

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 7 1979
MCGILL UNIVERSITY

 Bow Valley Industries Ltd.

Annual Report **Nineteen 78**



Bow Valley Industries Ltd. is a Canadian resource company that was incorporated under the laws of the province of Alberta in 1950. The activities of Bow Valley are conducted under two operating entities:

- Bow Valley Exploration is engaged in international exploration and development of oil, gas, coal and uranium.
- Bow Valley Resource Services Ltd. provides service and manufacturing facilities to the natural resource industry.

THE COVER

Bow Valley oilwell drilling rig on exploration program in Alberta.

Bow Valley helicopter operating in the Beaufort Sea area.

Bow Valley coal operation in Harlan County, Kentucky.

Offshore coring unit on Midwest Lake in northern Saskatchewan, site of Bow Valley uranium discovery.

Arzanah Island, offshore Abu Dhabi in the Arabian Gulf. The Island is a piercement salt dome, rising from a depth of more than 20,000 feet to an elevation of 200 feet above sea level. The island is barren of trees or foliage. Production facilities shown include the captive tanker pier, tank farms and airstrip. Bow Valley expects its first offshore oil from Arzanah in June 1979. ►

Financial Highlights

	For the Seven Months Ended December 31, 1978	For the Year Ended December 31, 1978	For the Year Ended May 31, 1978
Revenue	\$143,775,000	\$232,547,000	\$174,725,000
Cash Flow	\$ 25,478,000	\$ 42,012,000	\$ 29,124,000
Per Common Share	\$ 2.61	\$ 4.31	\$ 3.00
Net Income	\$ 8,869,000	\$ 14,342,000	\$ 10,889,000
Per Common Share	\$ 0.86	\$ 1.41	\$ 1.06
Average Shares Outstanding	9,779,003	9,745,943	9,686,008
Capital Expenditures	\$ 54,618,000	\$220,689,000	\$186,035,000
Working Capital	\$ 10,051,000	\$ 10,051,000	\$ 11,489,000



Report to the Shareholders

Effective December 31, 1978, Bow Valley changed its fiscal year end from May 31 to December 31; consequently, this report is for a seven-month period. Bow Valley also split its common shares on a two-for-one basis on October 27, 1978, and at year end had 9,794,532 common shares outstanding.

FINANCIAL

Net income for the seven-month period was \$8,869,000 and cash flow was \$25,478,000.

For the twelve months ended December 31, 1978, versus the twelve months ended December 31, 1977, net income increased to \$14,342,000 (\$1.41 per share) from \$8,566,000 (\$0.83 per share) and cash flow was \$42,012,000 (\$4.31 per share) as compared to \$20,679,000 (\$2.08 per share) a year earlier.

Capital expenditures during the seven months ended December 31, 1978, were \$54,618,000 and long term debt increased by \$17,334,000. The semi-annual dividend payment on December 8, 1978, was increased by 33 $\frac{1}{3}$ percent to \$0.05 per share. Working capital at December 31, 1978, was \$10,051,000.

During the period under review Bow Valley prepared documentation to proceed with a public offering of common shares. Market conditions deteriorated, however, and a decision was made in November 1978 not to proceed with the offering.

A proposed sale of common shares to a private investor was also cancelled in February 1979. Uncertainties over changing securities laws and the inability to determine future selling values of a control block of shares were the prime reasons negotiations were

amicably terminated. Although Bow Valley's financial condition is satisfactory, interest costs remain sensitive to changes in the prime rate, and Bow Valley will continue to appraise opportunities to strengthen its financial condition.

OPERATIONS — BOW VALLEY EXPLORATION

During the seven months ended December 31, 1978, Bow Valley invested \$41,122,000 in the development of oil, gas, coal, and uranium reserves and during 1979 expects to invest \$56,400,000 in its continuing international search for additional energy supplies.

Oil and Gas

During the seven months ended December 31, 1978, Bow Valley invested \$27,200,000 on exploration and development programs for oil and gas in Canada, the United States, the North Sea offshore the United Kingdom and Norway, offshore Abu Dhabi in the Arabian Gulf, the South China Sea offshore Vietnam, and five other countries. Gross proved reserves are estimated at 66,377,000 barrels of oil and 817 Bcf of gas.

In Canada and the United States, Bow Valley participated in the drilling of 79 wells of which 52 were successful. Gross daily production averaged 3,795 barrels of oil and 63,167 Mcf of gas. Comparative figures for the previous fiscal period were 2,456 barrels of oil and 57,600 Mcf of gas per day. During 1979, Bow Valley will invest \$23,000,000 on oil and gas exploration and development in Canada and the United States including participation in the drilling of 160 wells.

Offshore Abu Dhabi in the Arabian

Gulf, the completion and installation of production facilities for the Arzanah field are on schedule, and production should commence June 15, 1979, increasing Bow Valley's oil production by 2,500 barrels per day.

In the North Sea, development plans are being formulated for the South Brae field and should be submitted to the U.K. Government in May 1979. In the Norwegian sector of the North Sea the development of the Heimdal field awaits confirmation of reserve figures by the drilling of additional appraisal wells. Bow Valley's first North Sea production is expected in 1983.

In the South China Sea offshore Vietnam, Bow Valley recently drilled two dry holes. Technical information is being reviewed before additional drilling is undertaken.

Further exploration programs will be conducted during 1979 in the West German North Sea, Portugal, Bolivia, Australia, and the Philippines.

Coal

During the seven months ended December 31, 1978, Bow Valley sold 771,000 gross tons of coal averaging 3,600 tons per day. This represents a 20 percent increase over the daily average sales of the previous fiscal period.

Capital expenditures for the coal operation were \$13,600,000 including the purchase of additional coal reserves adjacent to the existing mine. Capital expenditures in 1979 are estimated at \$7,400,000 and include the installation of a new automatic weighing and loading system. It is estimated that by 1981 coal sales should increase to 1,910,000 tons per year or 5,200 tons per day. Gross measured reserves are estimated at 34,031,000 tons.

Ninety percent of Bow Valley's coal sales was high quality steam coal sold under long term contracts to utility companies. Through the excellent co-operation of an experienced management, a dedicated non-union work force, and the services of a reliable railway system, Bow Valley's coal subsidiary continues to be an efficient and profitable operation. Last year was the tenth consecutive year of increased sales from the property.

Uranium

At Midwest Lake in northern Saskatchewan, drilling to year-end has indicated gross measured reserves of 97,000,000 pounds of uranium oxide. This rich deposit was discovered in early 1978 and represents a significant addition to Bow Valley's asset value. Four drills continue to do infill and extension drilling while studies are also being made on a mine and mill plan. Production from Midwest Lake is expected in 1984.

OPERATIONS — BOW VALLEY RESOURCE SERVICES LTD.

Bow Valley invested \$13,496,000 during the seven months ended December 31, 1978, in rigs, helicopters, and other equipment. Similar expenditures are estimated at \$11,200,000 for 1979.

Bow Valley's service and manufacturing subsidiary recorded excellent operating results for the seven-month period due primarily to the activities of the Oilwell Drilling and Industrial Products Groups.

Oilwell Drilling

Bow Valley's 44 oilwell drilling rigs in western Canada, the Arctic Islands, and the Appalachians continue to record a high level of utilization at premium drilling rates. Government incentive programs and a good exploration success ratio by the petroleum industry has created this favourable environment. There has been concern that the current gas surplus could adversely affect current exploration budgets, but this has not been evident to Bow Valley's rigs which are contracted through the summer and fall seasons.

Industrial Products

Bow Valley's British Columbia operation which manufactures and fabricates equipment and supplies for the forest products, mining, and petroleum industries, continued to show improvement in the seven month period ended December 31, 1978. Whereas there has been a general improvement in the industrial markets in which Bow Valley is involved, the transformation to recording profits from reporting losses is a tribute to the management and personnel directly involved in this operation.

Other Groups


Bow Valley's Oilfield Services and Diamond Drilling Groups reported modest profits for the period under review while the Environmental Products Group recorded a small loss.

OUTLOOK

During 1979, Bow Valley will receive its first offshore income from the Arzanah field in the Arabian Gulf. In the United States, petroleum and coal income should improve because

of increased selling prices and higher production, while in Canada gas production should reach record levels. The service and manufacturing operation should show improvement with favourable market conditions predicted for the majority of its services and products.

These factors, together with experienced and competent personnel, should produce further gains for Bow Valley in 1979.



D. K. SEAMAN
Chairman and
Chief Executive Officer



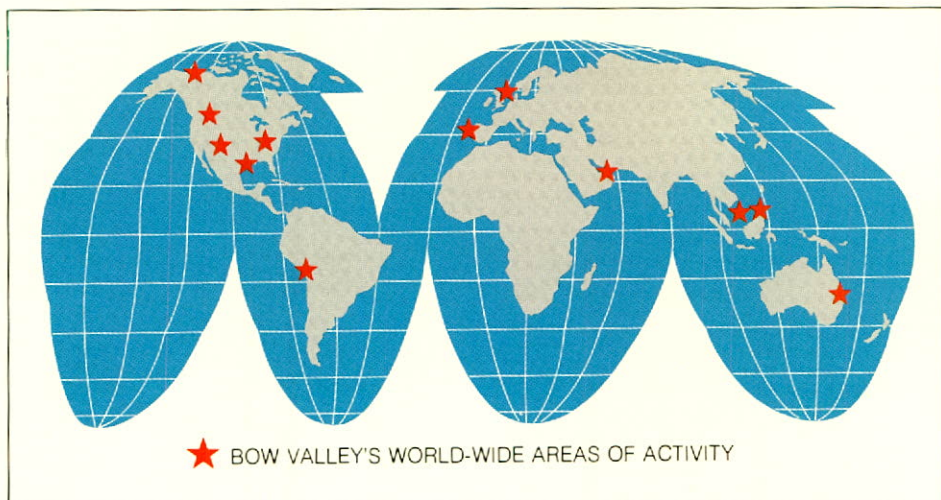
B. J. SEAMAN
Vice-Chairman



J. R. HARRIS
President and
Chief Operating Officer

April 6, 1979

Bow Valley, through Bow Valley Exploration, is engaged in the international exploration for and development of oil, gas, coal, and uranium. Operating offices are maintained in Calgary, Denver, London, and Singapore, and approximately 700 permanent administrative, technical, and operating personnel are employed to conduct the various programs. Exploration and development activities are being conducted in Canada; the United States; the North Sea offshore the United Kingdom and Norway; the Arabian Gulf offshore Abu Dhabi; the South China Sea offshore Vietnam; and other areas.



OIL AND GAS CANADA

Bow Valley holds petroleum rights in approximately 1,600,000 gross undeveloped acres in Alberta, Saskatchewan, and British Columbia. During the seven months ended December 31, 1978, Bow Valley invested approximately \$5,300,000 participating in the drilling of 45 wells, of which 20 were exploratory wells and 25 were development wells. The success ratio was 35 percent for exploration drilling and 80 percent for development drilling.

With the connection of the Wandering River field in 1976, the Forty-Mile Coulee field in 1977, and the Airdrie field in early 1979, Bow Valley completed marketing arrangements for the majority of its shallow gas reserves in Alberta which have been under active development since 1966. As a result, Bow Valley is now placing more emphasis on the exploration for deeper oil and gas reserves in western Alberta and

northeastern British Columbia where undeveloped acreage of promise is still available. During 1979, Bow Valley expects to invest \$10,000,000 participating in the drilling of approximately 110 wells in western Canada.

In September 1978, Bow Valley entered into an exploration and development program with Mega Petrol Canada Limited, which is acting on behalf of a group of West German investors. The agreement entitles Mega to earn 50 percent of substantially all of Bow Valley's undeveloped acreage in Alberta and British Columbia by expending approximately \$7,000,000 on exploration of Bow Valley's existing acreage and any new acreage acquired. When Mega earns its full interest, Bow Valley and Mega have agreed to proceed with a joint program in which the parties will commit to spend an additional \$12,500,000 each during the period 1979 to 1981. Bow Valley will receive a management fee and a gross overriding royalty for managing the program.

Elsewhere in Canada, Bow Valley has

a 27.5 percent interest in 270,000 acres in the Mackenzie Delta and a 12.5 percent interest in 439,000 acres in the Beaufort Sea. Two successful appraisal wells were previously drilled in the Mackenzie Delta by the operator, Sun Oil Company Limited, and Bow Valley's share of gross proved reserves is estimated at 20,880 MMcf of gas and 2,182,000 barrels of oil. Production of these reserves will be contingent on the development of a transportation system which is not expected to occur prior to 1986. Future activity on Bow Valley's acreage in the Mackenzie Delta and the Beaufort Sea could be accelerated by the continued success of current exploration programs in the area. Significant hydrocarbons have been discovered approximately 30 miles from the closest Bow Valley permits in the Beaufort Sea.

