229**	$ 186	$ 142
Charges (credits) not affecting cash			
Depletion and depreciation	**233**	250	294
Deferred income taxes	**84**	43	120
Minority interest	**27**	23	9
Other	**(12)**	(15)	
Changes in working capital	**(43)**	177	(80)
	518	664	485
Cash was used for			
Dividends			
By the Company	**148**	137	135
By subsidiaries to minority shareholders	**17**	14	6
	165	151	141
Cash remaining for investment	**353**	513	344
Investment			
Property, plant and equipment	**325**	263	358
Investment in Sovereign Oil & Gas PLC (note 8)	**40**		
Increase in cumulative translation adjustments	**9**	58	
Increase in other items, net	**3**	23	4
	377	344	362
Cash (deficiency) before financing	**(24)**	169	(18)
Financing			
Issue of preference shares on investment in Interprovincial Pipe Line Limited (note 8)			
Issue of common and other preference shares	**38**	19	56
Issue of common and preference shares by subsidiary companies, net	**14**	58	92
Issue of long term debt	**182**	292	84
Reduction in long term debt	**(356)**	(369)	(87)
Investments applied to (acquired for) debt repayment (notes 8 and 10)	**68**	(185)	
	(54)	(185)	145
Increase (decrease) in cash*	**$ (78)**	$ (16)	$ 127

*For the purposes of this statement, working capital does not include cash which is defined as cash and short term investments less loans and notes payable.

Consolidated statement of retained earnings

Hiram Walker Resources Ltd.

	Year ended September 30 **1984**	1983	1982
	(expressed in millions)		
Balance at beginning of year	**$1,080**	$1,032	$1,207
Net income (loss)	**245**	186	(35)
	1,325	1,218	1,172
Dividends			
Preference shares	**55**	44	43
Common shares	**93**	93	92
Share issue expenses, net of income taxes	**1**	1	5
	149	138	140
Balance at end of year	**$1,176**	$1,080	$1,032

Consolidated changes in working capital*

	Year ended September 30 **1984**	1983	1982
	(expressed in millions)		
Income taxes recoverable		$ 59	$ (35)
Accounts receivable	**$ (118)**	59	(80)
Inventories	**(3)**	72	(59)
Income and other taxes payable	**(27)**	(32)	52
Accounts payable and accruals	**85**	12	27
Other current items, net	**20**	7	15
	$ (43)	$ 177	$ (80)

*For the purposes of this statement, working capital does not include cash which is defined as cash and short term investments less loans and notes payable.

Notes to consolidated financial statements

Hiram Walker Resources Ltd.
(tabular amounts expressed in millions except shares and per share amounts)

1. Accounting policies

The "Summary of significant accounting policies" on page 14 forms an integral part of these financial statements.

2. Change in accounting policy

Effective October 1, 1982, the Company prospectively changed its accounting policy for foreign currency translation to conform with the recommendations of the Canadian Institute of Chartered Accountants. This change affected the Company's method of translating financial statements of foreign operations and of recognizing unrealized foreign exchange gains and losses related to monetary items with a fixed or ascertainable life.

Under the method used prior to October 1, 1982, the accounts of foreign subsidiaries and transactions of the Company denominated in foreign currencies were translated into Canadian dollars on the following basis:

Current assets, except maturing distilled spirits inventories, and current liabilities were translated using the exchange rates at the year end dates. Maturing distilled spirits inventories and other assets and liabilities were translated at the rates in effect at the time the original transactions took place. Revenue and expense items (excluding matured distilled spirits inventories charged to cost of sales, depreciation and depletion, all of which were translated at the rate of exchange applicable to the related assets) were translated using the average rates of exchange throughout the period. Translation gains and losses were included in income.

3. Finance charges, net

	Year ended September 30		
	1984	1983	1982
Interest on long term debt	**$222**	$229	$234
Other interest	**33**	41	69
	255	270	303
Capitalized interest		(1)	(5)
	255	269	298
Foreign exchange gain	**(10)**	(24)	
Interest income	**(49)**	(32)	(29)
	$196	$213	$269

4. Income taxes

(a) The geographic components of income before income taxes and other items, and current and deferred income taxes are as follows:

	Year ended September 30		
	1984	1983	1982
Income before income taxes and other items			
Canada	**$263**	$220	$224
United States	**44**	9	(56)
Other	**105**	118	109
	$412	$347	$277
Current income taxes			
Canada	**$ 67**	$ 66	$ 65
United States	**6**	4	(74)
Other	**29**	25	24
	102	95	15
Deferred income taxes			
Canada	**60**	41	33
United States	**16**		69
Other	**8**	2	19
	84	43	121
Total income tax expense	**$186**	$138	$136

(b) The provision for income taxes is based on financial statement income, except in regulated gas utility operations. This provision differs from income taxes currently payable because certain items of income and expense are reported in the "Consolidated statement of income" in years different from those in which they are reported on income tax returns.

The aggregate of the tax effect of these timing differences is referred to in the "Consolidated statement of financial position" as "Deferred income taxes". Components of the change in these amounts during the three years ended September 30, 1984, are as follows:

	Year ended September 30		
	1984	1983	1982
Exploration and development expenditures deducted for income tax purposes in excess of depletion	**$ 81**	$ 43	$ 97
Capital cost allowances deducted for income tax purposes in excess of depreciation	**(4)**	3	19
Other	**7**	(3)	5
	$ 84	$ 43	$121

In the gas utility operations, rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. Accordingly, the above amounts exclude deferred income taxes of $11 million in each of 1984, 1983 and 1982 and an accumulated amount of $182 million at September 30, 1984. These deferred income taxes are primarily based on timing differences between capital cost allowances and depreciation.

(c) Income tax expense differs from the amount which would be obtained by applying the Canadian statutory federal income tax rate to income before income taxes and other items. This difference results from the following:

	Year ended September 30		
	1984	1983	1982
Income before income taxes and other items	**$412**	$347	$277
Canadian expected income tax rate	**46%**	46%	46%
Computed income tax expense	**$189**	$159	$127
Add:			
Petroleum and Gas Revenue Tax, royalties and other similar payments to governments not deductible for tax purposes	**72**	65	54
Unrecognized tax benefit available for application against future income	**2**	1	20
Non-deductible depletion	**7**	8	6
	270	233	207
Deduct:			
Federal resource allowance	**44**	39	32
Alberta Royalty Tax Credit	**6**	8	7
Depletion allowances on Canadian oil and gas production income	**6**	4	5
Inventory allowance	**7**	14	15
Items capitalized in gas utility accounts expensed for tax purposes for which no deferred taxes are provided	**10**	9	9
Difference in effective tax rates of foreign subsidiaries	**10**	20	7
Investment tax credits	**5**	3	5
Other	**(4)**	(2)	(9)
Actual income tax expense	**$186**	$138	$136
Actual income tax expense as a percentage of income before income taxes and other items	**45%**	40%	49%

(d) During 1984, income tax benefits of $16 million, which relate to prior years' losses of $34 million incurred by certain United States subsidiaries, were recorded in the accounts. As a result, $122 million of losses remain for future recognition, providing the respective United States subsidiaries generate sufficient taxable income. These losses expire during the period 1993 to 1998.

