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Bow Valley Industries Ltd. 1974 Annual Report



Officers

DARYL K. SEAMAN, President
BYRON J. SEAMAN, Senior Vice-President
HENRY C. VAN RENSSLAER, Vice-President, Finance
J. RICHARD HARRIS, Vice-President, Exploration
DONALD R. SEAMAN, Vice-President
H. DONALD BINNEY, Vice-President
ROBERT J. PHIBBS, Vice-President
H. KEITH LAZELLE, C.A., Secretary-Treasurer

Directors

FREDERIC J. AHERN, Vice-President, The United Corporation, New York
H. DONALD BINNEY, Vice-President, Bow Valley Industries Ltd., Calgary
J. RICHARD HARRIS, Vice-President, Exploration, Bow Valley Industries Ltd., Calgary
WILLIAM A. HOWARD, Q.C., Barrister and Solicitor, Calgary
JAMES S. PALMER, Barrister and Solicitor, Calgary
DARYL K. SEAMAN, President, Bow Valley Industries Ltd., Calgary
BYRON J. SEAMAN, Senior Vice-President, Bow Valley Industries Ltd., Calgary
DONALD R. SEAMAN, Vice-President, Bow Valley Industries Ltd., Calgary
D'ALTON L. SINCLAIR, Financial Consultant, Toronto
HENRY C. VAN RENSSLAER, Vice-President, Finance, Bow Valley Industries Ltd., Calgary

Head Office

630 - 6th Avenue South West, Calgary, Alberta, Canada

Overseas Offices

BOW VALLEY EXPLORATION (U.K.) Ltd.
Lex House
3/5 Burlington Gardens
London W1X 1LE, England

BOW VALLEY INDUSTRIES LTD.
Five Pillars Park
JL General M.T. Haryono No. 58
P.O. Box 187 JKT
Jakarta, Indonesia

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

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

Auditors

PRICE WATERHOUSE & CO., Calgary

Legal Counsel

HOWARD, DIXON, MACKIE, FORSYTH, Calgary
BURNET, DUCKWORTH & PALMER, Calgary
PAUL, WEISS, RIFKIND, WHARTON & GARRISON, New York

Bankers

THE ROYAL BANK OF CANADA, Calgary

COVER PHOTO:

Bow Valley's Hi-Tower Delta #1 Rig drilling on an Imperial Oil artificial island in the shallow waters of the Mackenzie Delta.

Summary of Earnings

	<u>1974</u>	<u>1973</u> (restated)
Gross income	\$73,426,379	\$61,721,541
Depreciation and depletion	\$ 4,995,905	\$ 4,677,937
Income before income taxes and extraordinary item	\$ 3,478,541	\$ 1,879,479
Provision for income taxes —		
Current	\$ 449,507	\$ 224,789
Deferred (Note)	\$ 1,316,832	\$ 588,156
	\$ 1,766,339	\$ 812,945
Income before extraordinary item	\$ 1,712,202	\$ 1,066,534
Extraordinary item	\$ —	\$ 66,100
Net income	\$ 1,712,202	\$ 1,132,634
Shares outstanding at year end	4,770,626	4,766,396
Cash flow (after preferred and preference dividends)	\$ 7,620,048	\$ 6,208,540
Cash flow per common share*	\$ 1.60	\$ 1.30
Net income per common share*	\$.24	\$.11

Note: The 1973 comparative figures have been restated to reflect the retroactive adoption of tax allocation accounting as required by a recent ruling of the Canadian Provincial Securities Administrators.

* Based on the weighted average number of shares outstanding during the respective years (1974 — 4,768,873; 1973 — 4,759,683) and after dividend requirements on series A preferred shares and second preference shares.



Recent meeting of the Bow Valley Board of Directors shown left to right: H. K. Lazelle, Secretary to the Board, W. A. Howard, D. L. Sinclair, H. D. Binney, B. J. Seaman, D. K. Seaman, F. J. Ahern, D. R. Seaman, H. C. Van Rensselaer, J. R. Harris, Absent J. M. Palmer.

Annual General Meeting

The 1974 Annual General Meeting of the shareholders of Bow Valley Industries Ltd. will be held in the Penthouse of the Palliser Hotel at 10:00 a.m. September 24, 1974, Calgary, Alberta, Canada.

SEP 24 1974

McGILL UNIVERSITY

President's Message



Daryl K. Seaman,
President, Bow Valley Industries Ltd.

Bow Valley experienced another year of improved earnings in fiscal 1974 with gross income increasing to \$73,426,379 from \$61,721,541 and income before income taxes and extraordinary items amounting to \$3,478,541 versus \$1,879,479. Net income for the year amounted to \$1,712,202 after deferred taxes of \$1,316,832 compared to net income of \$1,132,634 after deferred taxes of \$588,156 in the preceding year. Net income per common share in the latest year increased to 24c versus 11c in the preceding year while cash flow per common share amounted to \$1.60 versus \$1.30 a year earlier. During the year, the Canadian Provincial Securities administrators advised that timing differences related to oil and gas lease acquisition, exploration, and drilling costs be accounted for on the tax allocation basis for fiscal periods ending March 31, 1974 and thereafter. Bow Valley's fiscal 1974 results reflect the new Canadian accounting change and prior years' results have been restated accordingly. The Canadian accounting change, which is not in conformance with accounting practices followed by the oil and gas industry in the United States, results in a substantial reduction in reported earnings and retained earnings in

respect to financial data which would otherwise have been reported. The cash flow figures are not affected by the accounting change which affects all publicly-traded Canadian oil and gas companies.

Fiscal 1974 was a year of interesting developments in respect to Bow Valley's oil and gas exploration program both in Canada and overseas. Pertinent details may be found in the Summary of Oil and Gas Activity contained in this report. The signing in December 1973 of a farmout agreement with Sunoco E & P Limited in respect to Bow Valley's Mackenzie Delta acreage and the declaration of commerciality of the Heimdal discovery in which Bow Valley has an interest in the Norwegian Sector of the North Sea were developments of particular significance to your Company.

Rapidly rising oil and gas prices in Canada during the year were accompanied by increased taxation of the oil and gas industry both by the Federal and Provincial governments and by a far greater involvement of governments in the affairs of the industry than anything experienced previously. Towards the end of the year, the industry found itself in the middle of a still unresolved power struggle between the Federal government and the Provincial governments as to taxation rights in respect to the oil and gas resources of the nation. The situation was undoubtedly complicated by the existence of a minority government at the Federal level which has now, of course, been resolved, by the last Federal election, in the return of a Liberal majority to Parliament. The uncertainties which have been created have resulted in some curtailment of exploration plans in Canada. The presence of a majority government in Ottawa may make possible a speedier resolution of the Federal-Provincial taxation conflict and the question of a Mackenzie Delta pipeline system than could have been anticipated under a minority Federal government. Bow Valley's management believes it is extremely important for the security of Canada's future oil and gas supplies that the present governmental conflicts be resolved as quickly as possible in a manner which provides sufficient incentive for the private sector to carry out the very large

exploration and development programs necessary in the next decade and which creates an investment climate in Canada capable of attracting the large amounts of risk capital required to finance these projects.

On August 23, 1974, SOQUIP (Societe Quebecoise d'Initiatives Petrolieres), a company wholly-owned by the Province of Quebec, and Bow Valley Industries Ltd. announced that agreement had been reached involving the sale by Bow Valley to SOQUIP of all of Bow Valley's shareholdings in Panarctic Oils Ltd. and Panarctic Oil Operators Ltd. amounting to 829,110 shares and 23 shares respectively, for a cash consideration of \$7,852,417.50 plus the assumption by SOQUIP of Bow Valley's remaining commitments pursuant to the Panarctic Fifth Expansion Agreement amounting to \$397,582.50. The sale is subject to a number of approvals including the approval of holders of 60 percent of the outstanding shares of Panarctic Oils Ltd. and the approval of the Lieutenant-Governor in council of Quebec.

The performance of Bow Valley's British Columbia-based subsidiaries, Mainland Foundry & Engineering Ltd., Elworthy & Company Ltd., and Connors Drilling Ltd., was particularly gratifying during the year under review. Bow Valley's Wesdrill Equipment division, located in British Columbia, also demonstrated excellent growth and appears to have the potential of becoming an even more significant contributor to the company's financial results.

Bow Valley's oil and gas well drilling and supply businesses produced satisfactory profits in fiscal 1974 in view of a decline in the number of wells drilled in Canada since January 1, 1974 compared to the previous period.

During the year, Bow Valley and Peninsular & Oriental Steam Navigation Company formed an equally owned U.K.-registered company, called Sea Oil-Bow Valley Ltd., incorporated to conduct offshore service operations, principally platform drilling. Sea Oil-Bow Valley Ltd. is currently submitting bids for specific service projects in the North Sea.

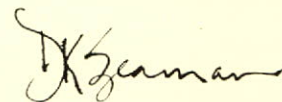
Helicopter operations continued unprofitable as did pipeline construction. Both of these activities await approval of major pipeline

projects in northern Canada to revitalize their prospects.