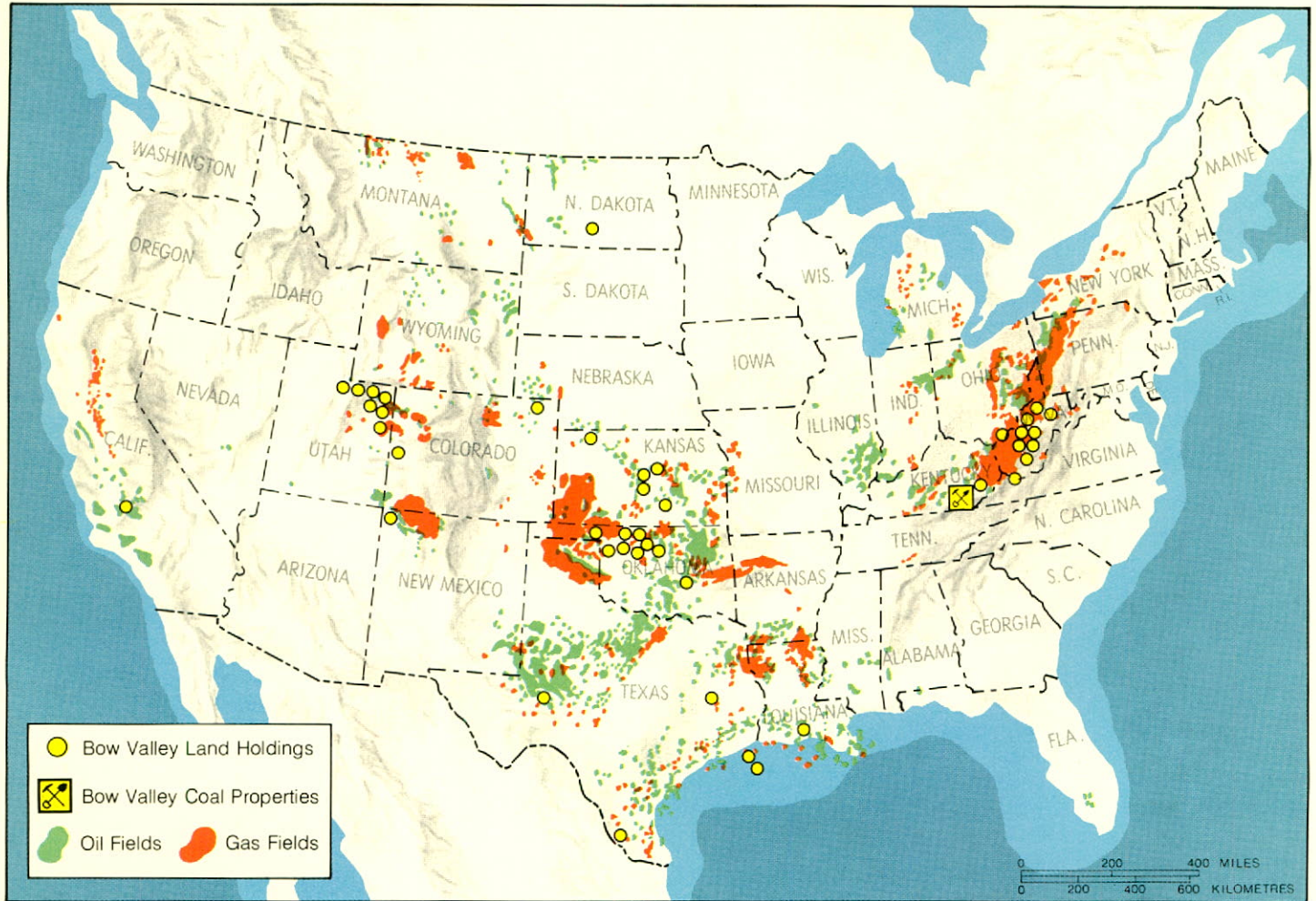
Bow Valley also has a 1.7 percent interest in Panarctic Oils Ltd. Panarctic reports that it has gross proved reserves of 12.8 Tcf of gas and that exploration and appraisal drilling for additional reserves is continuing.

WESTERN CANADA AND NORTHWEST TERRITORIES



MARCH 31, 1979



THE UNITED STATES


MARCH 31, 1979

UNITED STATES

Bow Valley established significant operations in the United States with the acquisition, completed in May 1978, of Flying Diamond Oil Corporation (now called Bow Valley Exploration (U.S.) Inc.). Primarily as a result of such acquisition, Bow Valley holds various interests in approximately 500,000 gross undeveloped acres in the United States. During the seven months ended December 31, 1978, Bow Valley invested approximately \$8,000,000 participating in the drilling of 34 wells, of which 12 were exploratory wells and 22 were development wells. The success ratio

was 33 percent for exploration drilling and 95 percent for development drilling.

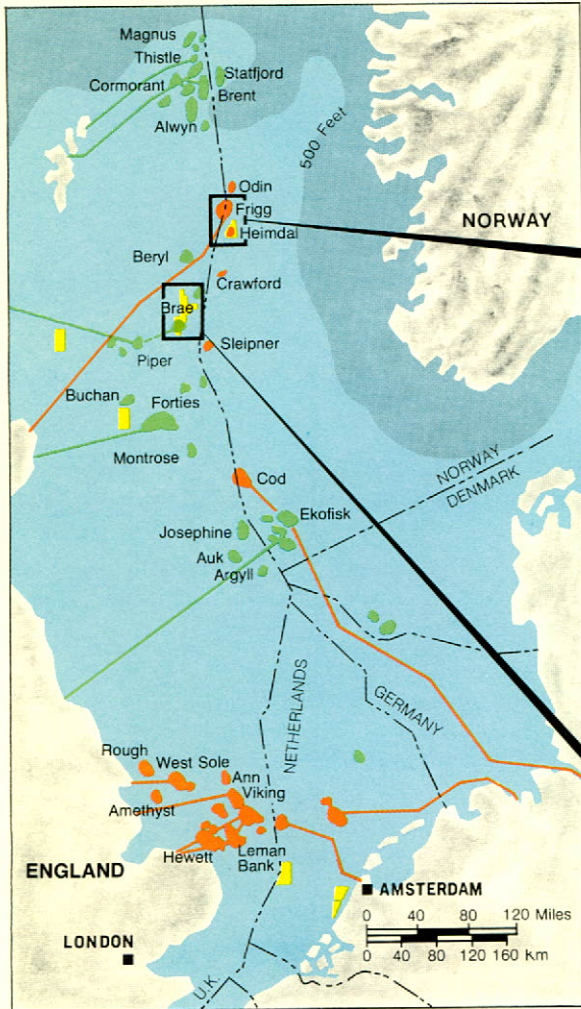
Bow Valley conducts oil and gas exploration and development operations in the Appalachians, the Rocky Mountains, Oklahoma, North Dakota, West Texas, the Gulf Coast, the Gulf of Mexico, and California. During 1979, Bow Valley expects to participate in the drilling of 50 wells and will invest \$12,000,000 in exploration and development programs.

UNITED KINGDOM

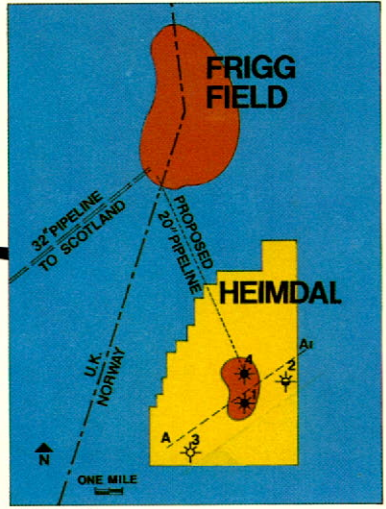
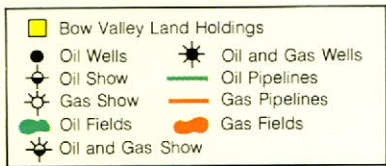
A detailed development proposal is being prepared for the South Brae

field in Block 16/7a in the U.K. sector of the North Sea. The proposal will be submitted to the Government in May 1979 and approval is expected approximately three months thereafter. The development of the field is estimated to cost \$1.3 billion and will include an eight-legged steel platform with sufficient well capacity to produce oil at a peak rate of 100,000 barrels per day and to re-inject all casinghead gas and additional water to maintain reservoir pressure. The oil will be transported to shore by a connecting pipeline to the Piper or Forties systems. The operator estimates that South Brae contains recoverable oil reserves of

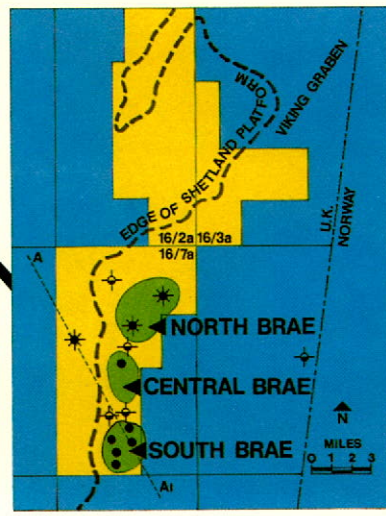
NORTH SEA



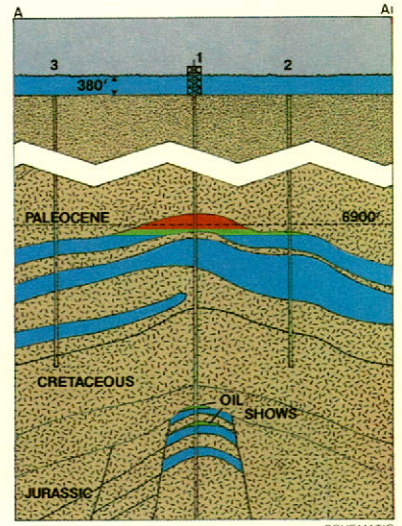
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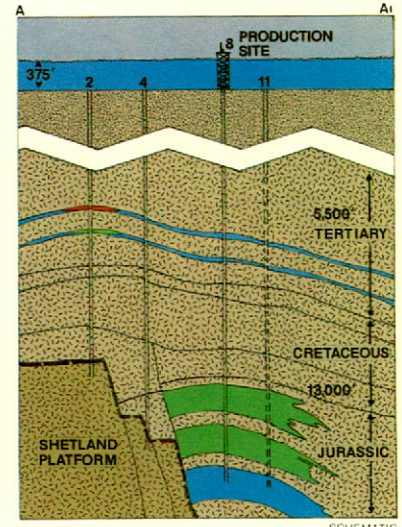
MARCH 31, 1979



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292,000,000 barrels and that production should commence in early 1983.

Bow Valley has a 14 percent interest in Brae, and all costs continue to be financed by other participants through a non-recourse loan. Additional drilling to appraise Central and North Brae should occur in the near future while there remain interesting structures to be tested in Blocks 16/2a and 16/3a.

NORWAY

In the Heimdal gas and condensate field in the Norwegian sector of the North Sea, consideration is being given to the drilling of additional appraisal wells to refine reserve estimates for detailed development design. Bow Valley estimates that Heimdal contains gross proved reserves of 1.7 Tcf of gas and 49,000,000 barrels of condensate. It is anticipated that production

facilities will permit the production of 350 MMcf of gas per day and 10,000 barrels per day of condensate at an estimated development cost of \$788,000,000. Two encouraging factors for the development of the Heimdal field have been the commencement of gas transmission from the nearby Frigg field to Scotland and the announcement by the Norwegian Government of possible incentives

Bow Valley Exploration

for the assistance of small offshore fields. Bow Valley has an eight percent interest in the Heimdal field.

ABU DHABI

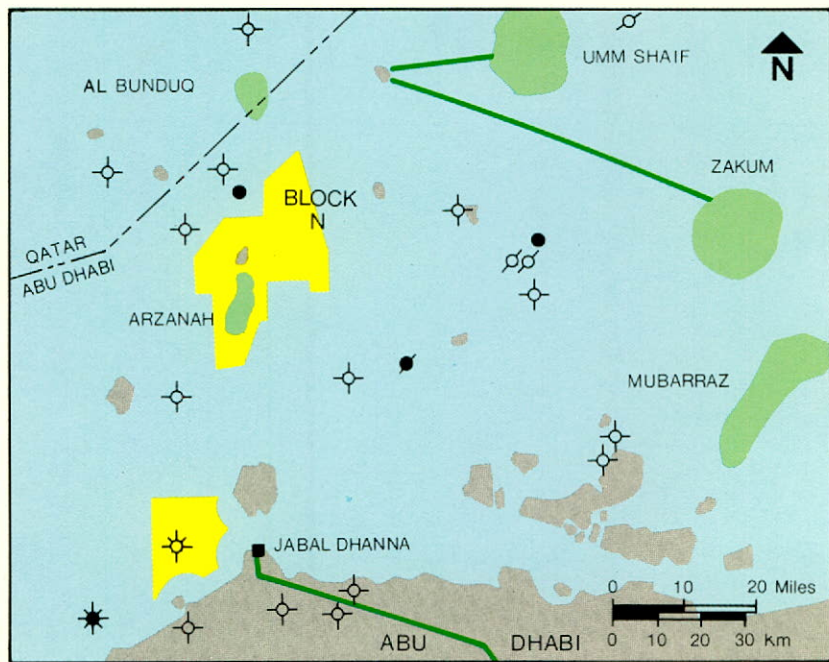
Production from the Arzanah oil field is expected to commence mid-June 1979. The field will be produced through eight of the nine wells drilled; the oil will be gathered by a central offshore platform and then piped to Arzanah Island for final processing before being exported through a captive-tanker storage system. The cost of the project is estimated to be \$283,500,000 and project financing has been arranged for Bow Valley's share of the costs. Proved oil reserves are estimated to be 81,000,000 barrels and initial production of 25,000 barrels per day is expected to increase to 35,000 barrels per day by early 1980.