(e) No provision was made for taxes on undistributed earnings of foreign subsidiaries not currently available for paying dividends inasmuch as such earnings were reinvested in the businesses.

5. Net income per share

Net income per share was calculated using net income after deduction of preference share dividends on all classes, except those on the Class D, Second Series, which have similar characteristics to the Company's Common Shares, and using the aggregate of the weighted average number of Class D Preference Shares, Second Series and Common Shares outstanding. The number of shares has been reduced by the pro rata interest in the Company held by Interprovincial Pipe Line Limited (note 8). The weighted average number of shares outstanding at September 30, 1984, 1983, and 1982 was 80,239,000, 70,048,000 and 69,217,000 respectively.

6. Pension plans

Pension expense during the three years ended September 30 amounted to $19 million in 1984, $20 million in 1983 and $19 million in 1982. Unfunded prior years' service costs, which have not been charged to operations, amounted to $30 million at September 30, 1984.

7. Inventories

	September 30 1984	1983
Finished goods	**$ 114**	$ 105
Natural gas in storage	**317**	309
Maturing whiskies and cognac	**518**	516
Raw materials and supplies	**103**	119
	$1,052	$1,049

8. Investments

	September 30 1984	1983
Investments accounted for on the equity method		
Interprovincial Pipe Line Limited (1)	**$ 245**	
Sovereign Oil & Gas PLC (2)	**40**	
Others	**42**	$ 46
Other investments – at cost	**97**	87
Marketable securities – at cost which approximates market (3)	**115**	185
	$ 539	$ 318

(1) Effective October 1, 1983, the Company entered into a share exchange agreement with Interprovincial Pipe Line Limited ("Interprovincial") under which Interprovincial issued 13,600,000 common shares in exchange for 13,600,000 Class D Preference Shares, Second Series, of the Company. As a result, the Company owns approximately 34 per cent of the outstanding common shares of Interprovincial and Interprovincial in turn owns approximately 16 per cent of the Company. This investment is accounted for using the equity method. The consideration given and net assets acquired at October 1, 1983, are summarized as follows:

Consideration	
Class D Preference Shares, Second Series at a stated value of $26 (13,600,000 shares)	$ 354
Pro rata interest in the Company held by Interprovincial (4,688,077 shares)	(122)
	232
Net assets acquired	116
Consideration in excess of net assets acquired	$ 116

The amount of consideration over the net book value of assets was attributed to the pipeline systems owned by Interprovincial and is being amortized over the remaining life of these assets which is estimated to be 30 years.

The following consolidated financial information of Interprovincial is based upon publicly reported financial data.

Condensed statement of financial position	September 30, 1984
	(unaudited)
Current assets	$ 254
Pipeline transportation system, net	939
Investment in Hiram Walker Resources Ltd.	308
Other assets	30
	$1,531
Current liabilities	$ 84
Non-current liabilities	198
Long term debt	531
Shareholders' equity	718
	$1,531

Condensed statement of income	Twelve months ended September 30, 1984
	(unaudited)
Income	$ 478
Expenses	277
	201
Income taxes	101
	100
Equity in earnings of Hiram Walker Resources Ltd.	25
Net income	$ 125

(2) Effective September 30, 1984, the Company purchased for cash 22.9 per cent of the outstanding common shares of Sovereign Oil & Gas PLC. This investment is accounted for using the equity method. The cash paid and the net assets acquired are as follows:

Cash paid	$40
Net assets acquired	13
Consideration in excess of net assets acquired	$27

The amount of consideration over the net book value of assets was attributed to the oil and gas assets owned by Sovereign and is being amortized over the remaining life of these assets.

(3) These securities have been set aside to satisfy the debt service and repayment requirements of certain outstanding debt obligations (see note 10 (d), page 24).

9. Property, plant and equipment

	September 30					
	1984			1983		
	Cost	**Accumulated depletion and depreciation**	**Net**	Cost	Accumulated depletion and depreciation	Net
Distilled spirits	**$ 532**	**$ 245**	**$ 287**	$ 527	$ 230	$ 297
Natural resources	**2,659**	**1,092**	**1,567**	2,389	893	1,496
Gas utility	**1,302**	**302**	**1,000**	1,215	269	946
	$4,493	**$1,639**	**$2,854**	$4,131	$1,392	$2,739

All costs of acquiring and evaluating significant unproved oil and gas properties, previously excluded from the computation of depletion as described in the "Summary of significant accounting policies", were included in the depletion calculation for the year ended September 30, 1984. The balance excluded from the computation at September 30, 1983, amounted to $149 million.

In 1982, the carrying value of the United States oil and gas assets was reduced by $276 million. A provision for impairment of $177 million, net of deferred income tax relief of $99 million, was recorded as a charge against income.

10. Indebtedness

(a) Loans and notes payable

	September 30 **1984**	1983
Bank loans	**$ 90**	$ 102
Commercial paper	**381**	237
	$ 471	$ 339

(b) Long term debt

	Calendar year maturity	September 30 **1984**	1983
Non-utility			
Debentures			
8.5-9.875%	1994-98	**$ 230**	$ 59
9.5% (1984, US$18; 1983, US$20)	1986	**24**	25
14.25% (1984, £11; 1983, £13)	1986	**20**	23
15.5% (1)	1986	**125**	125
15.75-16% (1984, US$64; 1983, US$130)	1984-86	**83**	160
15.5-16% (1984, US$90; 1983, US$91)	1989	**119**	113
Bank loans and notes			
11.25-13% (1984, £38; 1983, £39)	1987-89	**62**	73
Revolving credit facility (1983, £20) (2)	1985		36
Revolving credit facility (3)	1988	**57**	179
7.25-7.75% (1984, SF175; 1983, SF275) (4)	1986-88	**123**	177
14.5% (£10)	1986	**17**	19
Other (5)		**39**	46
		899	1,035
Utility			
First mortgage sinking fund bonds, secured			
8.6-11.5% (6)	1993-96	**160**	165
4.85-8.0% (1984, US$22; 1983, US$22)(6)	1985-93	**29**	27
Debentures			
6.5-17.75% sinking fund (6)	1984-99	**262**	279
13.25%	1993	**65**	65
18.5% (1)	1986	**75**	75
		591	611
		1,490	1,646
Less amounts due within one year		**37**	25
		$1,453	$1,621

(1) These issues are extendable until 1991 at the option of the holder.

(2) The variable rate of interest was based upon the London interbank offered rate ("LIBOR"). The weighted average interest rate was 15% during 1984.

(3) Pursuant to this facility, proceeds can be drawn in Canadian or United States dollars. The rate of interest under this facility is based upon rates prevailing from time to time in Canada, the United States and/or LIBOR. The average interest rate was 11.9% during 1984 and 12.9% at September 30, 1984.