It is with deep regret that I report the death during the year of William S. Hulton, a Bow Valley Director since 1960 and a Director of Seaman Engineering & Drilling Ltd., a predecessor company to Bow Valley, since 1956. The wise counsel which Bill Hulton contributed to the Board and the close personal friendship which he had with the members of the Board of Directors and Bow Valley management will be sorely missed. The Minutes of a Meeting of the Bow Valley Board on December 5, 1973, made it a matter of record that it was Mr. Hulton's confidence in Bow Valley's management in the early days of the company's history which resulted in the first external financing being obtained for Bow Valley without which the subsequent growth of the company might not have been possible.

Mr. James S. Palmer, a Director of Syracuse Oils prior to the amalgamation with Bow Valley and a Director of Bow Valley subsequent to the amalgamation, has advised that the pressure of his business affairs will not permit him to stand for re-election to the Bow Valley Board at the September 24th Annual Meeting of Shareholders. Mr. Palmer's decision was received with regret by the Board who value highly the contribution he has made to the success of Bow Valley subsequent to the amalgamation. He will remain as Bow Valley's legal counsel in respect to Bow Valley Exploration, the company's oil and gas exploration and development division.

Again, it is my pleasure on my own behalf and on behalf of the Board of Directors, to thank the management and employees of the company, its subsidiaries, divisions, and joint ventures for a job well done in the past year. Their performance has made possible the financial results which we take pleasure in presenting to our shareholders at this time.



D. K. Seaman,
President.

August 27, 1974.

Summary of Oil and Gas Activity

CANADIAN EXPLORATION



Bow Valley Exploration's Management Committee: R. A. McKenzie, J. R. Harris, C. R. DeLuca.



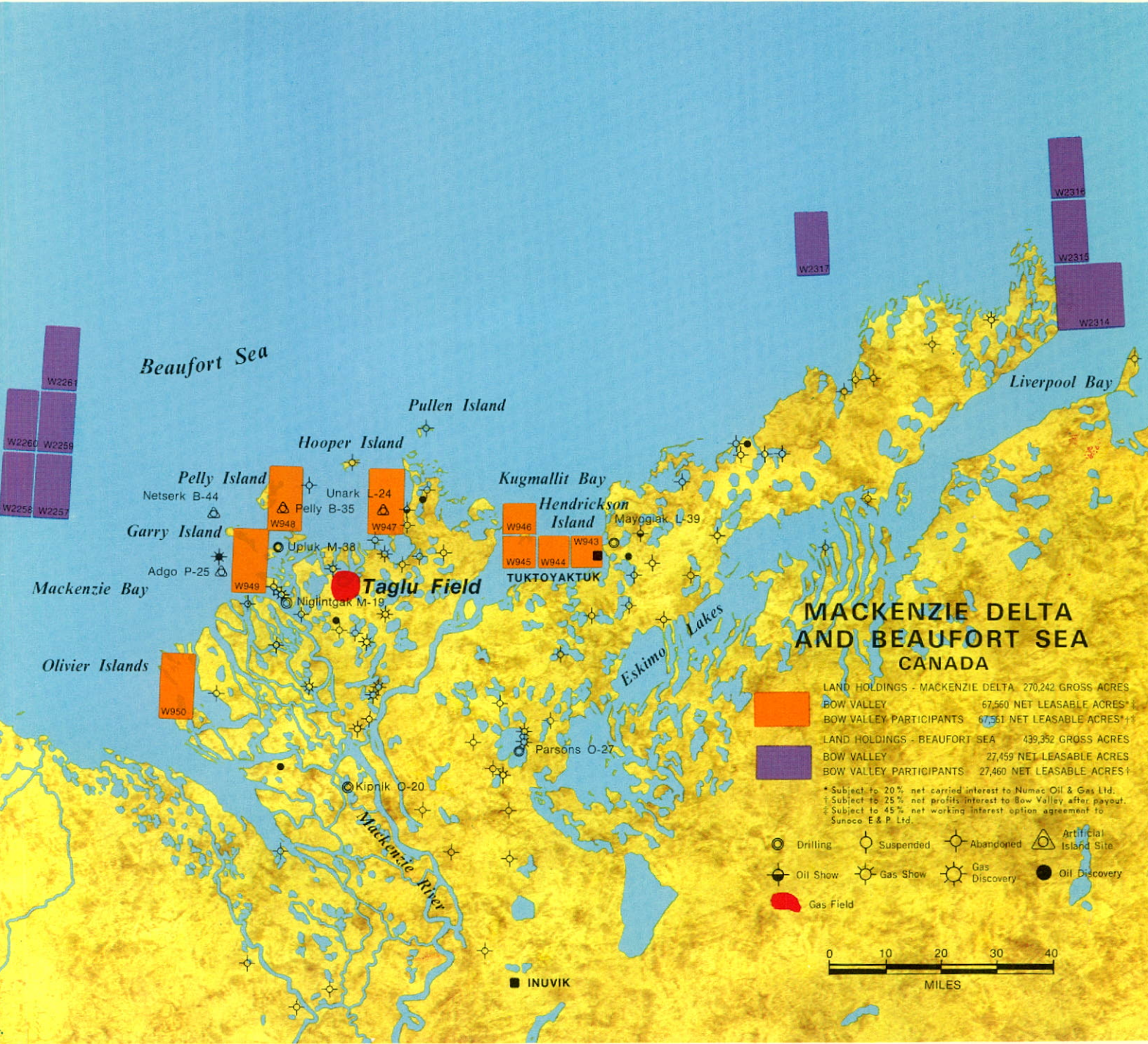
MACKENZIE DELTA

During the fall of 1973, Bow Valley and its partner in the Mackenzie Delta commenced final meetings with companies that previously had expressed interest in the exploration of Bow Valley's Delta properties. Following extensive negotiations, an arrangement was consummated with Sunoco E & P Limited and an announcement was made on December 21, 1973, that a farmout agreement and an operating agreement had been signed in respect to Permits W-943 to W-950, inclusive, containing approximately 270,000 acres. Bow Valley holds a 50 percent working interest and Arctic Coast Petroleums Ltd., a private company, holds the other 50 percent interest in these Delta permits. Both companies have signed both agreements which were approved by Numac Oil & Gas Ltd. which holds a 20 percent net carried interest in the properties.

Under the terms of the agreement, Sunoco paid \$3,500,000 which was divided between

Bow Valley and Arctic Coast. This payment entitled Sunoco to receive the seismic and other technical data that Bow Valley and Arctic Coast had collected on the Delta properties. Sunoco has also agreed to pay Bow Valley and Arctic Coast, in equal shares, the sum of \$1,000,000 per year for eight years beginning January 1, 1975, or until either Sunoco releases all of its interest in the Delta permits or the net production revenues to Bow Valley and Arctic Coast from any discoveries on the Delta permits exceed \$1,000,000 per year. In separate agreements, Bow Valley and Arctic Coast have agreed to pay Numac 20 percent of the \$1,000,000 annual payments.

During the 1973-74 winter season, Sunoco completed approximately 250 miles of detailed seismic on the Delta permits to define final locations. Prior to December 31, 1974, Sunoco must commence drilling two exploratory wells on two of the Delta permits, to be followed by the drilling within one year of at least one further exploratory well on one of the same two permits. Upon drilling these three commitment wells, Sunoco will be entitled to an undivided 45 percent working interest in one of the eight Delta permits. If Sunoco drills a fourth well on these Delta permits, or, in lieu of such well, drills an alternate fourth well on any other one-half grid of lands on any of the remaining permit blocks prior to December 31, 1975, it earns an undivided 45 percent working interest in a second Delta permit. If, by April 30, 1976, Sunoco has drilled four wells on the Delta permits, Sunoco may, by May 15, 1976, select one or more option blocks by committing to drill one exploratory well on each option block. There are a total of eight option blocks which means that, although Sunoco is only committed to drill three commitment wells, Sunoco would have to drill a minimum of 12 wells, at a rate of not less than two wells year, to earn an undivided 45 percent working interest in all of the Delta permits.



In the event production revenue is obtained from the Delta permits, Sunoco is entitled to recover all prior cash and exploration costs out of a portion of production attributable to Bow Valley's and Arctic Coast's working interests. The agreements also provide that Bow Valley and Arctic Coast may call upon Sunoco to provide non-recourse development financing for the entire project which would also be recovered out of a portion of Bow Valley's and Arctic Coast's production. All of the working interest earned by Sunoco is subject to its proportionate share of the 20 percent net carried interest to Numac. Arctic Coast's interest continues to bear a 25 percent net profits interest to Bow Valley. Should Sunoco elect to exercise all its options, Bow Valley's working interest in these properties would be reduced to 27.5 percent after deducting Numac's 20 percent net carried interest and accounting for Bow Valley's 25 percent net profits interest from Arctic Coast.

Locations for the drilling of the first two wells on Bow Valley's Delta properties have been selected by Sunoco, and island construction for one of the locations, Unark L-24, was completed during April. This well is scheduled to drill to 15,000 feet at a location near the centre of Permit W-947. The location lies about three miles west of the Imperial Oil Limited Ivik K-54, which was abandoned after testing oil from a reservoir considered "unlikely to be commercial".