Bow Valley has a ten percent interest in the project which could be reduced to a five percent interest if the Ruler exercises his option to acquire a 50 percent interest in the field at cost.

proceeded with an initial two-well drilling program. The first exploratory well, the 28A-1X, was completed on March 2, 1979, and the second well on March 24, 1979. Both wells were drilled to a depth of about 5,000 feet and encountered no commercial

shows of hydrocarbons. The semi-submersible rig, "Dan Queen", has been released and technical data from the wells will be reviewed before the drilling program is resumed.

ABU DHABI

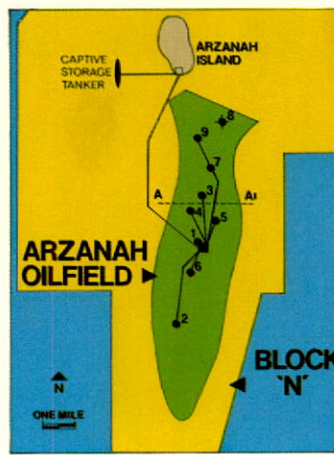


MARCH 31, 1979

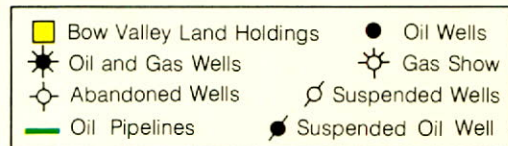
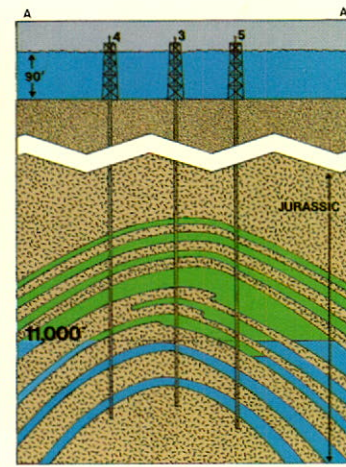
VIETNAM

In the South China Sea, offshore the Socialist Republic of Vietnam, Bow Valley has a 30 percent interest in two blocks comprising 3,400,000 acres. The Blocks, 28 and 29, are about 200 miles south of Ho Chi Minh City and water depths vary from 90 to 190 feet. Bow Valley and its partners are committed to spend \$15,000,000 on the project over a three-year period. In the event of a discovery, the participants would receive a percentage of the production.

Early in 1979 Bow Valley, as operator, established supply and support facilities at Vung Tau in southeastern Vietnam and



MARCH 31, 1979



Oil and Gas Summary — December 31, 1978

Undeveloped Acreage

	Gross	Net
— Canada (1)	67,822,485	1,087,246
— United States	493,068	220,239
— Europe, Africa, Middle East	663,638	123,566
— Southeast Asia	6,564,714	2,603,015
— Other	2,637,792	659,448
	<u>78,181,697</u>	<u>4,693,514</u>

Proved Reserves (2)

	Developed		Undeveloped		Total		Equivalent, bbls (3)
	Oil, bbls	Gas, MMcf	Oil, bbls	Gas, MMcf	Oil, bbls	Gas, MMcf	
— Canada	6,476,621	266,813	2,182,000(4)	239,862(4)	8,658,621	506,675	71,992,996
— United States	4,530,550	50,473	4,340,587	72,481	8,871,137	122,954	24,240,387
— Europe, Africa, Middle East	4,055,000(5)	—	44,792,000	187,112	48,847,000	187,112	72,236,000
	<u>15,062,171</u>	<u>317,286</u>	<u>51,314,587</u>	<u>499,455</u>	<u>66,376,758</u>	<u>816,741</u>	<u>168,469,383</u>

Production (2)

For the Seven Months Ended December 31, 1978

	Total			Daily Average		
	Oil, bbls	Gas, MMcf	Equivalent, bbls (6)	Oil, bbls	Gas, MMcf	Equivalent, bbls (6)
— Canada	352,780	10,758	1,599,397	1,649	50.3	7,474
— United States	459,398	2,760	819,188	2,146	12.9	3,828
	<u>812,178</u>	<u>13,518</u>	<u>2,418,585</u>	<u>3,795</u>	<u>63.2</u>	<u>11,302</u>

Drilling Participation

For the Seven Months Ended December 31, 1978

	Drilled		Successful	
	Exploration	Development	Exploration	Development
— Canada	20	25	7	20
— United States	12	22	4	21
— Europe, Africa, Middle East	—	1	—	1
	<u>32</u>	<u>48</u>	<u>11</u>	<u>42</u>

- (1) Including acreage owned by Panarctic Oils Ltd. As at December 31, 1978, Panarctic held working interests in 64,160,425 gross permit acres and 24,375,178 net acres. Bow Valley holds a 1.7108 percent interest in Panarctic.
- (2) Proved reserves and production are reported before deduction of royalties. Net proved reserves and net production are included in Form 10-K filed with The Securities and Exchange Commission, see page 32.
- (3) Oil equivalent conversion factor of 8.0 Mcf/bbl used to convert gas reserves to equivalent barrels of oil.
- (4) Includes Bow Valley's share of proved reserves as follows:

	Oil, bbls	Gas, MMcf
Mackenzie Delta	2,182,000	20,880
Arctic Islands	—	218,982
	<u>2,182,000</u>	<u>239,862</u>

- (5) Assumes Bow Valley's working interest in the Arzanah oil field offshore Abu Dhabi is five percent, providing for the Ruler exercising his option to take 50 percent equity interest.
- (6) Fiscal 1978 conversion factor was 8.63 Mcf/bbl for Canadian production and 7.67 for United States production based on actual volumes and revenues.



Bow Valley's new automatic weigh bin and coal loading facility in Harlan County, Kentucky.

COAL

As a result of the acquisition of Flying Diamond, Bow Valley, through a wholly-owned subsidiary, Coal Resources Corporation, conducts non-union underground bituminous coal mining operations on several contiguous tracts comprising 12,000 acres in Harlan County, Kentucky.

During the seven months ended December 31, 1978, Bow Valley invested \$13,600,000 to expand its coal operation. A portion of this investment was utilized in June 1978 to acquire the fee title to additional reserves adjacent to the existing mine. Bow Valley's capital budget for 1979 is \$7,400,000 which will assist Bow Valley in attaining gross production in 1981 of 1,910,000 tons per year.

During the seven months ended December 31, 1978, coal sales averaged 3,600 tons per day at an average price of \$34.63 per ton. Gross recoverable reserves of coal are now estimated at 34,041,000 measured tons. At the current rate of production, the life index of the coal mine is 26 years.

Bow Valley's present mining operations consist primarily of underground drift mining, which involves removal of sufficient rock to expose a production seam and to permit extraction by means of horizontal passageways. The acreage contains workable seams of coal ranging from 30 to 60 inches in average thickness. Five of these seams are now being mined with a total of six mines in active production.

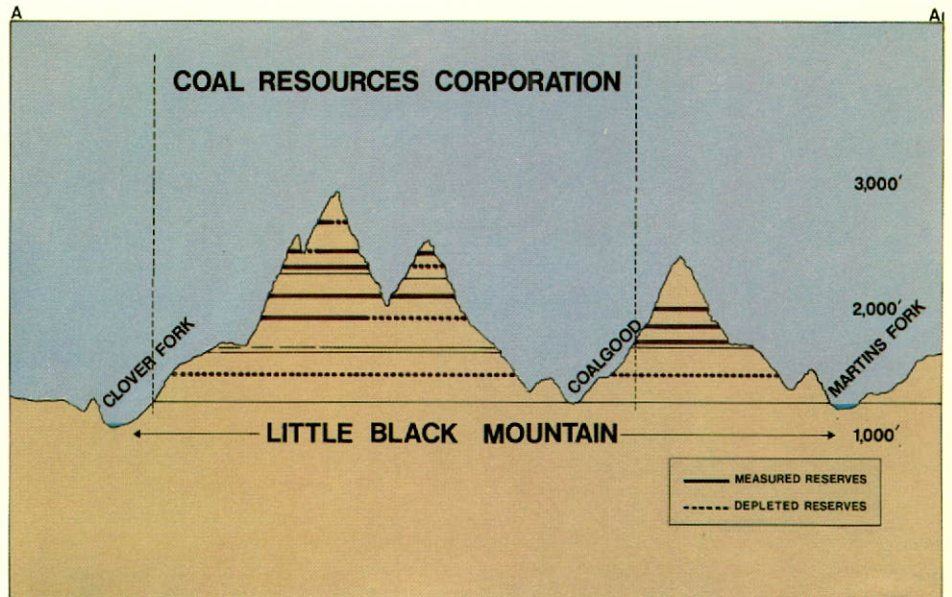
The mining operation consists of 12 units of underground mining equipment. All of these units are continuous sections, which combine the functions of cutting, drilling, blasting, and loading in a single

machine. Ten of the sections are in use in the six operating mines and the others are available as a replacement in the event of breakdown or while other units are undergoing rebuild or for use in any new mine. Bow Valley maintains at the mine site a quality control laboratory which complies with standards set by the American Society for Testing Materials.

Bow Valley is installing a new automatic weighing and loading system, which should be operating by April 1979 and will have the capacity to load a single railway car with 90 tons of cleaned, washed coal in nine seconds with an accuracy of 99.95 percent. This efficient and automatic operation, including a highly-trained workforce and excellent co-operation from the Louisville and Nashville Railroad, has made it possible for 1978 to be the tenth consecutive year of increased coal shipments from the property.

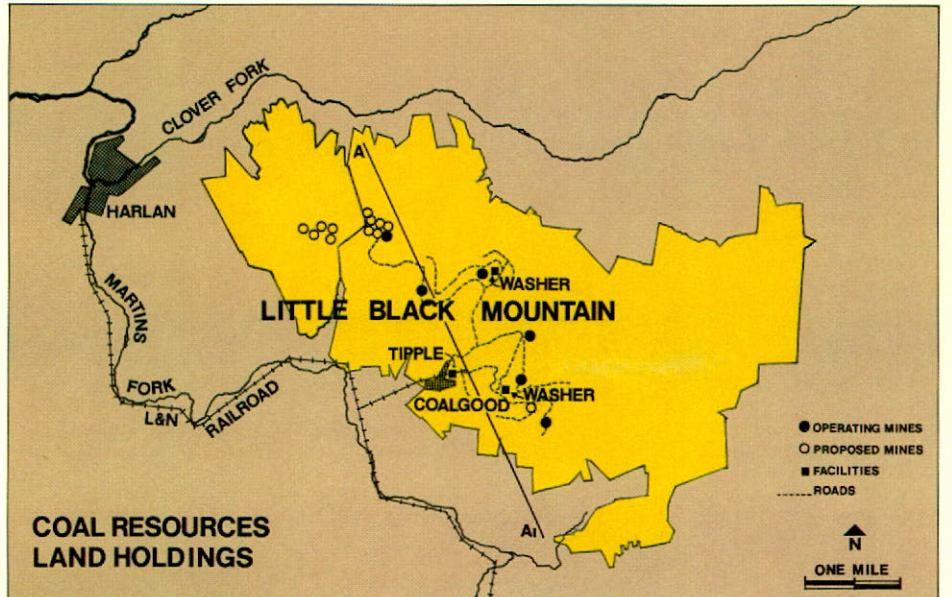
Bow Valley sells two types of coal: steam coal, which is coal sold with minimal preparation to utilities for power generation, and stoker coal, which is coal that has been further processed to remove more of the impurities and is sold to domestic markets for home heating or to industrial markets for manufacturing processes.

Over 90 percent of Bow Valley's coal sales during the seven months ended December 31, 1978, was steam coal, sold under long term contracts. Bow Valley has adopted the policy of marketing most of its steam coal under long term contracts rather than be subject to the vagaries of a fluctuating spot coal market. Two ten-year contracts have been signed with two major public utility companies for the delivery of 1,300,000 tons of coal annually.