(4) The notes are hedged as to principal and interest into United States dollars. The hedge contract increases the effective average interest rate to 15.8% at September 30, 1984.

(5) Loans amounting to $3 million at September 30, 1984, are secured.

(6) The Company is obligated to ensure that all amounts due on the first mortgage sinking fund bonds and $204 million of the sinking fund debentures of a subsidiary are paid to the holders of these securities. The Company's obligation to the holders of the first mortgage sinking fund bonds is secured.

(c) Long term debt maturities and sinking fund requirements for each of the five years subsequent to September 30, 1984, are as follows: **1985**, $37; **1986**, $176; **1987**, $282; **1988**, $163; **1989**, $146.

(d) During 1983, the Company acquired interest-bearing investments, comprising deposits with major Canadian and United States banks and highly-rated government and corporate securities, to be used for satisfying the debt service and repayment requirements of certain specific debt obligations. The debt issues and the related investments held at September 30, 1984, amount to $105 million (1983, $169 million) and $115 million (1983, $185 million), respectively.

(e) The Company has unused lines of credit at September 30, 1984 and 1983, of $947 million and $886 million, respectively. Of the unused lines available at September 30, 1984 and 1983, commitments, in various currencies, of $336 million and $261 million, respectively, have terms of up to six years.

11. Preference shares of subsidiary companies

	September 30	
	1984	1983
Cumulative redeemable preference shares with fixed dividends (1)	**$ 11**	$ 11
Cumulative redeemable retractable preference shares with fixed dividends (2)	**102**	102
Cumulative redeemable preference shares with variable dividends (3)	**59**	70
	$172	$183

(1) Fixed dividend rates are 5% and 5.5% according to Series and are redeemable at any time.

(2) Fixed dividend rates are between 8.5% and 13.5% according to Group and Series; the weighted average rate is approximately 11.3% and redemption can commence in 1988.

(3) Dividends are payable at an annual rate of one-half of the Canadian bank's prime lending rate plus 1%-1.25%. Annual redemption requirements are $11 million in 1985, $13 million in 1986, $14 million to 1988 and $7 million in 1989.

12. Capital stock

(a) Authorized

	September 30	
	1984	1983
	Shares	
Preference shares (issuable in series)		
Class A	**10,000,000**	10,000,000
Class B	**10,000,000**	10,000,000
Class C	**19,726,578**	19,881,874
Class D	**49,984,585**	49,988,397
	89,711,163	89,870,271
Common Shares	**150,318,734**	150,108,350

(b) Outstanding

	September 30			
	1984		1983	
	Shares	**Amount**	Shares	Amount
Preference shares				
Class A (1)	**2,000,000**	**$ 50**	2,000,000	$ 50
Class B (2)	**4,000,000**	**100**	4,000,000	100
Class C (3)	**369,821**	**7**	525,117	11
Class D (4) – First Series	**13,984,732**	**350**	13,896,699	347
– Second Series (note 8)	**8,911,923**	**232**		
	29,266,476	**$739**	20,421,816	$508
Common Shares	**72,180,245**	**$223**	70,460,846	$183

(1) Class A – $3.54 cumulative dividend, retractable at $25.00 per share on September 30, 1984, or September 1, 1989, redeemable at varying premiums reducing from $1.00 commencing October 1, 1986.

(2) Class B – $2.375 cumulative dividend, convertible into Common Shares at $31.50 per share up to September 30, 1988, redeemable at $25.00 per share after September 30, 1984.

(3) Class C – $1.80 cumulative dividend, convertible into Common Shares at $15.00 per share up to November 1, 1984. On November 2, 1984, all outstanding shares were redeemed at $20.00 per share.

(4) Class D, First Series – $1.875 cumulative dividend, voting, convertible into Common Shares at $28.00 per share up to December 31, 1989, redeemable at varying premiums reducing from $1.875.

Class D, Second Series – voting and participating equally with and receiving the same dividends as the Common Shares.

(c) Changes in capital stock	Preference Shares		Common Shares	
	Shares	Amount	Shares	Amount
Balance at September 30, 1981	18,502,439	$459	69,094,149	$156
Issued for cash	2,000,000	50		
Conversion of preference to common	(55,135)	(1)	71,306	1
Issued under agreements (1)	6,160		344,608	6
Changes in Common Shares held by Trustees, at cost (note 13)			(15,657)	
Balance at September 30, 1982	20,453,464	508	69,494,406	163
Conversion of preference to common	(52,450)	(1)	65,637	1
Issued under agreements (1)	20,802	1	864,953	19
Changes in Common Shares held by Trustees, at cost (note 13)			35,850	
Balance at September 30, 1983	20,421,816	508	70,460,846	183
Conversion of preference to common	(159,108)	(3)	210,384	3
Issued on investment in Interprovincial (note 8)	13,600,000	354		
Pro rata interest in shares held by Interprovincial (note 8)	(4,688,077)	(122)		
Issued under agreements (1)	91,845	2	1,528,554	37
Changes in Common Shares held by Trustees, at cost (note 13)			(19,539)	
Balance at September 30, 1984	**29,266,476**	**$739**	**72,180,245**	**$223**

(1) Shares issued under agreements include those issued on exercise of stock options, those issued pursuant to the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan, and the employees' Stock Purchase and Savings Plan, and those issued on exercise of warrants; all shares were issued for cash.

At September 30, 1984, 1,999,900 Common Share Purchase Warrants (1986) were outstanding. Each warrant entitles the holder to buy one Common Share at $31.50 on or before September 30, 1986. At September 30, 1984, 5,425,000 Common Share Purchase Warrants (1988) were outstanding. Each warrant entitles the holder to buy one Common Share at $32.50 on or before January 15, 1988.

13. Employee stock options

	Common Shares	Class D, First Series Preference Shares
Shares under option at October 1, 1983	1,220,995	53,217
Options granted	189,000	
Options exercised	(65,862)	(23,054)
Options cancelled	(139,433)	
Shares under option at September 30, 1984	1,204,700	30,163

Options for Common Shares and Class D Preference Shares, First Series, are exercisable until 1989 at average prices of approximately $25 and $15 per share, respectively. Under the current option plan for Common Shares, 4,136,850 Common Shares were reserved for issuance to certain employees and at September 30, 1984, 2,928,195 Common Shares remain available to be granted under the plan. Under the Class D, First Series Preference Share plan, the Company issues preference shares or makes cash payments as options are exercised. An older Common Share plan, under which no further options are to be granted, requires that Trustees purchase shares in the open market to satisfy outstanding options.