The second well, Pelly B-35, is also scheduled to drill to 15,000 feet near the centre of Permit W-948. Shallow investigation drilling around the site was completed in April. The location is 13 miles northeast of Imperial's recent oil and gas discovery, Adgo F-28. Drilling operations are scheduled to commence at Unark about September 12, 1974 and at Pelly approximately one month later.

Additional discoveries were made in the Delta during the 1973-74 winter drilling season.

Imperial announced that the Adgo F-28, drilled from an artificial island two and one-third miles west of Bow Valley's Permit W-949, was a triple-zone oil and gas discovery. Shell Canada Limited announced that the Kumak J-06, 13 miles southeast of the nearest Bow Valley lands, flowed oil at rates of up to 800 barrels per day from 215 feet of net pay sands. Gulf Oil Canada Limited and Mobil Oil Canada Ltd. announced that the Yaya A-28, 15 miles south of Bow Valley's nearest lands, flowed gas at various rates up to 11 million cubic feet per day on nine drill stem tests conducted in Tertiary sands between 5,800 and 8,100 feet.



Artificial island location of Sun BVX et al Unark L-24 in the Mackenzie Delta.

Two wells in proximity to Bow Valley's acreage are now drilling in the Mackenzie Delta: the Mayogiak L-39, four miles northwest of the Mayogiak F-17 dual-zone oil discovery and two miles east of Bow Valley's Permit W-943, and the Chevron Upluk M-38, two miles east of Bow Valley's Permit W-949 and two miles south of Bow Valley's Permit W-948.

On March 21, Canadian Arctic Gas Pipelines Limited filed, with regulatory authorities in Canada and the United States, applications and exhibits relating to the environmental and socio-economic impacts, engineering, design, construction, operation, and route of a \$5.7 billion natural gas pipeline from Prudhoe Bay and the Mackenzie Delta to central North American markets. The consortium hopes to start initial deliveries from the Mackenzie Delta in 1978 and from Alaska in 1979, if required approvals from both governments are forthcoming.

ARCTIC ISLANDS

While no major discoveries were reported in the high Arctic during the 1973-74 drilling season, several significant developments occurred. Panarctic Oils Ltd., owned 2.22 percent by Bow Valley, announced that sweet light crude oil was tested at rates of 500 barrels per day from Paleozoic beds at the Bent Horn N-72 on Cameron Island. This marks the first significant oil flow in the Arctic Islands and the first encouraging hydrocarbon showing in the older Paleozoic strata fringing the Sverdrup basin where major gas discoveries have been made in younger Mesozoic rocks. Deep drilling and flank extension tests at the Panarctic Drake Point field on Melville Island established additional gas reserves. In the Hecla field, also on Melville Island, Panarctic pioneered "on-ice" drilling with a large rig operating on a thickened ice pad in 425 feet of water eight miles offshore. Although a sea bottom completion was not attempted and the well was abandoned, the feasibility of exploratory drilling on stable ice was demonstrated, and a major extension to the gas field was proven. As outlined in the President's Message, Bow Valley announced, on August 23, 1974, an agreement, subject to certain approvals, for the sale of its entire interest in Panarctic.

WESTERN CANADA

Bow Valley participated in the drilling of 72 wells in Canada during the 1974 fiscal year. Of this total, 69 wells were drilled in Alberta, which continued to be the area of prime activity.

In the Wandering River area of north-central Alberta, previously referred to as the Lyle Lake-Calling Lake area, Bow Valley participated in the drilling of 24 exploratory and development wells of which 18 were completed as gas wells, bringing to 58 the number of gas wells now completed and available for market. This total is exclusive of five gas wells included in a selective disposition of acreage made during the fall of 1973 and three previously drilled gas wells which were reclassified as non-commercial



Bow Valley drilling operations in Northwestern Alberta — January 1974.

wells during the same fiscal year. As anticipated, significant increases in natural gas prices occurred during the past year. Bow Valley believes that its current negotiations with major gas transmission companies will result in the execution of an attractive long-term gas purchase contract which will enable Bow Valley to tie the Wandering River reserves to market during the coming year. Through its previous holdings and the purchase of rights held by others, Bow Valley is now the major participant and operator of the prospect, holding an average 61 percent working interest in 541,760 acres on May 31, 1974.

In the Airdrie area of south-central Alberta, where Bow Valley participated in a Mississippian gas discovery during the previous year, several additional land parcels have been acquired. At May 31, 1974, Bow Valley held an average 53 percent interest in 5,920 acres in the area. Seismic surveys have been conducted over the newly-acquired blocks. Following an interpretation of the data, further drilling will be undertaken.

Bow Valley and another Canadian company are equal partners in a shallow-gas prospect consisting of 35,520 gross acres in the Medicine Hat area of southeastern Alberta. An active development program was undertaken early this summer involving the drilling of 136 wells and the installation of gathering systems and a compressor station. A long-term gas purchase contract has been signed which provides for an initial price of \$0.60 per thousand cubic feet with price redetermination thereafter on an annual basis. In the same area, Bow Valley holds a 100 percent interest in 5,760 additional acres which will be developed in conjunction with the Medicine Hat properties. Gas production from the latter area has been contracted to market on the same terms mentioned above. Initial deliveries from both areas should commence in late 1974.



NORWAY

The Norwegian Ministry of Industry and Handicrafts announced on November 23, 1973, in respect to Block 25/4, in which Bow Valley holds a 13 1/3 percent working interest, that the Petronord/Pan Ocean 25/4-2X, drilled in the Norwegian sector of the North Sea three miles northeast of the original 25/4-1X discovery, had encountered hydrocarbons in the same formation. Following an analysis of the results of these first two wells and newly processed seismic data, on April 9, 1974 the Norwegian Ministry made the following press release:

"Elf Norge A/S, operator of the Petronord/Pan Ocean group, has today informed the Ministry of Industry that all the licencees of Production Licence 036 consider the gas and condensate discovery on Block 25/4 Heimdal to be commercially exploitable."

Initial engineering and financial studies pertaining to the development of this field have been completed by the Petronord/Pan Ocean group. It is estimated that production from Heimdal could commence by early 1978. Further seismic will be conducted over the entire block later this year, and consideration is being given to the drilling of a Jurassic test on the block during late 1974. Under the terms of the licence, the Norwegian state oil company, Den Norske Stats Oljeselskap A/S (Statoil), has the option, until April 9, 1975, to acquire up to a 40 percent interest in the Heimdal field. If Statoil exercises its maximum option, Bow Valley's working interest in this field will be reduced from 13 1/3 to 8 percent.

A Bow Valley group met with the Ministry of Industry in November 1973 in relation to its application for new offshore licences. The group was later informed it would not be considered for the first round of awards expected in the near future but would be considered for a second round of awards.



UNITED KINGDOM

Detailed seismic surveys conducted over Blocks 16/2, 16/3, and 16/7 early in 1974 confirmed the existence of drillable anomalies on all three blocks. Bow Valley holds a 35 percent working interest in each block and, together with its partners, contracted the Odin Drill semisubmersible to drill two wells on these blocks during 1974. The first test, scheduled to be drilled to 13,500 feet to test the Jurassic, should commence drilling on Block 16/7 in early September 1974. The final location of the second well will await the results of the first well.

Interpretations based upon seismic surveys previously conducted over Block 206/14 offshore from the Shetland Islands and Block 103/22 in the Celtic Sea were received in late 1973. One well may be drilled on Block 103/22 during 1975. Bow Valley holds an 8.33 percent interest in both blocks.

In the central North Sea, offshore from the United Kingdom, Bow Valley has organized a bidding group for the fifth round of licencing covering an area of interest between 55 and 60°N. An interpretation, based upon 9,000 miles of reconnaissance marine seismic data, was received in March. The same group is participating in a 4,000-mile marine seismic survey in the southern North Sea in anticipation of the fifth round of licencing offshore from the United Kingdom.