MARCH 31, 1979

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URANIUM

At Midwest Lake in northern Saskatchewan an active core-hole drilling program continued to evaluate the uranium deposit which was discovered in early 1978.

Drilling to date has defined an ore body, with various levels of uranium content, of approximately 8,400 feet in length, with erratic results at the southern and northern extremities. The operator has stated that sufficient uranium has already been defined to justify a commercial mine. In addition, several of the core holes have encountered nickel, silver, and cobalt.

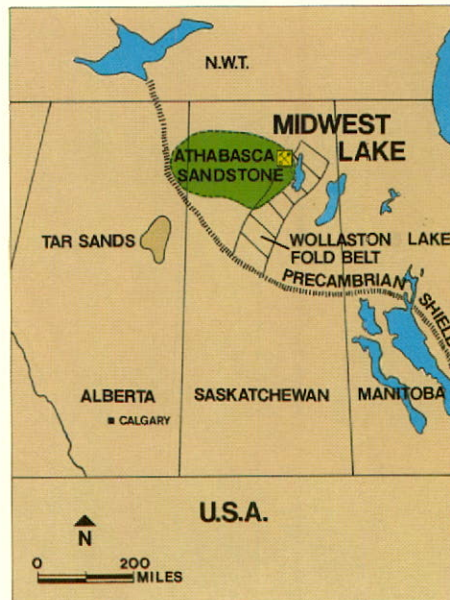
The discovery, largely under a shallow lake, is approximately 185 miles southeast of Uranium City and 15 miles west of the uranium mine at Rabbit Lake. Bow Valley holds an initial 20 percent interest in the project which reduces to 12.5 percent after recovery of its initial investment.

At January 10, 1979, the operator had completed the drilling of 172 core holes of which 111 encountered radioactive mineralization. Four core drilling rigs are operating on the property, three doing exploration and delineation work on the mineralized zone while the fourth is engaged in engineering studies as part of the comprehensive environmental assessment now underway. Bow Valley invested \$316,000 on the uranium program during the seven months ended December 31, 1978, and anticipates investing \$1,400,000 in 1979. On January 10, 1979, the operator disclosed that an independent firm of consulting geological engineers had completed their study of the uranium reserves at Midwest Lake and reported estimates of 1,424,000 tons averaging 3.4

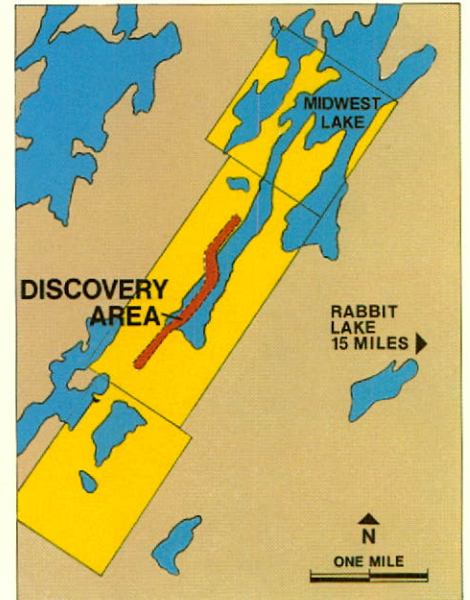
percent (68 pounds per ton) or 97,000,000 pounds of gross measured reserves, based on the first 90 exploratory drill holes of 1978.

Preliminary work has begun on designing the mining plan and milling process together with the required studies to ensure that these plans are consistent with current environmental

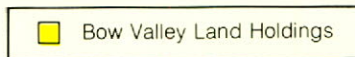
regulations. The cost of the mine and the mill is estimated by Bow Valley to be in excess of \$200,000,000 and the mine and the mill are expected to be producing uranium oxide by 1984. Bow Valley's share of development will be in excess of \$40,000,000 which will be financed by a project loan raised by pledging the uranium ore.



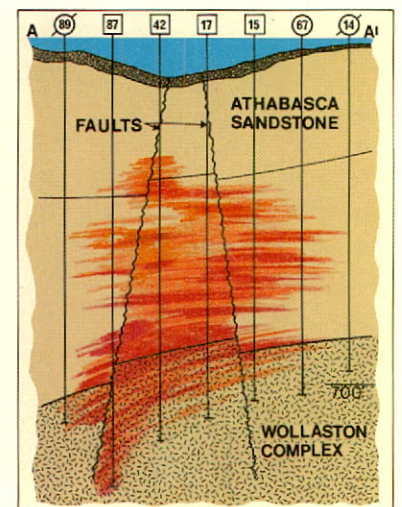
JANUARY 31, 1979



JANUARY 31, 1979



JANUARY 31, 1979



JANUARY 31, 1979

SCHEMATIC

Bow Valley, through Bow Valley Resource Services Ltd., provides services and manufacturing facilities to the natural resource industry. These operations are conducted by 1,800 employees through five groups: Oilwell Drilling, Oilfield Services, Diamond Drilling, Industrial Products, and Environmental Products.

OILWELL DRILLING

Bow Valley operates 36 oilwell drilling rigs in western Canada and six rigs in the United States and has a 50 percent interest in a four-rig joint venture operation in Canada. Rigs owned by Bow Valley in western Canada represent about nine percent of all onshore drilling rigs in Canada and, during the seven months ended December 31, 1978, drilled 605 wells for 2,008,495 feet, which is estimated to be 12 percent of the total onshore footage drilled by the industry during the period.

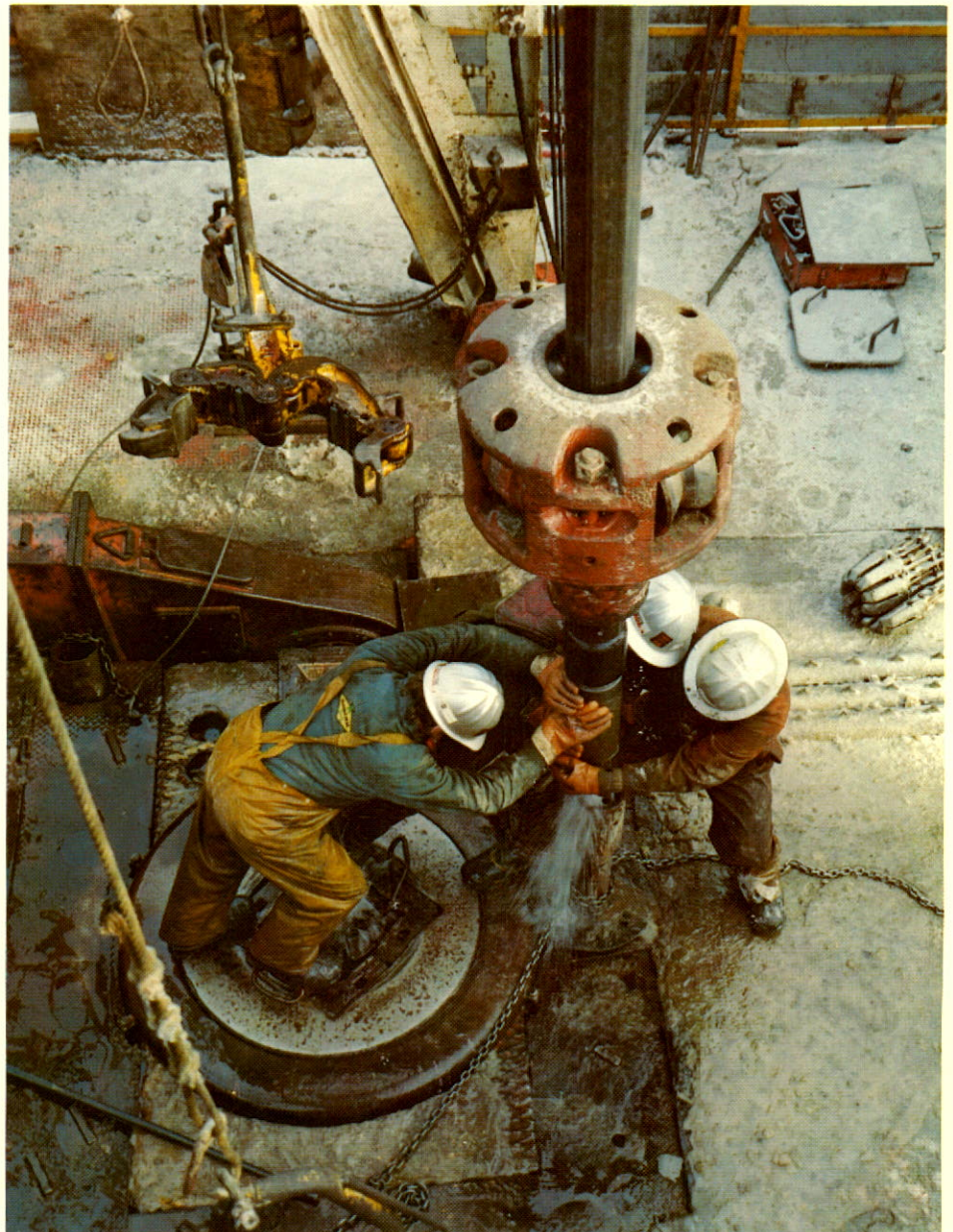
Rig utilization for the seven months' operations was 68 percent, which approximates the maximum activity possible. This high utilization contributed to record operating income.

This favourable situation has been occasioned by a number of factors. Oil companies have been more successful in recent years in their exploration programs and the economics have improved because the selling price of oil and gas has increased. Furthermore, Provincial Governments have provided incentives to the petroleum industry to encourage exploration by way of cash rebates and royalty reductions. Leases are also now on shorter terms which necessitates accelerated exploration programs.

Bow Valley's 20 percent interest in the ODIN DRILL was sold during October 1978. The operation of the semi-submersible drilling rig in the

North Sea was recording inadequate profits due to reduced drilling rates and low rig utilization. A minimal loss was incurred on the disposal.

Bow Valley rig crew in Alberta.





Bow Valley helicopter operating in a support role in the Beaufort Sea exploration program.

OILFIELD SERVICES

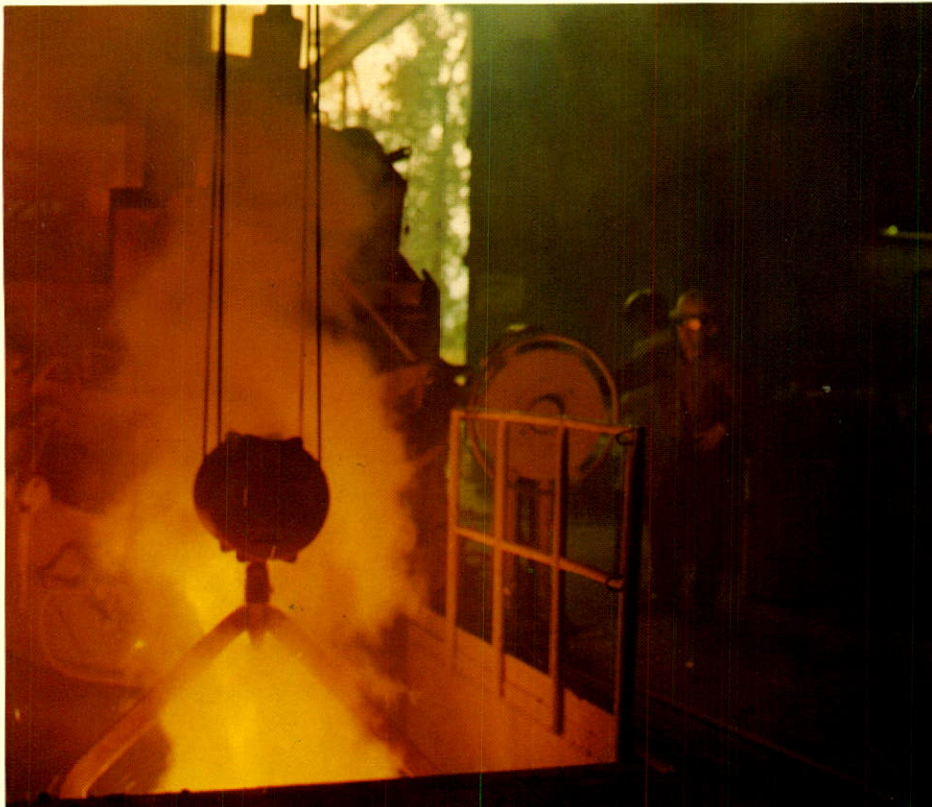
Bow Valley's Oilfield Services Group provides a service and supply function to the oil and gas industry, specifically in the areas of oilfield supplies and helicopter transportation.

Bow Valley's sales of oilfield equipment and supplies consist of most of the items required in the drilling, servicing, and production phases of the oil and gas industry. There are five warehouse and store locations in Alberta and British Columbia. These operations continue to benefit from the high level of oilfield activity in western Canada.