14. Business segments

Financial data by business segment and geographic area for each of the three years in the period ended September 30, 1984, is presented below:

	Year ended September 30		
Business segments	**1984**	1983	1982
Revenue			
Distilled spirits	**$1,448**	$1,406	$1,455
Natural resources	**451**	459	477
Gas utility	**1,777**	1,538	1,428
	$3,676	$3,403	$3,360
Operating income			
Distilled spirits	**$ 278**	$ 267	$ 294
Natural resources	**105**	91	42
Gas utility	**206**	180	188
Total before undernoted items	**589**	538	524
Other income	**19**	22	22
Finance charges, net	**(196)**	(213)	(269)
Income taxes	**(186)**	(138)	(136)
Foreign currency translation gain			10
Equity in earnings of Interprovincial Pipe Line Limited	**30**		
Minority interest	**(27)**	(23)	(9)
Benefit of prior years' tax losses	**16**		
Provision for impairment			(177)
Net income (loss)	**$ 245**	$ 186	$ (35)
Identifiable assets			
Distilled spirits	**$1,555**	$1,549	$1,569
Natural resources	**1,997**	1,852	1,894
Gas utility	**1,534**	1,439	1,501
Investment in Interprovincial Pipe Line Limited	**245**		
	$5,331	$4,840	$4,964
Capital expenditures			
Distilled spirits	**$ 21**	$ 24	$ 52
Natural resources (1)	**207**	146	208
Gas utility	**97**	93	98
	$ 325	$ 263	$ 358
Depletion and depreciation			
Distilled spirits	**$ 26**	$ 26	$ 25
Natural resources	**163**	183	232
Gas utility	**44**	41	37
	$ 233	$ 250	$ 294

(1) Net of applicable government grants for the three years ended September 30, 1984, 1983 and 1982 of $143 million, $82 million and $37 million, respectively.

Geographic areas	Year ended September 30 1984	1983	1982
Revenue			
Canada	**$2,322**	$2,070	$1,925
United States	**1,173**	1,174	1,233
Other	**354**	313	393
Eliminations (1)	**(173)**	(154)	(191)
	$3,676	$3,403	$3,360
Operating income			
Canada	**$ 393**	$ 359	$ 360
United States	**112**	93	81
Other	**84**	86	83
	$ 589	$ 538	$ 524
Identifiable assets			
Canada	**$3,401**	$2,917	$2,812
United States	**993**	1,121	1,306
Other	**937**	802	846
	$5,331	$4,840	$4,964
Capital expenditures			
Canada (2)	**$ 267**	$ 202	$ 178
United States	**38**	34	122
Other	**20**	27	58
	$ 325	$ 263	$ 358
Depletion and depreciation			
Canada	**$ 111**	$ 104	$ 91
United States	**106**	135	163
Other	**16**	11	40
	$ 233	$ 250	$ 294

(1) Inter-company sales between geographic areas are at approximate market prices.

(2) Net of applicable government grants for the three years ended September 30, 1984, 1983 and 1982 of $143 million, $82 million and $37 million, respectively.

15. Commitments and contingencies

(a) The indentures and agreements relating to certain long term debt obligations of Walker-Home Oil Ltd., a principal subsidiary of the Company, contain covenants limiting the transfer of funds by Walker-Home Oil Ltd. and its subsidiaries to the Company. Under the most restrictive of these covenants, as at September 30, 1984, such transfers of funds to the Company were limited to future consolidated net income of Walker-Home Oil Ltd. and its subsidiaries plus $387 million. The Company's consolidated net assets at September 30, 1984, include $1,245 million of net assets of consolidated subsidiaries, which were restricted against transfer to the Company.

(b) Due to the size, complexity and international scope of the Company's operations, a number of lawsuits are pending at any point in time in which the Company may be the plaintiff or defendant. In the opinion of management, the ultimate resolution of any current lawsuits would not have a material effect on the Company's consolidated financial position or results of operations.

16. Supplementary information

Since the Company uses capital markets and has security holders resident in the United States, supplementary information in conformity with United States reporting practices is included as follows:

United States accounting principles
The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in some respects from those applicable in the United States. These differences are as follows:

(a) Income adjustments and basic net income per share

(i) Foreign currency translation
The Company prospectively changed its accounting policy for foreign currency translation on October 1, 1982. The Company follows the practice of deferring unrealized foreign exchange gains or losses on those long term monetary assets and liabilities with a fixed or ascertainable life and denominated in other than a domestic currency. These gains or losses are subsequently amortized over the remaining life of the related assets and liabilities. Under accounting principles generally accepted in the United States, pursuant to Financial Accounting Standard No. 52, such exchange gains and losses would be included immediately in the determination of net income.

(ii) Basic income per share
The calculation of basic net income per share under United States generally accepted accounting principles includes the common stock equivalent of the Class D Convertible Voting Preference Shares, First Series; Class B Convertible Preference Shares and Common Share Purchase Warrants related to the Class B Convertible Preference Shares and any outstanding stock options granted where the average price for the year exceeds the option price.

If United States generally accepted accounting principles were followed by the Company in respect of deferred foreign exchange gains and losses during 1984 and 1983, and long term debt obligations prior to October 1, 1982, the Canadian income (loss) would be adjusted as follows:

	Year ended September 30		
	1984	1983	1982
Net income (loss) as reported – Canadian generally accepted accounting principles	**$245**	$ 186	$ (35)
Foreign exchange loss, net of tax		(8)	
Foreign currency translation loss			(17)
Net income (loss) – United States generally accepted accounting principles	**$245**	$ 178	$ (52)
The basic and fully diluted net income (loss) per share on a United States basis would be as follows:			
Basic	**$2.45**	$1.98	$(1.38)
Fully diluted	**$2.34**	$1.93	$(1.38)

In addition, reported retained earnings would decrease by $9 million to $1,167 million at September 30, 1984, $9 million to $1,071 million at September 30, 1983, and $1 million to $1,031 million at September 30, 1982.

(b) Pension plans

Under United States generally accepted accounting principles, additional information with respect to the Company's United States pension plans would be disclosed as set forth below. The data is based upon reports of independent consulting actuaries, as of the most recent valuation dates, generally January 1 of each year:

	1984	1983
Actuarial present value of accumulated plan benefits of which $100 million (1983, $95 million) is vested	**$103**	$ 98
Net assets available for benefits	**$182**	$162
Assumed weighted average interest rate used in calculating plan benefits	**10%**	10%

(c) Preference shares

Under United States generally accepted accounting principles, preference shares which are subject to mandatory redemption requirements would be reported under a separate caption ''Redeemable preference shares'' rather than under the general heading ''Shareholders' equity'' in the ''Consolidated statement of financial position''. All the Company's preference shares, except the Class D, Second Series, are subject to mandatory redemption requirements.

(d) Provision for impairment – United States natural resource properties

In 1982, the provision for impairment in the ''Consolidated statement of income'' would be included as a component of ''Income before income taxes'' under United States generally accepted accounting principles. Specifically, the gross amount of the impairment of $276 million would be disclosed as a separate component of ''Operating costs and expenses'' and the related deferred income tax relief of $99 million would be offset against ''Income taxes''. However, these reclassifications would not change the Company's loss reported for that year.

Oil and gas exploration and production activities (unaudited)

The following supplementary oil and gas information is provided in accordance with the United States' Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities".

Oil and gas exploration and production activities are carried out principally in Canada and the United States and to a lesser extent in other areas.