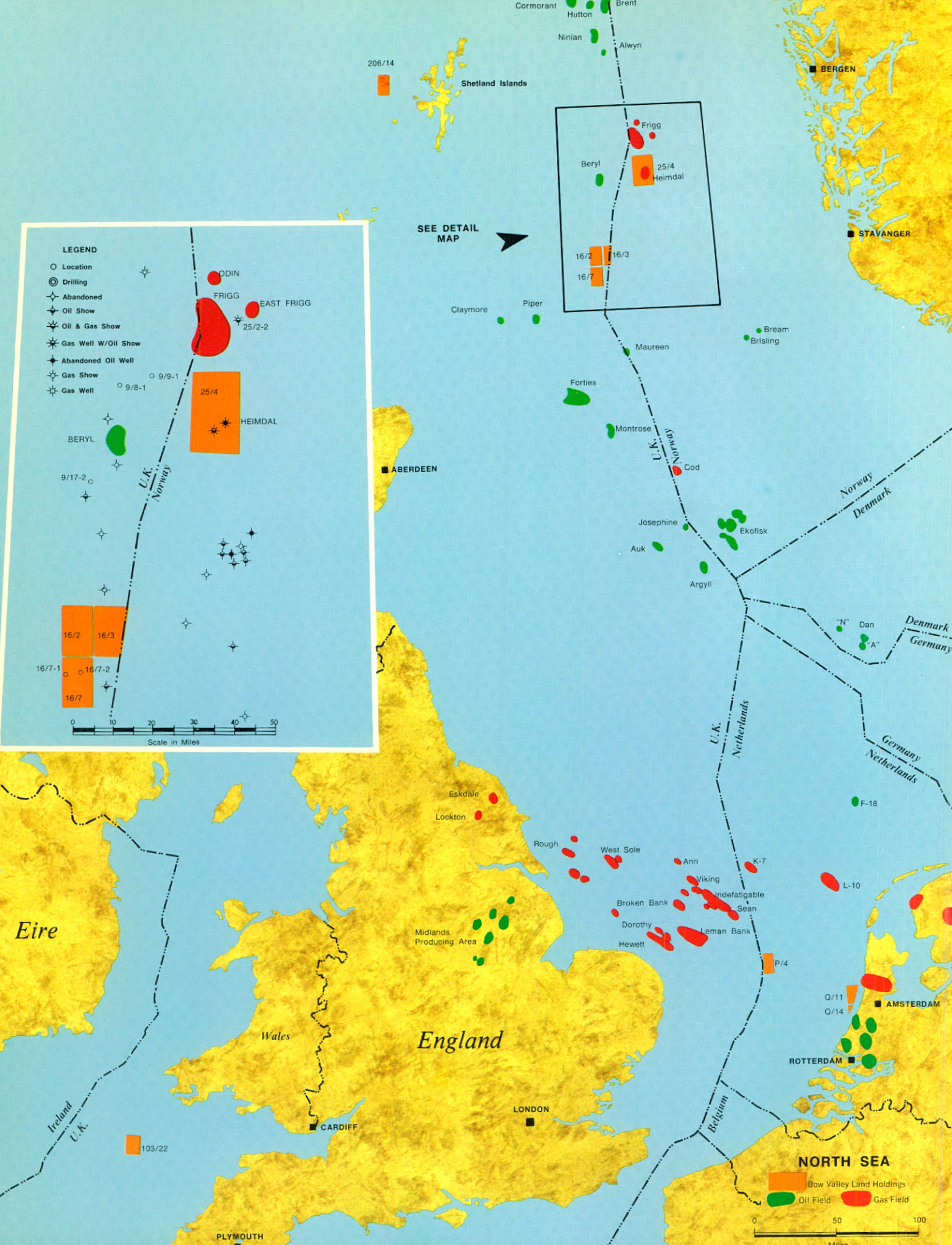
NETHERLANDS

Offshore from the Netherlands, Bow Valley and its partners conducted marine seismic programs on all three blocks in which it holds interests. Interpretations of the data are in progress, and one well may be drilled on Block Q/11 during 1975. An earlier well, drilled on this Block by Bow Valley and industry partners in 1969, was abandoned after testing gas in the Bunter sand. Bow Valley holds a 6.5 percent interest in Block Q/11.



IRELAND

Bow Valley holds an 11.5 percent interest in a joint venture formed in late 1972 for the purpose of applying for acreage offshore from the Republic of Ireland. The group has purchased in excess of 5,000 miles of non-exclusive marine seismic data, and final interpretations are expected to be received in the near future. Offshore blocks may be offered to the industry by the Irish Government in late 1974.



SUMMARY OF OIL GAS ACREAGE AS OF MAY 31, 1974

Location	Type of Ownership	Type of Interest					
		Working Interest (1)		Royalty Interest (2)		Other Interests (3)	
		Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
A. CANADA							
1. Alberta	Leases	1,141,859	516,599	310,882	8,524	131,218	21,117
	Petroleum and Natural Gas Reservations	649,460	530,616	80,000	3,155	5,984	913
	Petroleum and Natural Gas Permits	43,227	34,703	8,160	122	—	—
	Drilling Reservations	35,200	14,066	—	—	2,920	620
	Natural Gas Licences	27,840	15,871	—	—	—	—
2. Atlantic East Coast	Exploratory Permits	1,935,851	206,924*	796,162	14,162*	—	—
3. Arctic Islands	Exploratory Permits (4)	2,361,098	124,913*	881,349	3,187*	360,217	38,384*
4. Beaufort Sea	Exploratory Permits	439,352	27,459*	—	—	439,352	6,864*
5. British Columbia	Leases	32,604	20,500	—	—	30,833	5,639
6. Hudson Bay	Exploratory Permits	—	—	898,431	8,984*	—	—
7. Hudson Strait	Exploratory Permits	30,676	5,368*	—	—	—	—
8. Mackenzie Delta	Exploratory Permits	270,242	67,560*	—	—	270,242	16,890*
9. Saskatchewan	Leases	25,571	13,331	3,097	154	11,396	358
	Petroleum and Natural Gas Permits	63,520	25,408	—	—	—	—
10. Yukon-North-west Territories	Exploratory Permits	96,404	24,101*	270,474	1,033*	—	—
	TOTAL CANADA	7,152,904	1,627,419	3,248,555	39,321	1,252,162	90,785
B. FOREIGN							
1. Abu Dhabi	Concession Areas	1,280,622	162,904	—	—	—	—
2. Indonesia	Technical Assistance Contract Area	67,753	20,326	—	—	—	—
3. Italy	Exploratory Permits	110,118	5,506	—	—	—	—
4. Maldive Islands	Petroleum Exploration Licence	14,764,800	645,960	—	—	—	—
5. Netherlands	Exploration Licences	86,016	7,064	—	—	—	—
6. Norway	Production Licence	129,480	17,264	—	—	—	—
7. South Africa	Prospecting Lease	4,091,425	485,652	—	—	—	—
8. Tunisia	Permit	185,774	61,925	—	—	—	—
9. United Kingdom	Production Licences	277,545	66,669	—	—	—	—
10. Viet Nam	Exploration Concessions	3,396,714	849,179	—	—	—	—
	TOTAL FOREIGN	24,390,247	2,322,449	—	—	—	—
	TOTAL WORLD	31,543,151	3,949,868	3,248,555	39,321	1,252,162	90,785

(1) Gross acres represent the total of the acreage in which the company has varying working interests. Net acres represent the company's interest in the gross acres.

(2) Gross acres represent the total of the acreage in which the company has varying royalty interests. Net acres represent the company's interest in the gross acres.

(3) Gross acres represent the total of the acreage in which the company has varying net profit and reversionary interests. Net acres represent the company's interest in the gross acres.

(4) Excluding acreage owned by Panarctic Oils Ltd. As of May 31, 1974, Panarctic held working interests in 77,568,823 gross acres and 48,248,163 net acres. Bow Valley holds a 2.22 percent in Panarctic.

* These figures have been adjusted by a reduction of 50 percent to reflect the revocation of Oil and Gas Land Order 1-1961 effective April 15, 1970.



ABU DHABI

Bow Valley and its partners participated in the drilling of two wells offshore from Abu Dhabi during the 1974 fiscal year. These wells tested crude oil at rates in excess of 4,000 and 5,000 barrels per day respectively. Additional drilling to further delineate the limits of the field and determine its commerciality will be conducted as soon as a suitable offshore rig can be obtained.

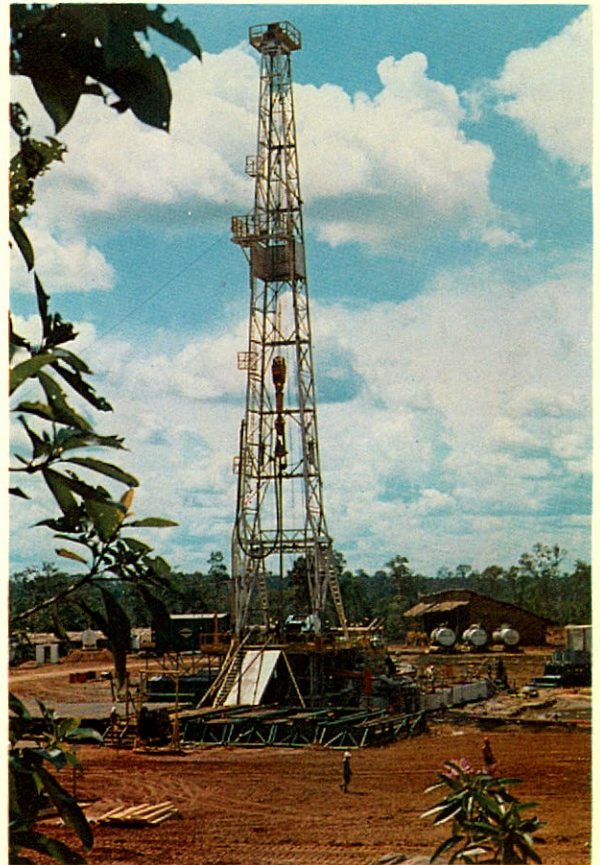
Prior to the drilling of the first well, Bow Valley entered into an agreement with Canadian Superior Oil Ltd. whereby the latter agreed to advance certain exploration funds in return for 50 percent of Bow Valley's 20 percent working interest. The agreement is still pending the approval of the Ruler of Abu Dhabi. Bow Valley's interest in the Abu Dhabi concession is also subject to the Ruler's right to acquire, at cost, a 50 percent working interest in the concession which, if exercised, would reduce Bow Valley's working interest to 5 percent in the event that the Ruler approves the assignment to Canadian Superior.