Bow Valley's helicopter division operates 20 jet-powered helicopters from five bases throughout western and northern Canada. Activities are mainly related to the petroleum industry, forestry, power line construction, and helicopter skiing with minor contributions from the mining industry and miscellaneous Government agencies.

Although the helicopter division had a high level of activity, operating income was disappointingly low. Gross margins have been adversely affected by increased costs, including foreign exchange losses on replacement parts from the United States.

The oilfield construction division has discontinued operations and all assets have been sold.



Bow Valley foundry operation in Vancouver, B.C.

DIAMOND DRILLING

The Diamond Drilling Group operates 100 surface and underground diamond drills in Canada and the United States. The Group also has a manufacturing plant which produces diamond bits, drills, and related equipment. Diamond drilling is used primarily in the exploration for and development of minerals, such as copper, lead, zinc, uranium, and coal. In recent years, depressed mineral prices had an adverse effect on those industries related to mineral exploration. There has recently been an improvement in this situation, however, particularly in the area of exploration activity for uranium and coal. Price increases in copper and other minerals should also act as an incentive to the industry.

The manufacturing facility in Phoenix was sold during 1978 because of the inability to maintain a profitable operation in that area.

INDUSTRIAL PRODUCTS

Bow Valley's Industrial Products Group designs and manufactures machinery for the forest products, mining, and petroleum industries. The Vancouver facilities, consisting of 130,000 square feet of manufacturing space, include a foundry, a steel fabricating shop, and a machine shop. Facilities in Portland, Oregon, include a fabrication shop and a machine shop.

The foundry has a capacity of 600 tons per month and produces cast iron and specialty steel castings for mining and forest products companies. The fabrication shops produce welded steel sheds and similar buildings for the mining and petroleum industries. The fabrication shops also produce conveyor systems for the bulk handling industry and welded steel plate which is made in the machine shops into sawmill equipment, including chippers, edgers, and slabbers.

The Industrial Products Group also has a merchandising and marketing division which, through six warehouses across Canada, supplies a wide range of mechanical power transmission products such as motors, chains, and gears to various industries.

The favourable earnings trend that had been established after two years of large losses continued in 1978. The operation is now profitable, due to management implementing more efficient control systems and a general improvement in the economy of the Province of British Columbia.

ENVIRONMENTAL PRODUCTS

Bow Valley is engaged in the manufacture and sale of domestic and commercial heating and air conditioning equipment, and also provides engineering services and instrumentation relating to pollution control.

The air conditioning products division has three manufacturing plants in Edmonton and one in Toronto. These plants have the capacity to produce about 18,000 units per year, which represents about ten percent of the Canadian market. Sales offices and warehouses are located in Edmonton, Calgary, Vancouver, and Toronto with distribution in other market areas through manufacturers' agents and wholesalers. The principal market area is western Canada. Customers include heating and refrigeration contractors, consulting engineers, architects, and wholesalers.

The commercial market experienced reduced activity in 1978, due to a number of factors, and an operating loss was reported for the year.

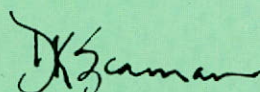
The activities of the pollution control division include environmental impact consulting, air quality monitoring, laboratory services, contract research, and the manufacture of monitoring and process instrumentation. Customers consist of all levels of Government, oil and gas companies, real estate developers, and a broad range of industrial customers. Offices, laboratory, and manufacturing facilities are located in Calgary with a sales and service office in Edmonton. The results of the pollution control division were comparable to prior years' operations.

Consolidated Balance Sheet

(Canadian Dollars)

	December 31 1978	May 31 1978
Assets		
Current assets		
Accounts receivable	\$ 47,722,000	\$ 41,799,000
Inventories (Note 3)	19,824,000	19,710,000
Prepaid expenses	2,572,000	2,208,000
	70,118,000	63,717,000
Capital assets, at cost less accumulated depreciation and depletion (Note 4)	324,426,000	290,639,000
Other assets		
Real estate held for resale, at cost	4,227,000	4,715,000
Mortgages receivable less current portion	4,794,000	2,951,000
Sundry assets and deferred charges, at cost less amounts amortized	14,532,000	11,779,000
	23,553,000	19,445,000
	\$418,097,000	\$373,801,000

Approved by the Board



Director



Director

	December 31 1978	May 31 1978
Liabilities		
Current liabilities		
Bank loans and bankers' acceptances, including cheques issued, at 11.5%, secured	\$ 11,229,000	\$ 7,683,000
Accounts payable and accrued	35,956,000	34,272,000
Long term debt due within one year	12,882,000	10,273,000
	<u>60,067,000</u>	<u>52,228,000</u>
Long term debt (Note 5)	244,027,000	218,752,000
Exploration and development advances (Note 6)	21,770,000	19,412,000
Other liabilities	2,689,000	1,208,000
Deferred income taxes	34,793,000	35,964,000
Shareholders' equity (Note 7)		
Share capital	28,931,000	28,383,000
Retained earnings	25,820,000	17,854,000
	<u>54,751,000</u>	<u>46,237,000</u>
	<u>\$418,097,000</u>	<u>\$373,801,000</u>

Consolidated Statement of Income

(Canadian Dollars)

	Seven Months Ended December 31 1978	Twelve Months Ended December 31 1978	Twelve Months Ended May 31 1978
		(unaudited)	
Revenue			
Service and manufacturing	\$ 88,553,000	\$143,531,000	\$128,795,000
Oil, gas and coal, less royalties	51,793,000	83,249,000	42,097,000
Other	3,429,000	5,767,000	3,833,000
	<u>143,775,000</u>	<u>232,547,000</u>	<u>174,725,000</u>
Expenses			
Direct costs	85,088,000	139,134,000	113,355,000
Depreciation and depletion	15,341,000	25,570,000	15,674,000
General and administrative	14,743,000	23,886,000	17,945,000
Interest on long term debt	14,349,000	20,746,000	9,029,000
Other interest	1,016,000	1,498,000	1,393,000
	<u>130,537,000</u>	<u>210,834,000</u>	<u>157,396,000</u>
Income before income taxes	13,238,000	21,713,000	17,329,000
Income taxes (Note 8)			
Current	3,615,000	4,541,000	1,437,000
Deferred	754,000	2,830,000	5,003,000
	<u>4,369,000</u>	<u>7,371,000</u>	<u>6,440,000</u>
Net income	<u>\$ 8,869,000</u>	<u>\$ 14,342,000</u>	<u>\$ 10,889,000</u>
Net income per common share			
Basic	<u>\$ 0.86</u>	<u>\$1.41</u>	<u>\$1.06</u>
Fully diluted	<u>\$ 0.83</u>	<u>\$1.36</u>	<u>\$1.03</u>

Consolidated Statement of Retained Earnings

(Canadian Dollars)

	Seven Months Ended December 31 1978	Twelve Months Ended December 31 1978 (unaudited)	Twelve Months Ended May 31 1978
Balance at beginning of period (Note 7)	\$17,854,000	\$12,888,000	\$ 8,132,000
Add			
Net income for the period	8,869,000	14,342,000	10,889,000
Contributed surplus arising on redemption of series A preferred shares	<u>15,000</u>	<u>15,000</u>	<u>13,000</u>
	<u>26,738,000</u>	<u>27,245,000</u>	<u>19,034,000</u>
Deduct			
Dividends paid			
5 ¹ / ₂ % preferred shares series A	54,000	71,000	74,000
5% second preference shares	375,000	500,000	500,000
Common shares (\$0.05 per share — seven months ended December 31, 1978; \$0.0875 per share — twelve months ended December 31, 1978; \$0.0625 per share — twelve months ended May 31, 1978)	<u>489,000</u>	<u>854,000</u>	<u>606,000</u>
	<u>918,000</u>	<u>1,425,000</u>	<u>1,180,000</u>
Balance at end of period (Note 7)	<u><u>\$25,820,000</u></u>	<u><u>\$25,820,000</u></u>	<u><u>\$17,854,000</u></u>

Consolidated Statement of Changes in Financial Position

(Canadian Dollars)

	Seven Months Ended December 31 1978	Twelve Months Ended December 31 1978 (unaudited)	Twelve Months Ended May 31 1978
Source of working capital			
From operations			
Net income	\$ 8,869,000	\$ 14,342,000	\$ 10,889,000
Add non-cash items	<u>17,038,000</u>	<u>28,241,000</u>	<u>18,809,000</u>
	25,907,000	42,583,000	29,698,000
Long term debt issued	28,467,000	185,071,000	160,853,000
Exploration and development advances	2,358,000	5,658,000	7,524,000
Share capital issued	606,000	1,139,000	573,000
Other	<u>5,183,000</u>	<u>5,549,000</u>	<u>705,000</u>
	<u>62,521,000</u>	<u>240,000,000</u>	<u>199,353,000</u>
Application of working capital			
Additions to capital assets			
Oil, gas and mining properties and equipment	41,122,000	61,416,000	34,728,000
Drilling, helicopters and other equipment	<u>13,496,000</u>	<u>24,268,000</u>	<u>16,302,000</u>
	54,618,000	85,684,000	51,030,000
Less proceeds of disposals	<u>5,541,000</u>	<u>7,513,000</u>	<u>3,336,000</u>
	49,077,000	78,171,000	47,694,000
Acquisition of Flying Diamond Oil Corporation, less working capital acquired (Note 2)	—	135,005,000	135,005,000
Repayment of long term debt and change in amount due within one year	11,133,000	19,805,000	11,841,000
Dividends paid	918,000	1,425,000	1,180,000
Other	<u>2,831,000</u>	<u>5,727,000</u>	<u>3,367,000</u>
	<u>63,959,000</u>	<u>240,133,000</u>	<u>199,087,000</u>
Increase (decrease) in working capital	(1,438,000)	(133,000)	266,000
Working capital at beginning of period	<u>11,489,000</u>	<u>10,184,000</u>	<u>11,223,000</u>
Working capital at end of period	<u>\$10,051,000</u>	<u>\$ 10,051,000</u>	<u>\$ 11,489,000</u>

Notes to Consolidated Financial Statements

December 31, 1978

(Canadian Dollars)

1. Summary of Accounting Policies

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The significant policies are presented below.

Principles of Consolidation

The consolidated financial statements include Bow Valley Industries Ltd. and its subsidiaries ("Bow Valley") as well as Bow Valley's interest in partnerships, some of which are limited partnerships in which Bow Valley is the general partner.

Foreign Currency Translation

For purposes of translating foreign currency transactions and accounts of foreign subsidiaries to Canadian dollars, Bow Valley follows the method recommended by the Canadian Institute of Chartered Accountants. Under this method:

- Monetary assets and liabilities (cash, mortgages and accounts receivable, current liabilities and long term debt) are translated at year-end rates.
- Non-monetary assets and liabilities (inventories, prepaid assets, capital assets, real estate held for resale, sundry assets, deferred income taxes and exploration and development advances) are translated at rates in effect on the dates of the transactions (historical rates).
- Most revenues and expenses are translated at average rates in effect during the year. Certain expenses such as depreciation, depletion and some direct costs which relate to non-monetary assets, are translated at historical rates.
- The resulting gains and losses are reflected immediately in the statement of income except for unrealized translation gains and losses relating to long term debt and mortgages receivable. At December 31, 1978 unrealized exchange losses of \$7,380,000 (May 31, 1978 — \$1,066,000) were deferred for subsequent amortization and included with sundry assets and deferred charges.

Substantially all of the deferred unrealized exchange losses relate to long term debt repayable in U.S. funds by subsidiaries operating within the United States or whose major future revenues will be in U.S. currency.

Due to the significant fluctuations which occur in foreign exchange rates, the above deferred unrealized exchange losses should not be considered as indicative of the loss, if any, which will ultimately be realized when the long term debt is repaid.

If Bow Valley had complied with the pronouncement (FAS 8) of the Financial Accounting Standards Board in the United States, all unrealized translation gains and losses would have been reflected immediately in the statement of income with no deferral of those relating to long term debt and mortgages receivable. Accordingly, Bow Valley's net income for the period and retained earnings at the end of the period would have been:

	Seven Months Ended December 31 1978	Twelve Months Ended December 31 1978	Twelve Months Ended May 31 1978
Net income, as reported	\$ 8,869,000	(unaudited) \$14,342,000	\$10,889,000
Less additional unrealized translation losses	6,314,000	7,380,000	1,066,000
Net income, under FAS 8	<u>\$ 2,555,000</u>	<u>\$ 6,962,000</u>	<u>\$ 9,823,000</u>
Net income per common share (basic), under FAS 8	<u>\$0.22</u>	<u>\$0.66</u>	<u>\$0.96</u>
Retained earnings at end of period, as reported	\$25,820,000	\$25,820,000	\$17,854,000
Less accumulated additional unrealized translation losses	7,380,000	7,380,000	1,066,000
Retained earnings at end of period, under FAS 8	<u>\$18,440,000</u>	<u>\$18,440,000</u>	<u>\$16,788,000</u>

Both the Canadian Institute of Chartered Accountants and the Financial Accounting Standards Board have announced their intention to review their foreign exchange translation recommendations.