(a) Capitalized costs

	September 30		
	1984	1983	1982
Petroleum and natural gas properties			
Canada	**$1,164**	$1,007	$ 916
United States	**1,304**	1,213	1,108
Other	**71**	58	50
	2,539	2,278	2,074
Accumulated depletion and depreciation			
Canada	**219**	160	110
United States	**802**	681	499(1)
Other	**46**	33	32
	1,067	874	641
Net capitalized costs			
Canada	**945**	847	806
United States	**502**	532	609
Other	**25**	25	18
	$1,472	$1,404	$1,433

(1) Includes provision for impairment of $276 million (see note 9, page 22).

(b) Costs incurred

	Year ended September 30		
	1984	1983	1982
Acquisition of unproved properties			
Canada	**$ 17**	$ 7	$ 3
United States	**4**	5	11
	21	12	14
Acquisition of proved properties			
United States	**7**		
	7		
Exploration costs			
Canada	**81**	52	24
United States	**21**	19	41
Other	**8**	9	26
	110	80	91
Development costs			
Canada	**60**	32	42
United States	**16**	21	52
Other	**2**	2	2
	78	55	96
Total			
Canada	**158**	91	69
United States	**48**	45	104
Other	**10**	11	28
	$ 216	$ 147	$ 201

(c) Results of operations

	Year ended September 30 **1984**	1983	1982
Revenues, net of royalties			
Canada	**$311**	$273	$235
United States	**113**	135	169
Other	**5**		
	429	408	404
Production costs			
Canada	**43**	41	39
United States	**28**	32	31
Other	**1**		
	72	73	70
Petroleum and gas revenue tax – Canada	**43**	36	33
Depletion and depreciation			
Canada	**61**	50	44
United States	**88**	121	150(1)
Other	**8**	3	32
	157	174	226
Income (loss) from oil and gas operations before income taxes			
Canada	**164**	146	119
United States	**(3)**	(18)	(12)
Other	**(4)**	(3)	(32)
	157	125	75
Income taxes (recoveries)			
Canada	**100**	79	73
United States	**(1)**	(8)	(5)
Other	**1**	(2)	(16)
	100	69	52
Results of oil and gas operations (2)			
Canada	**64**	67	46
United States	**(2)**	(10)	(7)
Other	**(5)**	(1)	(16)
	$ 57	$ 56	$ 23

(1) Excludes provision for impairment of $276 million (see note 9, page 22).

(2) The above results exclude general and administrative overhead, interest and other operating costs and revenues not directly related to conventional oil and gas exploration and production activities; consequently, they differ from those reported in the results of the natural resources segment.

(d) Crude oil and natural gas reserves

Proved reserves are based on estimates made by Company engineers. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. The process of estimating reserves is complex, requiring subjective judgements in the evaluation of available geological, engineering, economic, and other data in respect of each reservoir. The Company's proved reserves are located in Canada, United States, Australia and Indonesia. The proved reserves in Australia and Indonesia are included in "other" in the table on the following page.

The calculation of net reserves of crude oil, including condensate and natural gas liquids, and natural gas is based on the Company's share of proved reserves after the deduction of royalties. The federal and provincial government royalty rates vary depending on prices, production volumes and the timing of initial production.

The net reserves set forth below have been calculated on the basis of royalty rates in effect on the dates the estimates were made.

Proved reserves	Canada		United States		Other		Total	
	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)
September 30, 1981	66,629	553	10,578	126			77,207	679
Revisions of previous estimates, royalty rates and improved recovery	9,758	115	(399)	(24)			9,359	91
Extensions and discoveries	1,087	37	994	26	1,119		3,200	63
Production	(6,612)	(29)	(1,932)	(25)			(8,544)	(54)
September 30, 1982	70,862	676	9,241	103	1,119		81,222	779
Revisions of previous estimates, royalty rates and improved recovery	2,121	37	2,231	27	(297)		4,055	64
Extensions and discoveries	2,763	16	552	6	230		3,545	22
Production	(6,476)	(26)	(1,657)	(18)			(8,133)	(44)
September 30, 1983	69,270	703	10,367	118	1,052		80,689	821
Revisions of previous estimates, royalty rates and improved recovery	8,265	12	284	13	15		8,564	25
Purchase of minerals in place			248	3			248	3
Extensions and discoveries	6,043	47	536	14	185		6,764	61
Production	(6,954)	(30)	(1,422)	(14)	(164)		(8,540)	(44)
Sales of minerals in place			(291)	(9)			(291)	(9)
September 30, 1984	**76,624**	**732**	**9,722**	**125**	**1,088**		**87,434**	**857**
Proved developed reserves								
September 30, 1981	66,629	553	9,967	111			76,596	664
September 30, 1982	70,862	676	8,620	94	1,054		80,536	770
September 30, 1983	65,807	649	9,300	107	1,052		76,159	756
September 30, 1984	**62,253**	**685**	**8,623**	**109**	**926**		**71,802**	**794**

(1) Thousands of barrels. (2) Billions of cubic feet.

(e) Standardized measure of discounted future net cash flows and changes therein

Future cash inflows are computed by applying year-end prices, except for fixed and determinable escalation provisions in contracts, to year-end quantities of proved oil and gas reserves. Future development costs, production costs, Petroleum and Gas Revenue Tax (''PGRT''), and income taxes are deducted from future cash inflows to arrive at future net cash flows. Future development and production costs are based on year-end costs and assume continuation of existing economic and operating conditions. Future PGRT is computed based on rates and legislation in effect at year end. Future income taxes are computed by applying the appropriate year-end statutory rates to the future pretax net cash flows, after making provision for the tax basis of the oil and gas properties. Future net cash flows are discounted at a rate of 10 per cent per annum to arrive at discounted future net cash flows.

The Company cautions that the discounted future net cash flows from proved oil and gas reserves is neither an indication of fair market value of the Company's oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor give consideration to the effect of anticipated future changes in crude oil and natural gas prices, development and production costs, and possible changes to tax and royalty regulations. The prescribed discount rate of 10 per cent may not appropriately reflect future interest rates. The computation excludes values attributable to the Company's marketing, storage and pipeline activities related to oil and gas production.

The discounted future net cash flows cannot be compared with the net book value of capitalized costs of petroleum and natural gas properties because they are calculated on an after-tax basis and exclude the fair market value of exploratory properties and probable or possible oil and gas reserves.