On March 6, 1974, Bow Valley and its industry partners were awarded two new concessions offshore Abu Dhabi comprising 696,836 gross acres. An extensive marine seismic program is planned for both concessions. A 1,070-mile reconnaissance seismic survey, conducted over one of the concession areas, was completed prior to May 31, 1974. Bow Valley holds a 15 percent interest in the two concession areas.



INDONESIA

Bow Valley and its industry partners have completed seismic and gravity programs over the 68,000-acre Suban Jerigi contract area in the Palembang basin of southern Sumatra. Contracts have been signed for the drilling of two 9,000-foot wells and one 5,000-foot well. The first well, the Kampong Minyak No. 1, spudded on May 9, 1974.



Kampong Minyak #1. Drilling in Suban Jerigi Area, South Sumatra.



Bow Valley's base camp at Maura Enim, Sumatra.



Lease road to Bow Valley's Kampong Minyak #1 drilling location.

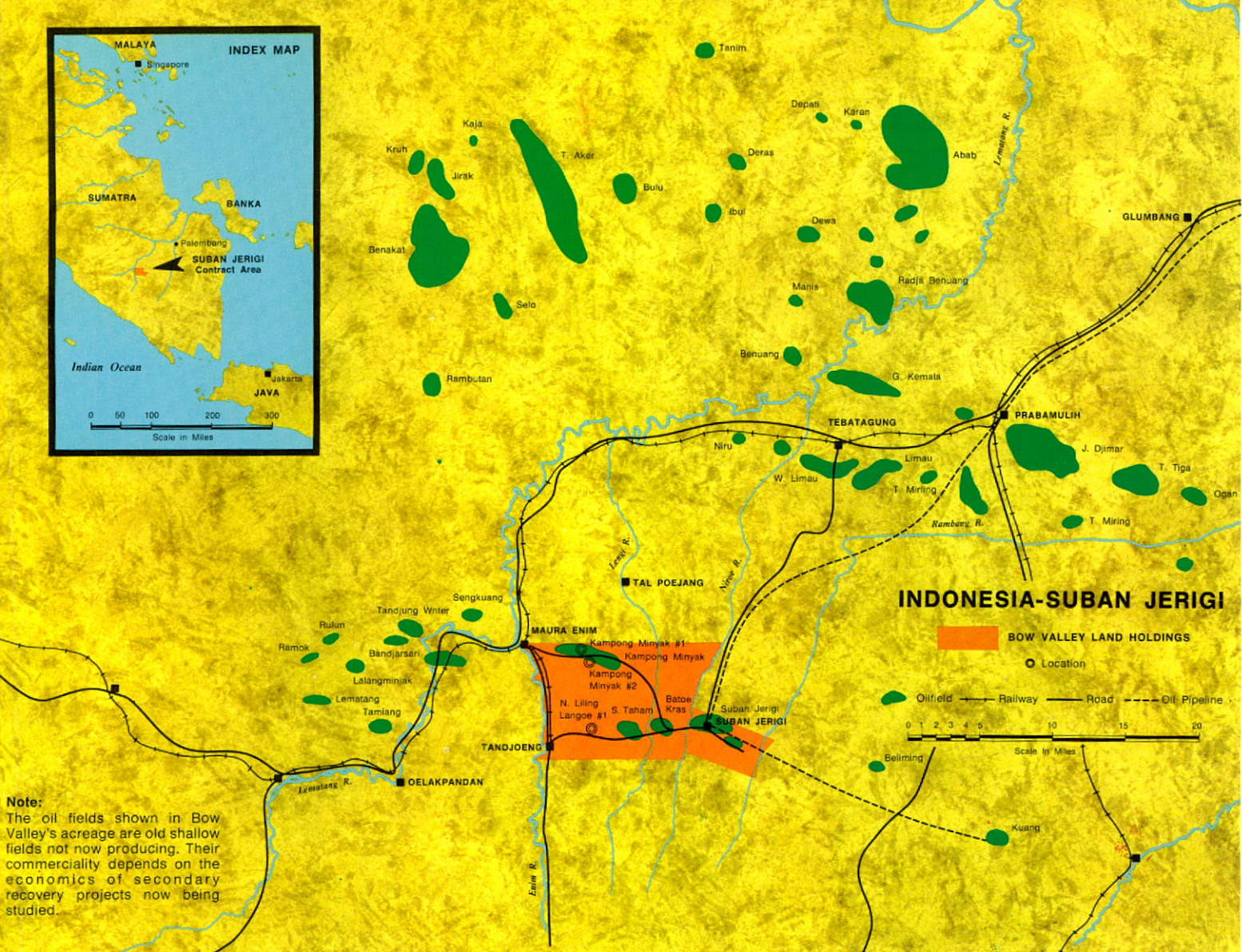
On April 30, 1974, agreement was reached with Toyo Oil Development Corporation, a large Japanese company, whereby it will receive an undivided 25 percent interest in the Suban Jerigi property in return for financing certain work obligations and assisting the group in obtaining essential oil field equipment and supplies. The assignment to Toyo was approved by Pertamina, the Indonesian national oil company, on June 4, 1974. Bow Valley remains operator for the group and holds a 30 percent interest in this property.

In the Mentawai contract area onshore and offshore western Sumatra, Bow Valley and its partners drilled two stratigraphic tests during the fall of 1973 which were dry and abandoned. Following the shooting of a small additional onshore seismic program, the group unanimously agreed to relinquish the area rather than commit to the 1974 work program.



MALDIVE ISLANDS

Bow Valley retains a 4.375 percent interest in the Maldivian licence off the southwestern coast of India. Seismic programs conducted over the acreage have indicated the presence of numerous anomalous features. A further program of 1,550 miles of marine seismic is planned for late 1974, and an initial exploratory well may be drilled on this concession during 1975.



Note:
The oil fields shown in Bow Valley's acreage are old shallow fields not now producing. Their commerciality depends on the economics of secondary recovery projects now being studied.



Indonesian technician receiving on-the-job training from a Canadian driller.

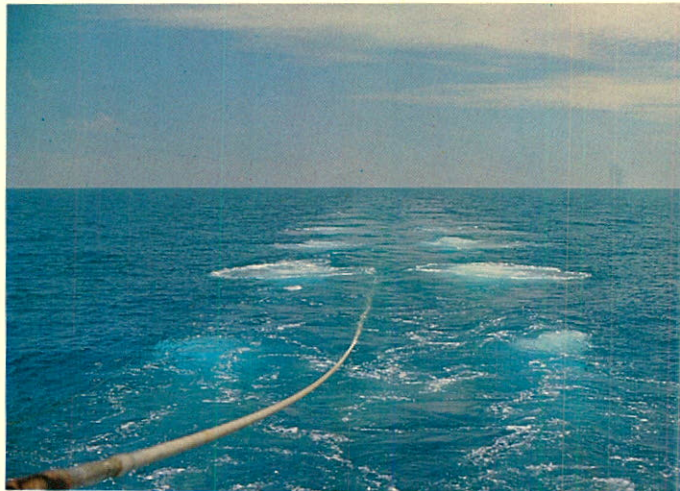
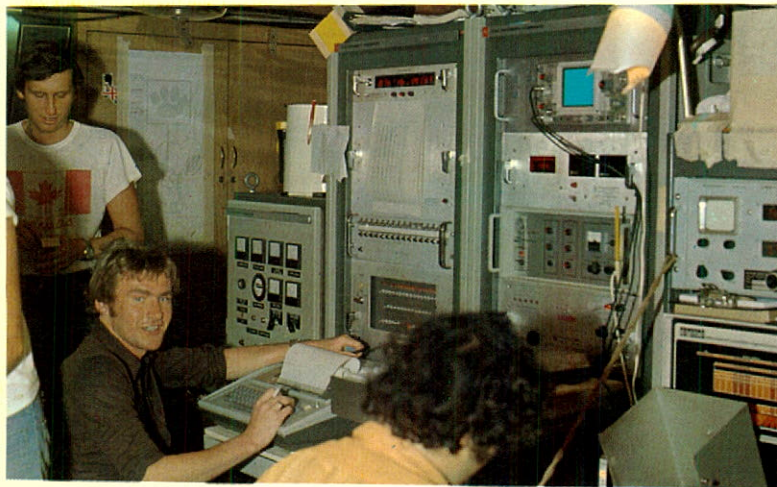
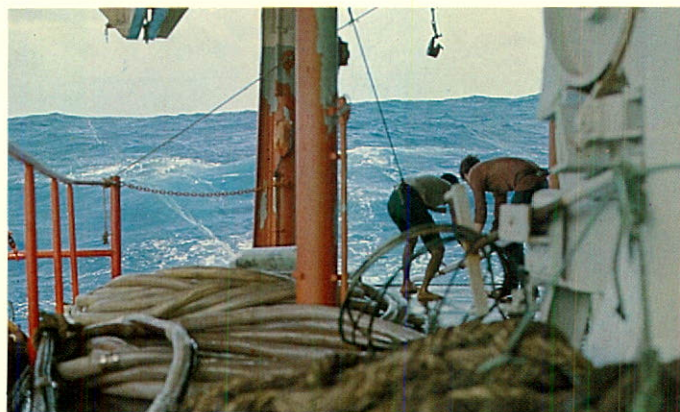


VIET NAM

Offshore Viet Nam, Bow Valley is technical operator for a four-company group that holds two concessions comprising about 3,400,000 acres. A 4,000-mile marine seismic program over the acreage commenced in late January and was completed in early March. Bow Valley supervised all data acquisition and processing. Interpretation of the data is now underway, and drilling on both blocks is scheduled to begin in 1975.