Capital Assets, Depreciation and Depletion

(a) Oil and Gas Properties and Equipment

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

- (i) Canada — Excluding areas North of 60°N and offshore.
- (ii) Frontier Canada — North of 60°N and offshore.
- (iii) United States — Including offshore.
- (iv) Europe — United Kingdom and Continental Europe including its Continental Shelf which encompasses all sectors of the North Sea, Celtic Sea and English Channel.
- (v) North Africa and the Middle East — Encompassing Abu Dhabi, Iraq, Iran, Saudi Arabia, Egypt and adjacent areas.
- (vi) Other Areas — A separate cost centre is established for each additional foreign area in which Bow Valley is engaged in exploration activities.

Costs accumulated in producing cost centres (at present only Canada and United States) are depleted using the unit of production method based upon estimated proved reserves of oil and gas. In calculating depletion, natural gas, natural gas liquids and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Expenditures in non-producing cost centres are amortized by the straight-line method over ten years or until sufficient reserves are established to warrant economically commercial production, at which time amortization ceases. When production commences, costs are depleted by the unit of production method. If exploration is discontinued in a cost centre the unamortized costs in that area are charged immediately against income (included in depletion).

Gains and losses on the sale or disposition of oil and gas properties held for development purposes, are not ordinarily reflected in net income except in cases of major disposals of reserves.

Depreciation of oil and gas well equipment is calculated by the straight-line method mainly at the rate of 10% for the Canadian operations and by the unit of production basis for the United States operations.

(b) Mining Properties and Equipment

All costs of exploring for and developing mineral and coal reserves which relate to specific properties are initially capitalized. Such costs include land acquisition costs, geological expenses, carrying charges of non-producing properties, costs of drilling both mineralized and barren holes and overhead expenses relating to exploration activities.

Costs accumulated for productive properties are depleted using a unit of production method when production commences, based on proved recoverable reserves.

Costs relating to properties which are proven to be unproductive or uneconomic or on which Bow Valley's rights have lapsed are written off to depletion expense during the period when such event occurs.

Gains and losses on disposition of mining properties are reflected in net income during the period that the disposition occurs.

Mining and related equipment is depreciated by the straight-line method over the estimated useful life of the equipment.

(c) Other Capital Assets

Depreciation is calculated for the Canadian oilwell drilling and related equipment by the diminishing balance method mainly at the rate of 20%; U.S. oilwell drilling and related equipment by the straight-line method over the estimated useful life of the assets; helicopters and related equipment by the straight-line method mainly at the rate of 10% of cost less an estimated residual value equal to 40% of cost; other capital assets by the diminishing balance method at various rates.

Capitalization of Interest

Interest on debt specifically obtained for the construction or development of major capital assets is capitalized until the assets commence operations. During the seven months ended December 31, 1978, interest of \$1,898,000 was capitalized (twelve months ended December 31, 1978 — \$2,772,000; Twelve months ended May 31, 1978 — \$1,640,000).

2. Acquisition of Flying Diamond Oil Corporation

During the period January 6, 1978 to May 31, 1978, Bow Valley acquired 100% ownership of Flying Diamond Oil Corporation ("Flying Diamond"), a Utah corporation. Flying Diamond was primarily involved in oil, gas and coal exploration and development in the United States and to a lesser extent in contract oilwell drilling, pipeline services and real estate development in the United States.

At May 31, 1978, the acquisition was accounted for using the purchase method, with Bow Valley's share of Flying Diamond's operating results during the acquisition period being reflected in these consolidated financial statements.

The assets acquired and cost to Bow Valley are summarized as follows:

Working capital		\$ 10,149,000
Capital assets		
Oil and gas properties and equipment	\$ 95,232,000	
Coal properties and equipment	57,286,000	
Drilling, pipeline and other equipment	10,038,000	
		<u>162,556,000</u>
Other assets and deferred charges		10,097,000
		<u>182,802,000</u>
Deduct liabilities assumed		
Long term debt	23,069,000	
Deferred income taxes	11,732,000	
Other	2,847,000	
		<u>37,648,000</u>
Purchase consideration, payable in cash, for net assets acquired		<u>\$145,154,000</u>

The excess of the purchase consideration over Flying Diamond's net book value has been allocated to capital assets. Note 12 contains a summary of litigation outstanding against Flying Diamond at the date of acquisition. Settlements, if any, will be reflected as additional excess purchase consideration requiring a retroactive adjustment to depreciation and depletion expense.

Flying Diamond is now operating as Bow Valley Exploration (U.S.) Inc.

3. Inventories

Inventories, which are valued at the lower of cost or net realizable value, consist of the following:

	December 31 1978	May 31 1978
Finished and resale goods	\$ 8,253,000	\$ 8,320,000
Work in progress	1,678,000	1,246,000
Raw materials	2,883,000	2,654,000
Materials and supplies	7,010,000	7,490,000
	<u>\$19,824,000</u>	<u>\$19,710,000</u>

4. Capital Assets

	December 31, 1978		May 31, 1978	
	Cost	Net Book Value	Cost	Net Book Value
Oil and gas properties and equipment	\$240,568,000	\$208,519,000	\$214,852,000	\$190,264,000
Mining properties and equipment	71,209,000	65,830,000	58,122,000	56,007,000
Drilling and related equipment	51,604,000	30,738,000	43,008,000	25,001,000
Other capital assets	27,514,000	19,339,000	29,938,000	19,367,000
	<u>\$390,895,000</u>	<u>\$324,426,000</u>	<u>\$345,920,000</u>	<u>\$290,639,000</u>

Depreciation and depletion are summarized as follows:

	Seven Months Ended December 31 1978	Twelve Months Ended December 31 1978	Twelve Months Ended May 31 1978
Depreciation expense	\$ 7,682,000	\$12,984,000	\$ 9,152,000
Accumulated depreciation at end of period	<u>\$39,080,000</u>	<u>\$39,080,000</u>	<u>\$35,551,000</u>
Depletion expense	\$ 7,659,000	\$12,586,000	\$ 6,465,000
Accumulated depletion at end of period	<u>\$27,389,000</u>	<u>\$27,389,000</u>	<u>\$19,730,000</u>

5. Long Term Debt

	December 31 1978	May 31 1978
Bank loans to acquire Flying Diamond Oil Corporation, at the bank's prime rate plus $\frac{3}{4}\%$ and 1% increasing over the term of the loans to $1\frac{3}{4}\%$ and $1\frac{1}{4}\%$ respectively, secured by assignments on certain oil and gas properties and the shares of Bow Valley Exploration (U.S.) Inc. (including \$84,400,000 U.S.)	\$155,086,000	\$140,752,000
Bank production loans, at bank prime plus $\frac{3}{4}$ of 1%, secured by assignments on certain oil and gas properties (including \$2,500,000 U.S.)	35,732,000	38,151,000
Bank loan for development of Arzanah oilfield at London Inter-Bank Offered Rate (LIBOR) plus $1\frac{3}{4}\%$ (\$19,500,000 U.S.)	23,161,000	10,121,000
Bank loans, at bank prime plus $1\frac{1}{4}\%$ to 2%, secured by chattel mortgages on buildings and equipment (including \$1,200,000 U.S.)	21,013,000	15,579,000
$9\frac{1}{4}\%$ promissory note due December 1991 (\$15,000,000 U.S.)	17,790,000	16,827,000
Other (including \$2,100,000 U.S.)	4,127,000	7,595,000
Total long term debt (including \$124,700,000 U.S.)	256,909,000	229,025,000
Less amount due within one year	12,882,000	10,273,000
	<u>\$244,027,000</u>	<u>\$218,752,000</u>

The aggregate repayments on long term debt in each of the next five years are: 1979 — \$12,882,000; 1980 — \$27,044,000; 1981 — \$31,151,000; 1982 — \$32,753,000; and 1983 — \$26,175,000. Terms of certain bank loans provide for repayment over varying periods of time extending to 1987; however, the banks reserve the right to call loans approximating \$209 million on demand.

At December 31, 1978, Bow Valley had unused lines of credit for long term purposes approximating \$12.4 million Canadian and \$9.1 million U.S.

6. Exploration and Development Advances

Bow Valley receives advances bearing annual interest of $6\frac{3}{4}\%$ in connection with the exploration and development of the Brae field in the U.K. North Sea. The advances and interest are payable solely out of 70% of Bow Valley's share of net proceeds of production from the Brae field when and only if commercial production is obtained.

7. Shareholders' Equity

(a) Share Capital — Authorized and Issued

	December 31 1978	May 31 1978
5 $\frac{1}{2}\%$ cumulative redeemable preferred shares series A of a par value of \$20 each		
Authorized and issued — 100,000 shares		
Outstanding — 62,700 shares (May 31 — 65,600 shares)	\$ 1,254,000	\$ 1,312,000
5% cumulative redeemable convertible second preference shares of a par value of \$100 each		
Authorized, issued and outstanding — 100,000 shares	10,000,000	10,000,000
Common shares of no par value		
Authorized — 14,000,000 shares		
Issued and outstanding — 9,794,532 shares (May 31 — 9,736,672 shares)	17,677,000	17,071,000
	<u>\$28,931,000</u>	<u>\$28,383,000</u>

The shareholders approved at the September 29th, 1978 Annual General Meeting of Shareholders, the creation of 1,000,000 Class B Preferred Shares with a nominal or par value of \$60 per share. The Class B Preferred Shares may at any time and from time to time be

issued in one or more series, each series to consist of such number of shares with such designation, preferences, rights, restrictions, conditions and limitations as the Board of Directors of the Company may from time to time fix or as the Company may from time to time by Resolution determine. Management has no specific plan or proposal for issuing Class B Preferred Shares at this time.

Bow Valley is required to expend \$40,000 per year (or such lesser amount as would increase the fund to \$80,000) on a purchase fund for the redemption or retirement of its series A preferred shares, provided such shares are available in the open market for purchase at a price not exceeding their par value plus reasonable cost of acquisition. These shares are subject to redemption at any time at \$21 per share. On liquidation, dissolution or winding up they rank prior to the common and second preference shares and holders are entitled to receive \$21 per share plus accrued unpaid dividends.

The second preference shares are convertible at any time prior to April 2, 1979, into common shares at an initial conversion price of \$15 per common share (6 2/3 common shares for one preference share). These shares rank junior to the series A preferred shares and are subject to redemption at \$105 per share, plus accumulated unpaid dividends, except that during the period to April 1, 1979 redemptions are subject to deferral under certain conditions. On or before March 31 of each year, commencing in 1980, Bow Valley is required to set aside a sinking fund equal to 5% of the par value of the second preference shares outstanding on April 1, 1979 for the purpose of redeeming or purchasing the shares.

The common shares were split two for one on October 27, 1978. All information contained in these financial statements reflects the stock split.

During the seven months ended December 31, 1978, 57,860 common shares were issued for a cash consideration of \$606,000 (twelve months ended May 31, 1978 — 60,600 shares for \$573,000) upon exercise of employee stock options.

(b) Common Shares Unissued

Of the authorized but unissued common shares, 846,317 were reserved at December 31, 1978 for the following:

- (i) 179,650 for options granted, or available for granting, to officers and employees of Bow Valley under the terms of Bow Valley's Incentive Stock Option Plan. At December 31, 1978, 169,140 options were outstanding with option prices ranging from \$7.54 to \$14.67 per share for a potential consideration of \$1,747,000. Options are exercisable within five years from the date of grant.
- (ii) 666,667 for conversion of the second preference shares.

(c) Retained Earnings and Dividend Restrictions

Included in retained earnings are contributed surplus and a capital redemption reserve fund amounting to \$220,000 and \$746,000 (May 31, 1978 — \$205,000 and \$688,000), respectively. Both items result from redemption of the series A preferred shares.

Under the terms of the series A preferred shares, dividends on common shares can not be declared or paid unless, after giving effect to such dividends, the amount of the consolidated retained earnings will be at least 125% of the par value of all the series A preferred shares and all preferred shares ranking in priority thereto or equally therewith then issued and outstanding. At December 31, 1978 approximately \$24.3 million of the consolidated retained earnings were free of this restriction.

8. Income Taxes

For the seven months ended December 31, 1978, total income taxes amounted to \$4,369,000 (an effective rate of 33.0%) which is less than the amount of \$6,222,000 computed by applying the Canadian corporate tax rate for the period of 47% to income before income taxes.