Standardized measure of discounted future net cash flows

	September 30		
	1984	1983	1982
Future cash inflows			
Canada	**$4,683**	$4,076	$4,106
United States	**980**	862	786
Other	**41**	33	47
	5,704	4,971	4,939
Future production and development costs			
Canada	**1,126**	808	678
United States	**270**	222	188
Other	**12**	12	16
	1,408	1,042	882
Future PGRT - Canada	**585**	572	662
Future pretax cash flows			
Canada	**2,972**	2,696	2,766
United States	**710**	640	598
Other	**29**	21	31
	3,711	3,357	3,395
Future income taxes			
Canada	**1,368**	1,441	1,501
Other	**3**	3	14
	1,371	1,444	1,515
Future net cash flows			
Canada	**1,604**	1,255	1,265
United States	**710**	640	598
Other	**26**	18	17
	2,340	1,913	1,880
10% annual discount for timing of future cash flows			
Canada	**946**	747	740
United States	**287**	243	203
Other	**6**	4	6
	1,239	994	949
Discounted future net cash flows			
Canada	**658**	508	525
United States	**423**	397	395
Other	**20**	14	11
	$1,101	$ 919	$ 931

Changes in standardized measure of discounted future net cash flows

	Year ended September 30		
	1984	1983	1982
Revisions to reserves proved in prior years			
Revisions in quantity and timing estimates	**$ (4)**	$ 79	$ (170)
Net change in prices and royalties, net of production costs and PGRT	**168**	(61)	471
Change in estimated future development costs	**(34)**	10	(14)
Other	**24**	(7)	25
	154	21	312
Accretion of discount	**157**	158	130
Discoveries and extensions, net of related costs	**149**	76	124
Purchase of minerals in place	**11**		
Sales of minerals in place	**(19)**		
Previously estimated development costs incurred during the year	**31**	24	14
Sales of oil and gas produced, net of production costs and PGRT	**(314)**	(299)	(301)
Net change in income taxes	**13**	8	(169)
Net change	**182**	(12)	110
Balance at beginning of year	**919**	931	821
Balance at end of year	**$1,101**	$ 919	$ 931

Quarterly financial information (unaudited)

	Year ended September 30							
	1984				1983			
	Quarter							
	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenue	**$1,008**	**$1,171**	**$ 831**	**$ 666**	$ 984	$1,011	$ 809	$ 599
Gross margin	**$ 363**	**$ 369**	**$ 312**	**$ 271**	$ 361	$ 336	$ 289	$ 247
Income before unusual item	**$ 79**	**$ 82**	**$ 60**	**$ 8***	$ 60	$ 71	$ 34	$ 21
Net income	**$ 79**	**$ 82**	**$ 60**	**$ 24**	$ 60	$ 71	$ 34	$ 21
Net income (loss) per share								
Basic								
Before unusual item	**$ 0.85**	**$ 0.89**	**$ 0.61**	**$ (0.03)***	$ 0.70	$ 0.86	$ 0.32	$ 0.15
After unusual item	**$ 0.85**	**$ 0.89**	**$ 0.61**	**$ 0.16**	$ 0.70	$ 0.86	$ 0.32	$ 0.15
Fully diluted								
Before unusual item	**$ 0.78**	**$ 0.77**	**$ 0.57**	**$ (0.03)***	$ 0.67	$ 0.73	$ 0.32	$ 0.15
After unusual item	**$ 0.78**	**$ 0.77**	**$ 0.57**	**$ 0.16**	$ 0.67	$ 0.73	$ 0.32	$ 0.15

*The benefit of prior years' tax losses of $16 million ($0.19 per share) was reclassified as an unusual item at the end of the fourth quarter when the amount was finally determined. Before the fourth quarter, the benefit was included in income before unusual item as a reduction of income taxes.

Market price of common shares and related security holder matters

The principal trading markets of the Common Shares of the Company in Canada and the United States are Toronto and New York, respectively. The Common Shares of the Company are also listed on the Montreal Exchange.

The following table sets forth the reported high and low sales prices of the Common Shares of the Company on the Toronto and New York stock exchanges, as reported by the Toronto Stock Exchange Review and the New York Stock Exchange Monthly Market Statistics Report, respectively:

	Year ended September 30							
	1984				1983			
	Quarter							
	First	Second	Third	Fourth	First	Second	Third	Fourth
Toronto Stock Exchange								
(Canadian dollars)								
High	**$29¼**	**$28⅝**	**$24⅜**	**$25½**	$21½	$23⅝	$27⅛	$27
Low	**$25⅜**	**$23¼**	**$21**	**$20⅝**	$17¾	$19½	$21⅞	$24¼
New York Stock Exchange								
(United States dollars)								
High	**$23⅝**	**$22⅞**	**$19**	**$19¼**	$17½	$19¼	$22	$22
Low	**$20⅝**	**$18¼**	**$16¼**	**$15⅝**	$14¼	$15⅞	$17¾	$19⅝

Quarterly dividends of $0.33 per Common Share were paid in 1984 and 1983.

At September 30, 1984, there were 46,481 registered holders of Common Shares.

There are no restrictions on the export or import of capital which affect the remittance of dividends, interest or other payments to non-resident holders of the Company's securities.

The Foreign Investment Review Act requires prior approval by the government of Canada of the acquisition by, or transfer to, non-residents of Canada of direct or indirect control of a Canadian business entity, such as the Company. The Act does not apply to the purchase of shares or securities of a corporation where such purchases would not give the purchasers effective control of the corporation.

Cash dividends paid to shareholders resident in the United States, the United Kingdom and most western European countries are generally subject to Canadian withholding tax at a rate of 15 per cent. Cash dividends paid to other non-residents of Canada will also generally be subject to Canadian withholding tax at a maximum rate of 25 per cent, depending upon applicable tax treaties. Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax depending upon the terms and provisions of such securities. Stock dividends paid to non-Canadian residents are generally not subject to Canadian withholding tax.

Five year financial and operating review

Financial

	1984	1983	1982	1981	1980
	(expressed in millions except per share amounts)				
Revenue					
Distilled spirits	**$1,448**	$1,406	$1,455	$1,453	$1,431
Natural resources	**451**	459	477	349	232
Gas utility	**1,777**	1,538	1,428	1,099	862
	$3,676	$3,403	$3,360	$2,901	$2,525
Operating income					
Distilled spirits	**$ 278**	$ 267	$ 294	$ 280	$ 264
Natural resources	**105**	91	42	83	93
Gas utility	**206**	180	188	113	94
	$ 589	$ 538	$ 524	$ 476	$ 451
Income before income taxes and other items	**$ 412**	$ 347	$ 277	$ 296	$ 372
Income taxes	**(186)**	(138)	(136)	(62)	(131)
Equity in earnings of Interprovincial Pipe Line Limited	**30**				
Other items, net	**(27)**	(23)	1	16	(1)
Income before unusual item	**229**	186	142	250	240
Benefit of prior years' tax losses	**16**				
Provision for impairment			(177)		
Net income (loss)	**$ 245**	$ 186	$ (35)	$ 250	$ 240
Net income (loss) per share					
Basic					
Before unusual item	**$ 2.32**	$ 2.03	$ 1.43	$ 3.23	$ 3.18
After unusual item	**$ 2.51**	$ 2.03	$(1.13)	$ 3.23	$ 3.18
Fully diluted					
Before unusual item	**$ 2.19**	$ 2.01	$ 1.43	$ 3.02	$ 3.01
After unusual item	**$ 2.34**	$ 2.01	$(1.13)	$ 3.02	$ 3.01
Dividends declared per Common Share	**$ 1.32**	$ 1.32	$ 1.32	$ 1.32	$ 1.32
Cash from operations	**$ 518**	$ 664	$ 485	$ 203	$ 257
Capital expenditures (1)	**$ 325**	$ 263	$ 358	$ 404	$ 301
Identifiable assets					
Distilled spirits	**$1,555**	$1,549	$1,569	$1,540	$1,440
Natural resources	**1,997**	1,852	1,894	2,076	1,100
Gas utility	**1,534**	1,439	1,501	1,302	1,070
Investment in Interprovincial Pipe Line Limited	**245**				
Total assets	**$5,331**	$4,840	$4,964	$4,918	$3,610
Long term debt (including current portion)	**$1,490**	$1,646	$1,748	$1,753	$ 742
Shareholders' equity					
Preference	**$ 739**	$ 508	$ 508	$ 460	$ 362
Common	**1,255**	1,116	1,195	1,362	1,227
	$1,994	$1,624	$1,703	$1,822	$1,589
Number of Common Shares and Class D Preference Shares, Second Series, outstanding	**81**	70	69	69	69