In May 1974, agreement was reached with Entreprise de Recherches et d'Activites Petrolieres (Erap) whereby it will receive a 35 percent undivided interest in Block 21 by committing to finance certain exploration work on the block during the first three years of the concession agreement. If the assignment is approved by the Petroleum and Mining Authority, Bow Valley's interest in the block would be reduced from 25 to 16.25 percent, and Erap would become operator.



Bow Valley's marine seismic operations in South China Sea, offshore from the Republic of Viet Nam.

OPERATIONS

Increases in domestic crude oil and natural gas prices during the past two years have touched off a struggle between the Canadian Federal government and the governments of the western producing provinces in respect to the sharing of oil and gas revenues generated through various forms of taxation including royalties. One of the results has been numerous changes in royalty regulations by the provinces including the recent promulgation by the Province of Alberta of higher oil royalties which vary with price. Since Bow Valley reports its production and reserves of crude oil and natural gas in amounts net after royalty, the effect of the royalty increases has been to reduce the reported amount of production and reserves as of May 31, 1974. However, net oil and gas sales after royalties in dollar amounts rose in response to price increases realized on these products during the same period.

Net crude oil production after royalties for the 1974 fiscal year amounted to 581,525 barrels (1,592 barrels per day) which was 10 percent lower than the 645,392 barrels (1,768 barrels per day) produced during the previous year. Net natural gas production after royalties amounted to 6.6 billion cubic feet (18.1 million cubic feet per day) representing a 21 percent increase over the 5.43 billion cubic feet (14.9 million cubic feet per day) produced during 1973. Production of natural gas liquids after royalties of 26,494 barrels (73 barrels per day) was seven percent lower than the 28,396 barrels (78 barrels per day) produced last year. Sales of crude oil and natural gas liquids again reached record levels during the 1974 fiscal year due to several price increases which occurred during the period. The most significant increase occurred on April 1, 1974, when the price of crude oil was increased by \$2.70 per barrel raising the average price of Alberta crude oil to \$6.50 per barrel. Natural gas production increased appreciably during the past year due primarily to

production increases in Bow Valley's Tweedie and Whitefish Lake fields in north-central Alberta. Natural gas sales were also at record levels due to increased prices received under gas purchase contracts renegotiated in several producing areas.

The Tweedie and Whitefish gas fields continued to operate satisfactorily throughout the 1974 fiscal year. Two additional wells were tied to the existing gathering system in the Tweedie field which supplies the Great Canadian Oil Sands plant at Fort McMurray bringing Bow Valley's share of average daily production, net after royalties, up to 10.8 million cubic feet per day. Bow Valley's share of daily production net after royalties from the Whitefish Lake field averaged 2.7 million cubic feet per day during the fiscal year.

Proven crude oil reserves net after royalties, as determined by McDaniel Consultants (1965) Ltd. at January 1, 1974 and adjusted by Bow Valley to the 1974 fiscal year end, were 6,757,150 barrels representing a five percent decrease over reserves of 7,077,747 barrels one year earlier. The reduction in crude oil reserves, resulting mainly from royalty increases, was partially offset by the addition of new reserves developed in the Balzac, Reno, Keho, and Medicine River areas of Alberta. Higher crude oil prices, which triggered the royalty increases, resulted in the fair market value of the Company's proven oil reserves at May 31, 1974, being higher than at the end of fiscal 1973. Net proven gas reserves after royalties of 193 billion cubic feet were eight percent higher than the reserves of 179 billion cubic feet last year, and net proven reserves of natural gas liquids after royalties, amounting to 509,028 barrels, were nine percent lower than reserves of 557,788 barrels one year earlier.

As previously reported, shortly before the end of the fiscal year, the Petronord/Pan Ocean group

unanimously declared the Heimdal pool on Block 25/4 offshore Norway to be commercial. Although proven reserves of gas and condensate obviously exist in the Heimdal pool, Bow Valley has elected to defer taking its share of these reserves into its accounts until a gas purchase contract and transportation agreement, now being negotiated, have been executed, and Statoil makes its election to subscribe for up to a 40 percent interest in the pool. Statoil must make its decision by April 9, 1975.

Excluding wells drilled by Panarctic Oils Ltd., Bow Valley participated in the drilling of 77 gross wells, or 31 net wells, during the 1974 fiscal year. Of this total, 50 gross wells, or 23 net wells, were completed as oil or gas wells, and the remainder were abandoned.

On May 31, 1974, Bow Valley's land portfolio consisted of approximately 31,500,000 gross

acres, equivalent to 3,900,000 net acres, in Canada and 10 foreign countries. Excluded from these figures are approximately 77,600,000 gross acres, equivalent to 48,200,000 net acres, of onshore and offshore properties in the Arctic Islands held by Panarctic Oils Ltd. On the same date, Bow Valley had formal applications pending for exploration and development rights in four additional foreign countries.

During the 1974 fiscal year, Bow Valley spent \$8,829,357 for its own account on oil and gas exploration and development compared to \$5,700,056 expended during the previous year.

Production Summary

Fiscal year ended May 31st,

	1974	1973	1972
Crude oil (barrels) . . .	581,525	645,392	657,389
Natural gas liquids (barrels)	26,494	28,396	31,738
Natural gas (Mcf) . . .	6,591,780	5,432,800	5,110,090

(Note: The above figures are net after royalty and include Bow Valley's net profits interests.)

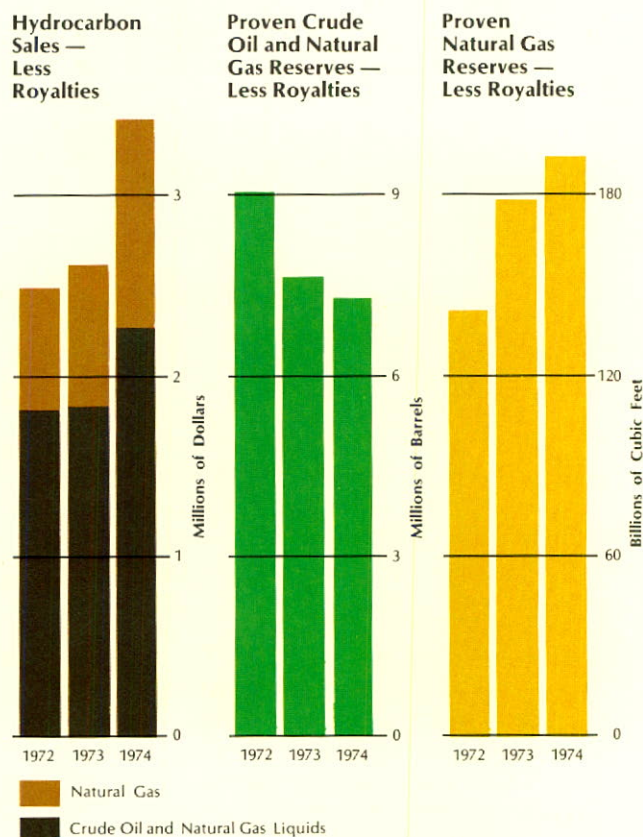
Drilling Activity — Fiscal 1974

EXPLORATORY WELLS

Total		Oil		Gas		Abandoned	
Gross	Net	Gross	Net	Gross	Net	Gross	Net
47	15.21	6	1.17	17	7.56	24	6.48

DEVELOPMENT WELLS

Total		Oil		Gas		Abandoned	
Gross	Net	Gross	Net	Gross	Net	Gross	Net
30	15.78	3	1.04	24	13.19	3	1.55



OIL AND GAS CONTRACT DRILLING



Left to right: R. M. McGhee, Manager, Sedco. W. C. Hay, General Manager, Bow Valley Drilling Divisions. J. A. Niedermaier, Manager Commonwealth Hi-Tower. S. W. Porter, Manager, Hi-Tower.