For the twelve months ended May 31, 1978, total income taxes amounted to \$6,440,000 (an effective rate of 37.2%) which is less than the amount of \$8,145,000 computed by applying the Canadian corporate tax rate for the year of 47% to income before income taxes.

These differences, and the tax effect thereof, are explained as follows:

	Seven Months Ended December 31 1978	Twelve Months Ended May 31 1978
Computed income tax expense	\$6,222,000	\$8,145,000
Add (deduct)		
Crown charges disallowed for tax purposes	2,587,000	4,625,000
Resource profits rate reductions	(3,633,000)	(5,443,000)
Provincial resource industry rebates	(772,000)	(1,521,000)
Other	(35,000)	634,000
Tax expense reflected in the accounts	<u>\$4,369,000</u>	<u>\$6,440,000</u>

The deferred income tax expense of \$754,000 for the seven months ended December 31, 1978 (\$5,003,000 for the twelve months ended May 31, 1978) results from timing differences in the recognition of revenues and expenses for tax and financial statement purposes. The main components of these differences, and the tax effect thereof, are as follows:

	Seven Months Ended December 31 1978	Twelve Months Ended May 31 1978
Excess of capital cost allowance for tax purposes over depreciation	\$ 403,000	\$1,780,000
Excess of drilling and exploration expenditures for tax purposes over depletion	1,049,000	2,910,000
Partnership income for tax less than (in excess of) books	(995,000)	370,000
Other	297,000	(57,000)
	<u>\$ 754,000</u>	<u>\$5,003,000</u>

At December 31, 1978, subsidiary companies had tax losses of \$1,599,000 expiring at varying dates to 1985 available to carry forward against future taxable income. No provision has been made in the accounts for possible future tax benefits which may arise from these losses.

9. Information by Industry Segment and Geographic Area (thousands of dollars)

The following tables provide an analysis of Bow Valley's:

- Revenue and operating income (income before income taxes) for the seven and twelve months ended December 31, 1978 and the twelve months ended May 31, 1978, by industry segment and geographic area;
- Identifiable assets (total assets) at December 31, 1978 and May 31, 1978 by industry segment and geographic area;
- Depreciation and depletion expense and capital expenditures by industry segment for the seven and twelve months ended December 31, 1978 and the twelve months ended May 31, 1978.

a) Seven months ended December 31, 1978

Information by Industry Segment	Revenue	Operating Income (1)	Assets (4)	Depreciation and Depletion	Capital Expenditures
Oil and Gas	\$ 24,285	\$ 9,986	\$226,936	\$ 7,743	\$27,767
Coal	28,089	7,605	66,715	3,221	13,574
Oilwell Drilling	39,785	9,013	51,816	3,332	9,438
Oilfield Services	18,702	(130)	20,916	434	2,379
Diamond Drilling	8,834	536	7,471	220	232
Industrial Products	16,228	1,202	15,000	207	75
Environmental Products	6,012	247	6,762	136	174
Other	3,527	2,038	11,623	7	—
	<u>145,462</u>	<u>30,497</u>	<u>407,239</u>	<u>15,300</u>	<u>53,639</u>
General Corporate	1,951	(1,894)	10,858	41	979
Interest	—	(15,365)	—	—	—
Eliminations	(3,638) (2)	—	—	—	—
	<u>\$143,775</u>	<u>\$13,238</u>	<u>\$418,097</u>	<u>\$15,341</u>	<u>\$54,618</u>

Information by Geographic Area

Canada	\$ 89,285	\$17,984	\$141,292
United States	52,852	12,843	197,712
Other	—	(330)	68,235 (3)
	<u>142,137</u>	<u>30,497</u>	<u>407,239</u>
General Corporate	1,951	(1,894)	10,858
Interest	—	(15,365)	—
Eliminations	(313)	—	—
	<u>\$143,775</u>	<u>\$13,238</u>	<u>\$418,097</u>

(1) Represents income before income taxes.

(2) The principal intersegment sales were made by the Oilfield Services Group in Canada (\$2,800,000).

(3) The principal assets are oil and gas properties, primarily in the United Kingdom (\$27,600,000) and Abu Dhabi (\$24,200,000), stated at cost.

(4) Represents total assets.

b) Twelve months ended December 31, 1978 (unaudited)

Information by Industry Segment	Revenue	Operating Income (1)	Depreciation and Depletion	Capital Expenditures
Oil and Gas	\$ 40,443	\$ 16,598	\$ 12,736	\$ 47,799
Coal	43,551	11,754	5,335	14,063
Oilwell Drilling	61,979	12,243	5,324	12,912
Oilfield Services	33,453	(367)	1,095	8,856
Diamond Drilling	14,476	(255)	383	626
Industrial Products	27,915	1,953	380	120
Environmental Products	10,228	915	221	311
Other	4,072	2,249	14	—
	<u>236,117</u>	<u>45,090</u>	<u>25,488</u>	<u>84,687</u>
General Corporate	4,032	(1,133)	82	1,028
Interest	—	(22,244)	—	—
Eliminations	(7,602)(2)	—	—	(31)
	<u>\$232,547</u>	<u>\$ 21,713</u>	<u>\$ 25,570</u>	<u>\$ 85,684</u>

Information by Geographic Area

	Revenue	Operating Income (1)
Canada	\$147,945	\$ 28,190
United States	81,338	17,720
Other	—	(820)
	<u>229,283</u>	<u>45,090</u>
General Corporate	4,032	(1,133)
Interest	—	(22,244)
Eliminations	(768)	—
	<u>\$232,547</u>	<u>\$ 21,713</u>

(1) Represents income before income taxes.

(2) The principal intersegment sales were made by the Oilfield Services Group in Canada (\$6,300,000).

c) Twelve months ended May 31, 1978

Information by Industry Segment	Revenue	Operating Income (1)	Assets (4)	Depreciation and Depletion	Capital Expenditures
Oil and Gas	\$ 26,987	\$13,282	\$206,438	\$ 7,118	\$34,599
Coal	15,462	4,149	61,751	2,114	489
Oilwell Drilling	47,581	7,126	39,913	4,136	7,122
Oilfield Services	37,645	981	21,462	1,222	7,858
Diamond Drilling	14,576	(578)	7,854	350	567
Industrial Products	25,608	596	15,391	417	95
Environmental Products	10,260	1,310	6,296	229	263
Other	545	211	7,946	—	—
	<u>178,664</u>	<u>27,077</u>	<u>367,051</u>	<u>15,586</u>	<u>50,993</u>
General Corporate	3,321	674	6,750	88	68
Interest	—	(10,422)	—	—	—
Eliminations	(7,260) (2)	—	—	—	(31)
	<u>\$174,725</u>	<u>\$17,329</u>	<u>\$373,801</u>	<u>\$15,674</u>	<u>\$51,030</u>

Information by Geographic Area

Canada	\$139,693	\$22,775	\$125,801
United States	32,339	5,244	188,926
Other	—	(942)	52,324 (3)
	<u>172,032</u>	<u>27,077</u>	<u>367,051</u>
General Corporate	3,321	674	6,750
Interest	—	(10,422)	—
Eliminations	(628)	—	—
	<u>\$174,725</u>	<u>\$17,329</u>	<u>\$373,801</u>

(1) Represents income before income taxes.

(2) The principal intersegment sales were made by the Oilfield Services Group in Canada (\$6,500,000).

(3) The principal assets are oil and gas properties, primarily in the United Kingdom (\$25,100,000) and Abu Dhabi (\$15,300,000), stated at cost.

(4) Represents total assets.

10. Quarterly Financial Information (unaudited)
Twelve Months Ended

	December 31 1978	May 31 1978
Revenue		
First quarter	\$ 54,185,000	\$ 37,436,000
Second quarter	54,523,000	38,335,000
Third quarter	59,385,000	44,849,000
Fourth quarter	64,454,000	54,105,000
	<u>\$232,547,000</u>	<u>\$174,725,000</u>
Net Income		
First quarter	\$ 2,143,000	\$ 2,262,000
Second quarter	4,975,000	2,662,000
Third quarter	3,315,000	1,660,000
Fourth quarter	3,909,000	4,305,000
	<u>\$ 14,342,000</u>	<u>\$ 10,889,000</u>
Per Common Share		
First quarter	\$0.20	\$0.22
Second quarter	0.50	0.26
Third quarter	0.32	0.15
Fourth quarter	0.39	0.43
	<u>\$1.41</u>	<u>\$1.06</u>

11. Remuneration of Directors and Executive Officers

During the seven months ended December 31, 1978, there were eleven directors and eight officers, four of whom were also directors (twelve months ended May 31, 1978 — eleven directors and eight officers, five of whom were also directors). Directors' fees and officers' remuneration for the seven months ended December 31, 1978 amounted to \$16,000 and \$378,000 respectively (May 31, 1978 — \$26,000 and \$555,000 respectively). Officers who were also directors received no remuneration in their capacity as directors.

12. Outstanding Litigation

Bow Valley is a defendant in certain lawsuits involving a subsidiary, Bow Valley Exploration (U.S.) Inc. (successor to Flying Diamond Oil Corporation):

(a) Bow Valley Exploration (U.S.) Inc. is a defendant in a suit commenced in August 1977, alleging that in 1975, Flying Diamond overcharged the plaintiff approximately \$250,000 U.S. in relation to the then lawful prices for crude oil as fixed by the U.S. Federal Energy Administration; Flying Diamond failed to perform under an oil supply contract resulting in additional loss to the plaintiff of \$150,000 U.S.; and Flying Diamond used oppressive and unlawful methods in collecting the alleged unlawful overcharges, resulting in damages to the plaintiff in excess of \$17 million U.S., including \$15 million U.S. representing the discounted value of loss profits.

Discovery procedures have not yet been completed. However, in the opinion of management and legal counsel, the \$15 million U.S. item is of questionable merit and the probability that Bow Valley will sustain a material loss as a result of it is not likely.

(b) On December 23, 1977, an action for damages in excess of \$2,800,000 U.S. was filed in the United States District Court for the Southern District of New York against certain named defendants including Flying Diamond, alleging violations of the Securities and Exchange Acts in connection with the offer and sale to plaintiff of interests in nine limited partnerships formed by Flying Diamond. In addition, the complaint alleges that Flying Diamond, among other things, breached the limited partnership agreements and fiduciary duties and violated the General Business Law of the State of New York. Bow Valley has filed an answer denying the substantive allegations in the complaint and asserting affirmative defences; discovery procedures have not yet been completed.

(c) On August 11, 1978, a class action complaint was filed in the United States District Court, for the Southern District of New York, alleging violation of the Securities Exchange Act and other matters seeking judgment against the named defendants, including Flying Diamond and Bow Valley Industries Ltd., in favor of the class for damages sustained, punitive damages and plaintiff's costs in prosecuting the suit. The complaint alleges, among other things, inadequate disclosure relating to the value of the Flying Diamond shares. Bow Valley's legal counsel believes that settlement, if any, will not be material.

As explained in Note 2, settlements of these lawsuits, if any, will be capitalized as additional excess purchase consideration requiring a retroactive adjustment to depreciation and depletion expense.

Auditors' Report

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the seven months then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

Price Waterhouse Co.

Calgary, Alberta
February 16, 1979

Chartered Accountants

Management's Discussion and Analysis of the Consolidated Statement of Income for the Last Three Fiscal Periods

(see the financial summary and note nine to the Financial Statements, Information by Industry Segments)

Seven months ended December 31, 1978, compared to twelve months ended May 31, 1978

Effective December 31, 1978, Bow Valley changed its fiscal year end from May 31 to December 31. Consequently, the most recent fiscal period represents only seven months of operations. Substantially all items of revenue, expense, and income were comparatively high during this seven-month period because they include the operations of Flying Diamond Oil Corporation (now called Bow Valley Exploration (U.S.) Inc.) for the entire fiscal period whereas the results of the previous twelve-month fiscal period included these operations only for the five months from January 6, 1978.

Daily average oil and gas production increased by 19 percent during the seven months ended December 31, 1978, while average selling prices improved nine percent. Daily average coal sales increased by 21 percent during the seven months ended December 31, 1978, and the average selling price improved two percent.

Oilwell Drilling activity continued at a high level in western Canada, and there was also an approximate 30 percent increase in contract drilling rates. Bow Valley disposed of its 20 percent interest in a semi-submersible rig in the North Sea because of low drilling rates and minimum utilization. A small loss was incurred on the disposal.

The Oilfield Services supply division experienced a high level of activity due to increased oil and gas exploration and development programs in western Canada. The helicopter division recorded only minimum operating income on higher revenues. Gross margins have been adversely affected by increased costs including foreign exchange losses on replacement parts from the United States. An operating loss of \$1,100,000 was recorded in the oilfield construction division. The division's assets have since been sold at a profit and the operation has been discontinued.

Diamond Drilling results improved modestly due to increased uranium and coal exploration activity and improved bidding practices. The manufacturing facility in Phoenix was sold because of depressed mineral exploration activity in that area. No loss was recorded on the disposal.