(1) Excludes acquisition of Home Oil Company Limited in 1980 and United States natural resource properties in 1981.

Operating

Distilled spirits	1984	1983	1982	1981	1980
Gross revenue less excise taxes and import duties (millions)	**$1,107**	$1,054	$1,103	$1,085	$1,021

Natural resources	1984	1983	1982	1981	1980
Production (before royalties)					
Crude oil and natural gas liquids (barrels per day)					
Canada	**26,693**	25,811	26,664	27,908	30,426
United States	**5,012**	5,438	6,255	4,462	627
International	**373**		15		
	32,078	31,249	32,934	32,370	31,053
Natural gas sales (millions of cubic feet per day)					
Canada	**105**	97	108	107	109
United States	**48**	58	82	59	21
	153	155	190	166	130
Drilling activity					
Gross working interest wells	**549**	262	245	307	450
Net oil	**75**	37	27	48	36
Net gas	**17**	12	20	23	37
Net dry	**50**	23	31	40	29
Land holdings (thousands of acres)					
Gross undeveloped					
Canada	**11,667**	19,517	21,149	21,645	25,184
United States	**2,222**	3,873	3,236	2,962	2,305
International	**11,219**	11,631	10,161	9,924	11,245
	25,108	35,021	34,546	34,531	38,734
Net undeveloped					
Canada	**2,624**	3,431	3,601	3,949	4,042
United States	**828**	1,375	1,700	1,675	1,277
International	**1,753**	2,054	1,913	2,210	1,435
	5,205	6,860	7,214	7,834	6,754
Gross developed					
Canada	**1,742**	1,699	1,498	1,728	1,258
United States	**677**	909	759	695	257
International	**1**				
	2,420	2,608	2,257	2,423	1,515
Net developed					
Canada	**412**	388	361	347	349
United States	**96**	140	168	165	51
International					
	508	528	529	512	400

	1984	1983	1982	1981	1980
Proved reserves (before royalties)					
Crude oil and natural gas liquids (millions of barrels)					
Canada	**102**	102	105	118	119
United States	**12**	13	12	13	1
International	**2**	1	1		
	116	116	118	131	120
Natural gas (billions of cubic feet)					
Canada	**951**	944	913	949	896
United States	**155**	145	128	159	42
	1,106	1,089	1,041	1,108	938

Gas utility

	1984	1983	1982	1981	1980
Revenue (millions)					
Gas sales					
Residential	**$ 588**	$ 501	$ 478	$ 343	$261
Commercial	**599**	530	485	370	283
Industrial	**534**	460	417	344	284
	1,721	1,491	1,380	1,057	828
Other revenue	**56**	47	48	42	35
	$1,777	$1,538	$1,428	$1,099	$863
Gas cost (millions)	**$1,383**	$1,191	$1,081	$ 851	$655
Gas sales (billions of cubic feet)					
Residential	**91**	78	88	81	74
Commercial	**118**	107	116	109	102
Industrial	**115**	99	105	107	110
	324	284	309	297	286
Daily sendout (millions of cubic feet)					
Maximum	**2,027**	1,937	1,958	1,856	1,735
Minimum	**272**	257	243	249	249
Average	**897**	788	850	825	793
Number of active customers (thousands)					
Residential	**719**	687	654	612	569
Commercial	**70**	66	63	60	56
Industrial	**7**	7	7	6	6
	796	760	724	678	631
Average revenue (per thousand cubic feet)					
Residential	**$6.48**	$6.41	$5.44	$4.22	$3.54
Commercial	**$5.07**	$4.97	$4.20	$3.39	$2.79
Industrial	**$4.64**	$4.63	$3.96	$3.22	$2.56
Miles of mains in use (year end)	**11,181**	10,929	10,718	10,233	9,871
Average use per residential customer (thousands of cubic feet)	**127**	114	135	134	130
Degree day deficiency (1)	**4,249**	3,756	4,322	4,202	4,040

(1) Degree day deficiency figures, expressed in Celsius, are for the Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18° Celsius.

Corporate information

Directors

Richard E. Cross (3)
Counsel
Cross, Wrock,
Miller & Vieson

A.E. Downing (1)
Chairman, President
and Chief Executive
Officer of the Company

Charles T. Fisher, III
Chairman and President
National Bank of Detroit

W. Douglas H. Gardiner
President
WDHG Financial
Associates Limited

Gordon C. Gray (1) (2)
Chairman and Chief
Executive Officer
A.E. LePage Limited

Richard F. Haskayne
Executive
Vice President
of the Company
President
Home Oil Company
Limited

H. Clifford Hatch (1)
Corporate Director

H. Clifford Hatch, Jr.
Executive
Vice President
of the Company
President
Hiram Walker-
Gooderham & Worts
Limited

Robert S. Hurlbut (2) (3)
Chairman
General Foods, Inc.

Henry N.R. Jackman (1)(4)
Chairman
The Empire Life
Insurance Company

Lucille M. Johnstone
Senior Vice President
RivTow Straits Limited

Allen T. Lambert (1) (4)
Chairman
Trilon Financial Corp.
Ltd.

Peter L.P. Macdonnell, QC
Partner
Milner & Steer

Robert W. Martin
Executive
Vice President
of the Company
President
The Consumers' Gas
Company Ltd.

Edmond G. Odette (2)
President
Eastern Construction
Company Limited

Stanley G. Olson (3)
Corporate Director

John T. Sapienza
Partner
Covington & Burling

Robert C. Scrivener (3)
Corporate Director

Noah Torno (1) (3)
Corporate Director

William P. Wilder (1) (4)
Chairman
The Consumers' Gas
Company Ltd.