The oil and gas contract drilling operations of Bow Valley Industries are carried out by two divisions, HI-TOWER DRILLING and SEDCO DRILLING, and three joint ventures, COMMONWEALTH HI-TOWER ARCTIC, 50 percent Bow Valley, DRILLARCTIC, 33 1/3 percent Bow Valley, and OSLO DRILLING A/S, 20 percent Bow Valley. Oslo Drilling A/S operates the ODIN DRILL semisubmersible which is currently drilling in the North Sea. During the year under review, the ODIN DRILL was still under construction and hence, did not contribute to income in fiscal 1974.

While gross revenues derived from oil and gas contract drilling activities of the Company rose to \$20,186,090 in fiscal 1974 from \$18,104,801 in the previous year, net income declined seven percent largely as a result of substantially decreased profits in the Drillarctic joint venture.

The Hi-Tower and Sedco divisions operate 35 rotary drilling rigs and employ approximately 500 people. Hi-Tower operates 15 rigs which are presently located in Alberta, northeastern British Columbia, and the Mackenzie Delta. The rigs have a depth capacity from 4,000 to 20,000 feet. Sedco operates 20 rigs located in Manitoba, Saskatchewan, Alberta, Montana, and the Northwest Territories. Sixteen of these rigs drill shallow production wells and have a depth capacity of 1,000 to 5,000 feet. Four rigs are used primarily for structure test hole

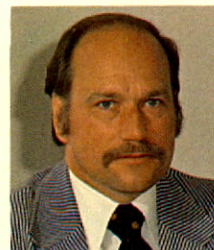
work and in the Athabasca Oil Sands. Hi-Tower and Sedco drilled 665 wells during fiscal 1974 totalling 2,037,593 feet compared to 1,959,289 feet drilled in the previous year.

The Commonwealth Hi-Tower Arctic Joint Venture operated four rigs in the Arctic Islands during the year. These rigs, with a depth capacity of 6,000 to 18,000 feet, drilled a total of 70,500 feet during the year, down from 79,462 feet in the previous year.

Drillarctic, another joint venture, operates one rig in the Arctic Islands and has drilled a total of 20,000 feet since the venture commenced operations in December 1972.

Among the factors to be considered in assessing the outlook for Bow Valley's oil and gas contract drilling business in fiscal 1975 are shortages of casing and personnel which could become problems for the industry as a whole this year. Another factor is the timing of a resolution of the conflict which has developed between the Federal government and the Provincial governments over taxation of the oil and gas industry in Canada. At the present time, Bow Valley's oil and gas contract drilling activity is relatively unchanged from a year ago.

OILFIELD EQUIPMENT AND SUPPLY



D. T. Jumpsen, Manager, Narwhal.



P. V. Edwards, Manager, Cardwell.

Bow Valley conducts its oilfield equipment and supply activities through CARDWELL SUPPLY which is wholly-owned. Cardwell experienced an excellent year in respect to

both sales and earnings in fiscal 1974 even though procurement of oil and gas field materials became more difficult as the year progressed due to the energy crisis in North America.

Bow Valley has a 60 percent interest in NARWHAL ARCTIC SERVICES, a limited partnership in which Santa Fe-Pomeroy holds the remaining 40 percent interest. Narwhal's business registered good growth in fiscal 1974 with sales and earnings above those recorded in the preceding year.

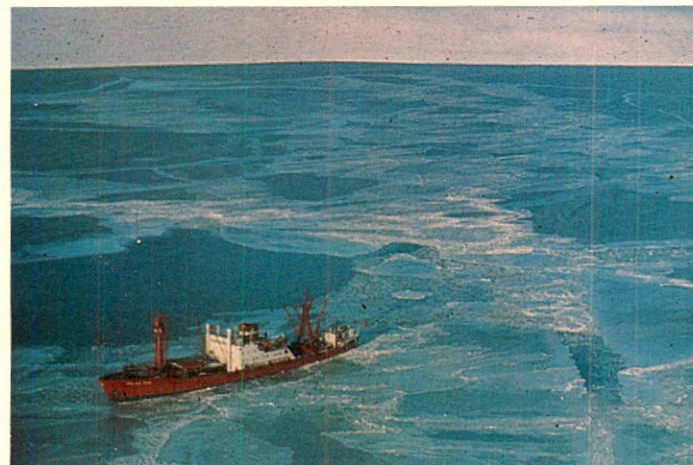
Narwhal is a service organization providing international procurement, shipping, storage, aircraft loading, and construction engineering and consulting services north of 60° latitude with particular emphasis on the Canadian Arctic archipelago and the northwest coast of Greenland. Associations with Scandinavian and United Kingdom companies give Narwhal capability in polar shipping activities as well as the potential to expand its activities in connection with Arctic mineral developments. Narwhal's basic business is conducted from a depot at Resolute Bay where, after procurement, marshalling, and shipping, up to 10,000 tons of oilfield supplies are discharged during the annual sea lift each August. The supplies are moved to, and stored at, the airport area until required by operating companies at which time they are loaded into Hercules aircraft for delivery to various well sites.

Narwhal's construction activity during the year involved the completion of a runway extension for the Ministry of Transport at Resolute Airport and continuation of the pier expansion in Resolute Bay to facilitate docking of the company's chartered vessels each summer. Narwhal provides base expediting and communications backup on a contract basis to field seismic, geological, and mining groups.

During fiscal 1975, it is anticipated that Narwhal will increase its sea lift operations by approximately 20 percent over the preceding year with a shift in emphasis from European to Canadian and American sources of supplies due to rising costs and currency exchange complications adversely affecting European supplies. One Canadian, one British, and one Finnish Flag vessel will be used in the sea lift during the summer of calendar year 1974.



Loading M/S Salerno in Montreal Harbour with supplies destined for the Arctic Islands.



Helga Dan departing Cominco Bay in the Arctic Islands.

PIPELINE CONSTRUCTION AND PLANT MAINTENANCE



J. Wonderly, Manager,
Wonderly & Kershaw.

During the year under review, Bow Valley conducted its pipeline construction activities through three wholly-owned subsidiaries, WONDERLY & KERSHAW PETROCHEMICAL SERVICES LTD., RESOLUTE CONSTRUCTION LTD., and CANAPIPE CONSTRUCTION LTD. Wonderly and Kershaw Petrochemical Services Ltd., in addition to its pipeline construction business, maintains gas and sulphur plants, oil refineries, and pulp and paper plants under contracts with larger companies.

Pipeline construction operations include the engineering, design, and construction of small inch gas and oil pipelines from 2" to 30" in diameter, the construction of water flood and high pressure injection systems for secondary oil recovery, sewer and water construction, river crossings utilizing pipe up to 72" in diameter, and the transportation of heavy oilfield and pipeline equipment.

As indicated in last year's annual report, the Canadian government's announcement on February 15, 1973, that additional oil exports to the United States would henceforth have to be approved by the National Energy Board has adversely affected pipeline operations in Canada. Fiscal 1974 proved to be another disappointing year for Bow Valley's pipeline construction business with sales amounting to \$7,250,587 down from \$8,452,559 in the previous year and with the net loss for the year larger than that registered in fiscal 1973. Plant maintenance and small inch diameter pipeline construction proved profitable during the year while larger diameter pipe construction sustained losses.

Successful efforts have been made to divert some of the company's pipeline equipment to uses other than those associated with the oil and gas industry and opportunities for utilization of pipeline construction equipment in the oil and gas industry outside of Canada are being explored.



Wonderly and Kershaw laying 48" pipeline across the Bow River in Calgary.



Airlifting fuel to a core hole project in Western Alberta.



A Bow Helicopter operating over Calgary, Alberta.

HELICOPTER SERVICES



J. R. Prendergast, Manager,
Bow Helicopters.

BOW HELICOPTERS LTD. is a wholly owned subsidiary owning and operating 14 helicopters serving Alberta, British Columbia, and the North-west Territories. The company's headquarters are located in Calgary with field offices in Golden and Valemount, B.C. and Inuvik, N.W.T. Bow Helicopter's principal customers are in the petroleum industry with oil company contracts representing slightly more than one half of the company's total revenue. Over the past three years there has been a reduction in the percentage of the company's business generated by geophysical operations and an increase in the percentage arising from companies active in oil and gas drilling and production. Activity in the Mackenzie Delta area has accounted for a growing portion of the company's business. Bow Helicopters increased its sales in fiscal 1974 and reduced its loss in comparison to results a year earlier.

Recreational contracts, principally helicopter skiing, currently amounting to approximately 20 percent of gross sales, are becoming increasingly more important in their contribution to total revenue. Power line construction and associated programs constitute about 10 percent of sales while government agencies, namely, forestry, environment and public works represent another 10 percent.

The principal problem of the helicopter industry in Canada appears to be too many helicopters for the amount of work available. Although there are major developments in James Bay and the Mackenzie Delta, both requiring considerable rotary wing support, there has been an activity decline in the high Arctic and in the mining industry which affect western operators more than eastern companies.