In Industrial Products the manufacturing divisions servicing the forest products and mining industries continued to operate in a competitive environment, but improvement was evident in the forest products market and in the demand for fabricated mining-related equipment. The divisions are now operating at a profit after reporting losses for the last three years.

In Environmental Products, the operation of the air conditioning products division was adversely affected by a reduction in market demand due primarily to cooler than usual summer temperatures in the division's major market areas. The results of the pollution control division were comparable to prior years' operations.

Twelve months ended May 31, 1978, compared to twelve months ended May 31, 1977

Revenue, expense, and income in fiscal 1978 increased substantially because of the purchase of Flying Diamond which commenced January 6, 1978.

Oil and gas revenue and income increased because of higher gas sales and improved selling prices. Oil production increased 68 percent and oil selling prices 28 percent, while gas production increased 39 percent and gas sales prices increased 35 percent. Gross coal sales for the five months ended May 31, 1978, were 455,000 tons. Bow Valley had no coal operation in fiscal 1977.

Oilwell Drilling revenue was higher and income increased approximately 80 percent because of higher rig utilization and approximately 20 percent because of improved contract drilling rates in western Canada. Government incentives and successful exploration efforts were responsible for the high rate of oilfield activity. The Arctic joint venture rigs operated at a marginal profit, while the semi-submersible rig in the North Sea was on a continuous contract but at a low contract rate.

In Oilfield Services, the oilfield supply and the helicopter divisions had profitable operations due to the high level of oilfield activity and the related demand for support services. The construction division recorded a loss in excess of \$1,000,000. Several losses on large contracts were incurred and, due to the marginal nature of the business, it was decided to discontinue operations.

Diamond Drilling experienced a decrease in revenue and recorded a loss because of the depressed state of the mining industry in Canada. Contract rates were marginal and competition high.

In Industrial Products, revenues remained the same but there was a substantial improvement in operating results. The forest products and mining industries remained competitive but improved management controls resulted in a large reduction of the losses that had been experienced in previous years. Improved management controls included the institution by the division's newly-appointed manager of a review and screening process which enabled the division to select high profit contracts and reject those where profit margins were low. In addition, the division emphasized the sale of more profitable items, such as specialized sawmill equipment, and attempted to decrease sales in items yielding lower profits, such as gray iron and manhole covers.

In Environmental Products, both the air conditioning products division and the pollution control division experienced general improvement in sales and income. High profit margins resulted from the decision to concentrate sales more on commercial air conditioning systems, which have a higher profit margin than do residential air conditioning systems.

Twelve months ended May 31, 1977, compared to twelve months ended May 31, 1976

Oil and gas revenue more than doubled and income increased substantially in fiscal 1977 due to higher gas production and improved market prices. Oil production decreased one percent, but oil selling prices increased 17 percent; gas production increased 64 percent and gas selling prices increased nine percent. Fiscal 1977 included a \$1,100,000 non-recurring loss on a two-year joint venture service contract in the North Sea that was terminated early in fiscal 1977.

Oilwell Drilling revenue and income increased due to the high level of oilfield activity in western Canada. This activity was occasioned by increased oil and gas prices, availability of markets, and Government incentive programs.

Oilfield services had a substantial increase in revenue, but income decreased as the pipeline construction division experienced a large loss on a water-line contract and the supply depot at Resolute Bay in the Arctic Islands had insufficient activity to absorb fixed costs.

Diamond Drilling revenue increased modestly, but income decreased substantially because manufacturing facilities were doubled and the resultant cost increases produced no additional revenue. The diamond drilling industry remained very competitive and operated on low margins.

Industrial Products recorded a small increase in revenue, but a higher loss as the manufacturing divisions servicing the forest products and mining industries in British Columbia continued to operate under depressed market conditions with low margins.

Environmental Products had a significant increase in revenue and a higher increase in income due to a substantial improvement in the pollution control division resulting from a cost reduction program. Anti-Inflation Board guidelines prohibited price increases of heating and air conditioning equipment, and cost increases had to be absorbed by the division.

Financial Summary

(Thousands of Canadian dollars, except for per share amounts)

	Seven Months Ended December 31	Twelve Months Ended December 31 (unaudited)	Twelve Months Ended May 31				
	1978	1978	1977	1978	1977	1976	1975
Revenue	\$ 143,775	\$ 232,547	\$ 141,830	\$ 174,725	\$ 131,715	\$ 103,328	\$ 93,941
Expenses							
Direct costs	85,088	139,134	97,092	113,355	94,366	76,207	67,055
Depreciation, and depletion	15,341	25,570	9,351	15,674	7,987	6,270	5,700
General and administrative	14,743	23,886	15,355	17,945	14,719	12,978	11,125
Interest on long term debt	14,349	20,746	4,601	9,029	5,190	4,138	2,766
Other interest	1,016	1,498	1,252	1,393	1,375	1,351	1,054
	<u>130,537</u>	<u>210,834</u>	<u>127,651</u>	<u>157,396</u>	<u>123,637</u>	<u>100,944</u>	<u>87,700</u>
Income before income taxes	13,238	21,713	14,179	17,329	8,078	2,384	6,241
Income taxes							
Current	3,615	4,541	1,328	1,437	1,240	146	834
Deferred	754	2,830	4,285	5,003	2,060	1,263	2,827
	<u>4,369</u>	<u>7,371</u>	<u>5,613</u>	<u>6,440</u>	<u>3,300</u>	<u>1,409</u>	<u>3,661</u>
Income before extraordinary items	8,869	14,342	8,566	10,889	4,778	975	2,580
Extraordinary items	—	—	—	—	—	—	277
Net income	\$ 8,869	\$ 14,342	\$ 8,566	\$ 10,889	\$ 4,778	\$ 975	\$ 2,857
Deduct — Preferred share dividend requirements	429	571	576	574	578	581	586
Net income applicable to common shares	\$ 8,440	\$ 13,771	\$ 7,990	\$ 10,315	\$ 4,200	\$ 394	\$ 2,271
Weighted average shares outstanding	9,779,003	9,745,943	9,674,560	9,686,008	9,667,450	9,589,336	9,543,644
PER COMMON SHARE							
Income before extraordinary items	\$ 0.86	\$ 1.41	\$ 0.83	\$ 1.06	\$ 0.43	\$ 0.04	\$ 0.21
Extraordinary items	—	—	—	—	—	—	0.03
Net income	\$ 0.86	\$ 1.41	\$ 0.83	\$ 1.06	\$ 0.43	\$ 0.04	\$ 0.24
Dividends per share							
Common	\$ 0.05	\$ 0.0875	\$ 0.05	\$ 0.0625	\$ 0.05	\$ 0.05	\$ 0.05
Preferred, series A	0.64	1.10	1.10	1.10	1.10	1.10	1.10
Second preference	2.92	5.00	5.00	5.00	5.00	5.00	5.00

Shareholders Information

Stock Price

The following table indicates the quarterly high bid and low bid prices for the common stock of Bow Valley on The Toronto Stock Exchange for the last two years.

	1978		1977	
	High	Low	High	Low
First Quarter	\$ 13 1/2	\$ 10 1/16	\$ 12 1/4	\$ 8 5/8
Second Quarter	15 15/16	12 9/16	10 1/2	8
Third Quarter	24 1/2	14 3/4	11 7/16	8 13/16
Fourth Quarter	24 1/4	15 3/8	11 1/2	8 13/16

Common Shareholder Distribution — December 31, 1978

	Number of Shares	Percent
Canada	5,600,082	57.2
United States	3,962,072	40.5
Other	232,378	2.3
	<u>9,794,532</u>	<u>100.0</u>

Directors

FREDERIC J. AHERN, Vice-President,
Baldwin-United Corporation, New York
R. GUY GODBOUT, President, Les Industries
Valcartier Inc., Montreal
JAMES S. GRAHAM, Industrialist, Vancouver
J. RICHARD HARRIS, President, Bow Valley
Industries Ltd., Calgary
WILLIAM A. HOWARD, QC, Barrister and
Solicitor, Calgary
E. LEO KOLBER, President, Cemp Investments
Ltd., Montreal
BYRON J. SEAMAN, Vice-Chairman of the
Board, Bow Valley Industries Ltd., Calgary
DARYL K. SEAMAN, Chairman of the Board,
Bow Valley Industries Ltd., Calgary
DONALD R. SEAMAN, Senior Vice-President,
Bow Valley Industries Ltd., Calgary
D'ALTON L. SINCLAIR, Financial Consultant,
Toronto

Officers

Executive Officers

DARYL K. SEAMAN, Chairman of the Board
and Chief Executive Officer
BYRON J. SEAMAN, Vice-Chairman of the
Board
J. RICHARD HARRIS, President and Chief
Operating Officer
DONALD R. SEAMAN, Senior Vice-President
FREDERIC J. WELLHAUSER, Senior
Vice-President
ROBERT J. PHIBBS, Vice-President,
Administration
H. KEITH LAZELLE, Vice-President and
Secretary
TREVOR A. LEGGE, Vice-President
and Treasurer

Officers

E. J. ADAIR, Assistant Corporate Secretary
R. N. COLLETT, Assistant Vice-President,
Insurance
P. R. LAWTON, Assistant Vice-President
and Controller
J. A. MALDANER, Assistant Vice-President,
Internal Controls
C. T. McDOUGALL, Assistant Vice-President,
Communications
L. G. PARSONS, Assistant Vice-President,
Benefits
W. E. PATTERSON, Assistant Vice-President,
Taxation
L. G. STANFORD, Assistant Vice President,
Information Services

Key Personnel

Bow Valley Exploration

A. J. GOTTLIEB — General Manager —
Canada
H. P. McLISH — General Manager — United
States
C. A. RANDLE — General Manager —
Europe, Africa, Middle East
A. L. FLOOD — General Manager —
Southeast Asia
A. D. M. MASON — Manager, Geology
R. A. MCKENZIE — Manager, Finance
D. B. SMITH — Manager, Accounting
J. T. VERNON — Manager, Engineering

Bow Valley Resource Services Ltd.

W. C. HAY — Group Vice-President —
Oilwell Drilling
R. E. HINDSON — Group Vice-President —
Diamond Drilling
A. M. PARENT — Group Vice-President —
Industrial Products
D. G. THURSTON — Group Vice-President
— Environmental Products
J. WONDERLY — Group Vice-President —
Oilfield Services
P. E. SHERBURN — Vice-President,
Administration and Planning
P. W. J. BUTLER — Controller

Form 10-K

A copy of the Company's Annual Report on
Form 10-K for the fiscal period ended December
31, 1978, as filed with the Securities and
Exchange Commission may be obtained
without charge by writing to the Vice-President
and Secretary, Bow Valley Industries Ltd., P.O.
Box 6620, Postal Station D, Calgary, Alberta,
Canada, T2P 2V8.

Annual General Meeting

The Annual General Meeting of the
Shareholders of Bow Valley Industries Ltd. will
be held in Calgary in the Bonavista Room of
the Calgary Inn at 10:00 a.m., April 30, 1979.

Corporate

Head Office

1500, 630 Sixth Avenue SW, Calgary T2P 2V8
Telephone: 231-1211
Telex: 24692

Foreign Offices

BOW VALLEY EXPLORATION (U.S.) INC.
1700 Broadway, Denver, Colorado 80290
Telephone: 861-4366

BOW VALLEY EXPLORATION (U.K.) LIMITED
3/5 Burlington Gardens
London W1X 1LE
Telephone: 734-3666
Telex: 23688

BOW VALLEY EXPLORATION (SINGAPORE)
PTE. LTD.
1502 - 1503 Goldhill-Plaza
Newton Road
Singapore 11
Telephone: 252-2160
Telex: 8724414

Transfer Agents

Common Stock

GUARANTY TRUST COMPANY OF CANADA
Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York

Preferred Stock, Series A

THE ROYAL TRUST COMPANY
Calgary, Winnipeg, Toronto, and Montreal

Second Preference Shares

THE ROYAL TRUST COMPANY, Calgary

Registrars

Common Stock

GUARANTY TRUST COMPANY OF CANADA
Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York

Preferred Stock, Series A

GUARANTY TRUST COMPANY OF CANADA
Calgary, Winnipeg, Toronto, and Montreal

Second Preference Shares

THE ROYAL TRUST COMPANY, Calgary

Stock Exchange Listings — Common Shares

Toronto Stock Exchange
American Stock Exchange
London Stock Exchange (Section 163 (1)E)

Auditor

PRICE WATERHOUSE & CO.

Legal Counsel

HOWARD, DIXON, MACKIE, FORSYTH, Calgary
PAUL, WEISS, RIFKIND, WHARTON &
GARRISON, New York
TEACHER, STERN, HUNTER & SELBY, London

Banker

THE ROYAL BANK OF CANADA