Member of:
(1) Executive Committee
(2) Audit Committee
(3) Management Resources and Compensation Committee
(4) Pension Committee

Executive officers

A.E. Downing, Chairman, President and Chief Executive Officer

R.F. Haskayne, Executive Vice President

H. Clifford Hatch, Jr., Executive Vice President

R.W. Martin, Executive Vice President

A.R. McCallum, Senior Vice President and Chief Financial Officer

W.R. Fatt, Vice President and Treasurer

J.B. Petrie, Vice President and Comptroller

E.W.H. Tremain, Vice President and Secretary

Executive office

Hiram Walker Resources Ltd.
Suite 600
1 First Canadian Place
P.O. Box 33
Toronto, Ontario
M5X 1A9
Telephone (416) 864-3300

Principal offices

Hiram Walker-Gooderham & Worts Limited
2072 Riverside Drive East
P.O. Box 2518
Windsor, Ontario
N8Y 4S5
Telephone (519) 254-5171

Home Oil Company Limited
1700 Home Oil Tower
324 Eighth Avenue S.W.
Calgary, Alberta
T2P 2Z5
Telephone (403) 232-7100

The Consumers' Gas Company Ltd.
Suite 4200
1 First Canadian Place
P.O. Box 90
Toronto, Ontario
M5X 1C5
Telephone (416) 864-3399

Auditors

Price Waterhouse

Registrar and transfer agents

Common Shares and Warrants

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Montreal, Calgary and Vancouver

Morgan Guaranty Trust Company of New York
Stock Transfer Department
30 West Broadway
New York, N.Y. 10007

14.16% Retractable Class A Preference Shares

The National Victoria and Grey Trust Company
21 King Street East, Toronto M5C 1B3 and in Montreal, Calgary and Vancouver

9½% Convertible Class B Preference Shares

7½% Convertible Class D Preference Shares

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Montreal, Calgary and Vancouver

Stock exchange listings and symbol

Common Shares are listed on the Toronto, Montreal and New York stock exchanges. The listing symbol for Common Shares on all stock exchanges is **HWR** and is reported in Canadian newspapers under the W's as Walker R, and in United States newspapers under the W's as WkHRs.

Form 10-K

A Form 10-K Annual Report is filed with the United States Securities and Exchange Commission. This report will be made available, without charge, upon written request to the Company.

Dividend plan

Registered shareholders of Common Shares and 7½% Convertible Class D Preference Shares are eligible to participate in the Stock Dividend, Dividend Reinvestment and Stock Purchase Plan. Details may be obtained by writing to the Company.

Annual meeting

The Annual Meeting of Shareholders will be held in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Wednesday, February 13, 1985, at 11:00 a.m.

Selected subsidiaries and investments

Shown by business segment
(% owned; country of incorporation)

Hiram Walker Resources Ltd.

Interprovincial Pipe Line Limited (34.0%; Canada)

DISTILLED SPIRITS

Hiram Walker-Gooderham & Worts Limited (Canada)

- Hiram Walker & Sons Limited (Canada)
- Hiram Walker Brands Limited (Canada)
- Corby Distilleries Limited (52.7%; Canada)
- Maidstone Wine & Spirits Inc. (U.S.)
- Hiram Walker & Sons, Inc. (U.S.)
- Hiram Walker Incorporated (U.S.)
- W.A. Taylor & Company (U.S.)
- Frederick Wildman & Sons, Limited (U.S.)
- Maker's Mark Distillery, Inc. (U.S.)
- Callaway Vineyard & Winery (U.S.)
- Courvoisier S.A. (France)
- J. Moreau et Fils S.A. (50.0%; France)
- Kahlua, S.A. (Mexico)
- Hiram Walker & Sons (Scotland) P.L.C. (U.K.)
- Tia Maria Limited (78.8%; U.K.)
- The Drambuie Liqueur Company Limited (25%; U.K.)
- Hiram Walker International Limited (U.K.)
- The Bacardi group of companies (12.0%; various)
- Hiram Walker Europa, S.A. (50.0%; Spain)
- Pedro Domecq S.A. (11.0%; Spain)

NATURAL RESOURCES

Home Oil Company Limited (Canada)

- Scurry-Rainbow Oil Limited (88.5%; Canada)
- Federated Pipe Lines Ltd. (50.0%; Canada)
- Home Petroleum Corporation (U.S.)
- Home Energy Company Ltd. (60.0%; Australia)
- Sovereign Oil & Gas PLC (22.9%; U.K.)
- Home Oil Malacca Strait Ltd. (Indonesia)

GAS UTILITY

The Consumers' Gas Company Ltd. (88.1%; Canada)

- Gazifere Inc. (Canada)
- Tecumseh Gas Storage Limited (50.0%; Canada)
- Underwater Gas Developers Limited (Canada)
- St. Lawrence Gas Company, Inc. (U.S.)

KAHLÚA
IMPORTED · IMPORTÉ
KAHLÚA
LIQUEUR DE CAFÉ
750 mL
LIQUEUR
MADE BY • PRODUIT PAR
KAHLÚA, S.A.
PRODUCT OF MEXICO
IMPORTED IMPORTE
Tia Maria
LIQUEUR
26.5% vol
DRAMBUIE
PRODUCT OF SCOTLAND PRODUIT D'ÉCOSSE
Prince Charles Edward Liqueur
DRAMBUIE
VSOP
Fine Champagne
COURVOISIER
COGNAC
Moreau Blanc
VIN DE TABLE FRANCAIS
J. Moreau & Fils
BY APPOINTMENT TO THE LATE QUEEN VICTORIA THE LATE KING EDWARD VII
Ballantine's
ESTABLISHED 1827
FULLY MATURED
QUALITY GUARANTEED
FINEST SCOTCH WHISKY
BLENDED & BOTTLED BY

Principal Brands

Hiram Walker-Gooderham & Worts Limited

CANADA

Canadian Whiskies

Canadian Club Classic
Canadian Club
Walker's Special Old
Gooderham's Bonded Stock

Imported Scotch Whiskies

Ballantine's
Lauder's

Liqueurs

Hiram Walker's

Imported Liqueurs

Kahlua
Drambuie
Tia Maria
Häagen-Dazs

Cognac

Courvoisier

London Dry Gin

Hiram Walker's Crystal

Vodkas

Hiram Walker's Crystal
Skol

Rums

Government House
Maraca

Imported Wines

J. Moreau et Fils (France)
Langenbach and Company (Germany)
Tarride Ledroit & Cie (France)

UNITED STATES

Imported Canadian Whiskies

Canadian Club Classic
Canadian Club
Royal Canadian
Northern Light
Gooderham's Rich & Rare

Imported Scotch Whiskies

Ballantine's
Lauder's
Old Smuggler

Straight Bourbon Whiskeys

Walker's DeLuxe
Ten High

American Sour Mash Bourbon Whiskey

Maker's Mark

American Blended Whiskey

Imperial

Tequila

Two Fingers
Arandas

London Dry Gins

Hiram Walker's Crystal Palace
Booth's

Vodka

Hiram Walker's Crystal Palace

Cordials and Fruit Flavored Brandies

Hiram Walker's

Cognacs

Courvoisier
Salignac

Imported Liqueurs

Kahlua
Drambuie
Tia Maria
Häagen-Dazs

Premium California Wines

Callaway Vineyards

Imported Fine Wines

Those represented by Frederick Wildman & Sons, Limited