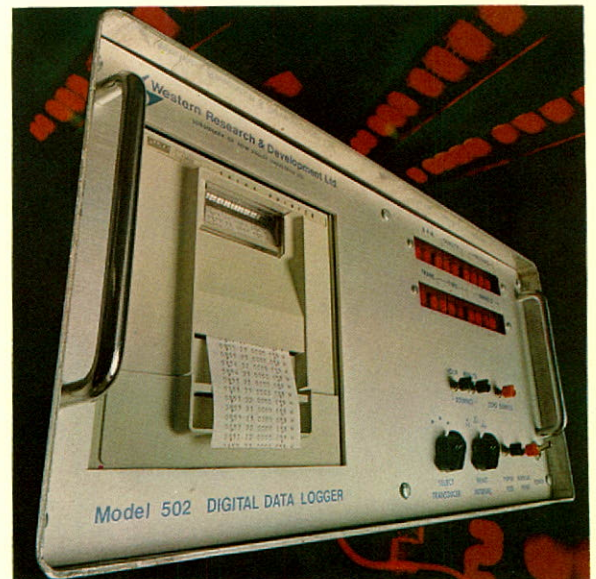
POLLUTION CONTROL



J. Lukacs, Manager, Western
Research.

WESTERN RESEARCH & DEVELOPMENT LTD., Bow Valley's pollution control subsidiary, increased its sales in the latest year but registered a decline in net profit. Development expenditures in instrumentation and process control engineering again had an adverse effect on earnings.

During the year, the subsidiary's Consulting Engineering Department undertook a number of long term projects in the area of atmospheric diffusion modelling and the thermal destruction of dangerous chemicals. The Service Department expanded its business and has further diversified its supporting services. The Instrumentation Department completed the development of a number of new instruments. Improvements were made on



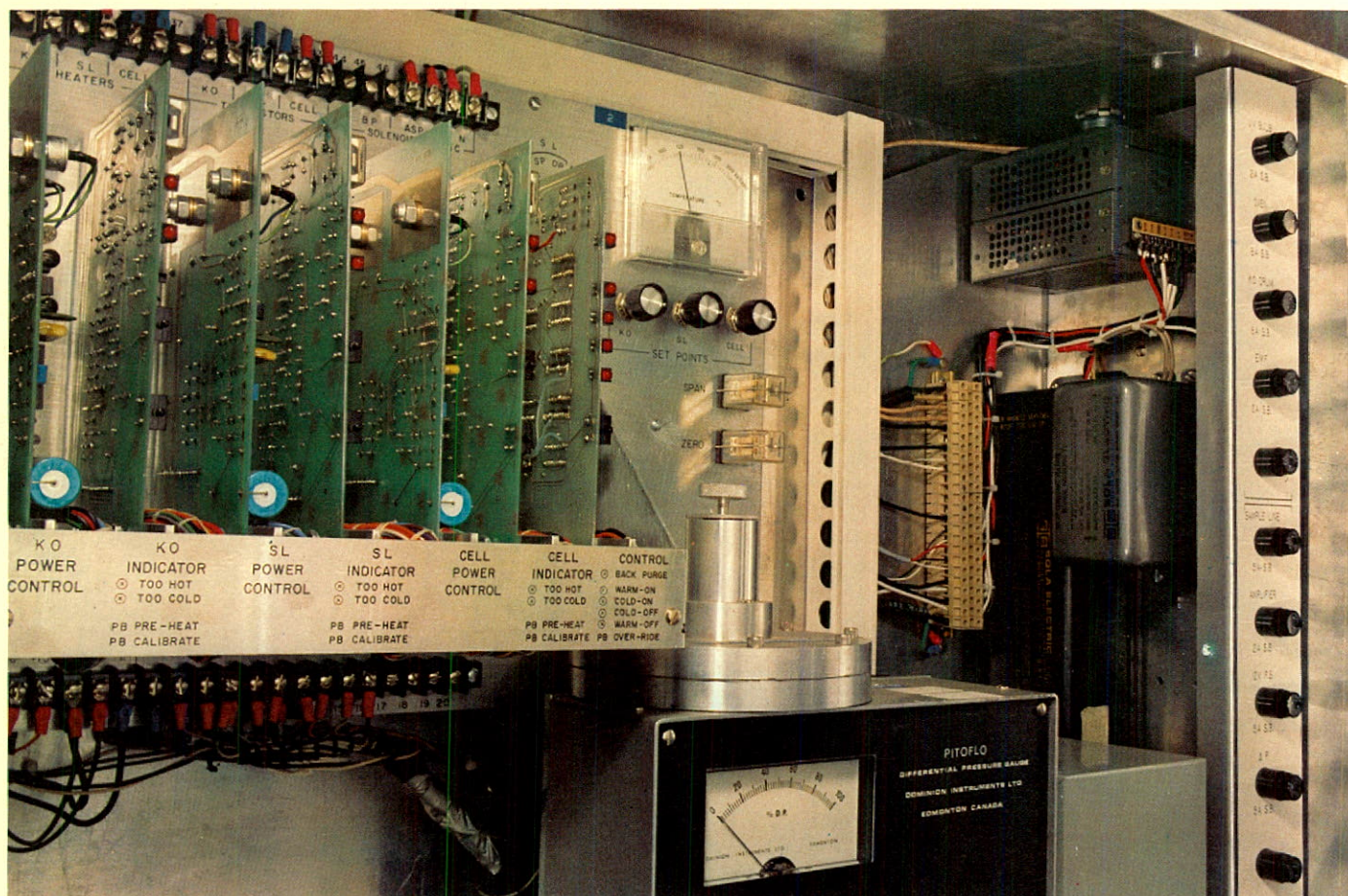
Electronic Data Logging Equipment — Designed and Manufactured by Western Research & Development Ltd.

the Continuous Source Emission Monitoring system, and a mobile demonstration unit was built to adapt, test, and demonstrate the system to potential customers such as power generating plants and smelters. Now that the mobile demonstration unit is available, Western Research is in a position to concentrate on marketing the system.

The Research and Development Department has nearly completed its major commitments in the field of process control and process instrumentation. A research program involving an automatic process control concept on which the department has been working for the past

four years is now essentially completed except for a few refinements and auxiliary features. The resulting instrumentation system has been successfully field-tested in an operating plant and will be offered for sale in the current fiscal year. The department will henceforth be concentrating its efforts in the field of contract research.

DOMINION INSTRUMENTS LTD., a Bow Valley subsidiary engaged in design and pre-production manufacturing of pollution control equipment, experienced an increased loss in fiscal 1974.



Electronic Control Assembly in the CSEM System — Designed and Manufactured by Western Research & Development Ltd.

Manufacturing



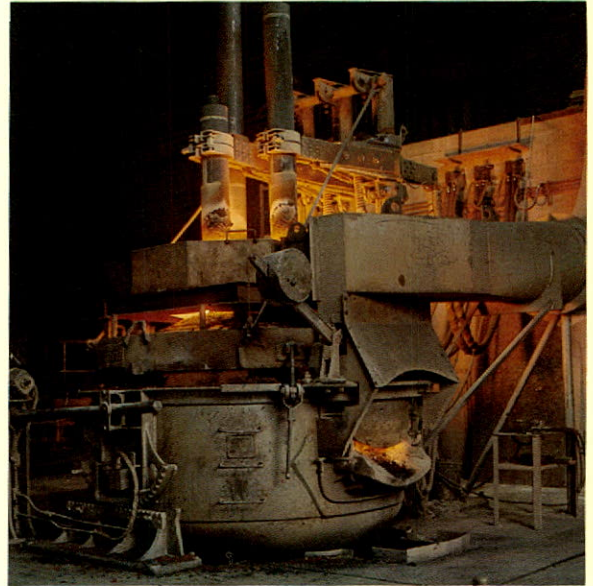
H. F. Cope, Manager,
Mainland Foundry.

MAINLAND FOUNDRY & ENGINEERING LTD., a British Columbia based Bow Valley subsidiary, made a significant contribution to Bow Valley's financial results in fiscal 1974 with sales and earnings showing substantial

improvement over results in the previous year. The completion of new machine shop facilities at the Richmond, British Columbia plant-site during the fall of 1974 will provide Mainland with over 100,000 square feet of manufacturing facilities. The company recently added a new electric furnace which gives its foundry the capability of producing steel castings as well as gray, ni-hard, and ductile irons. The well-equipped machine and assembly shop, three separate fabricating shops, and the foundry operation give Mainland the versatility in manufacturing facilities to serve the lumber, construction, agricultural, mining, fishing, and a number of other industries.

During the past year, two new sales outlets were opened by Mainland in western Canada with another outlet to be opened this summer in eastern Canada. These new outlets give the company a total of eight sales warehouses in four of Canada's provinces. The outlets distribute products manufactured by Mainland as well as many lines purchased from other manufacturers in North America and overseas.

Mainland, in co-operation with five other British Columbia companies, is devoting increased attention to the development of the export market for sawmill and allied equipment. This effort is expected to create a substantial growth in sales of Mainland's products outside of Canada. The first order received amounted to over \$1,000,000 of new business for Mainland.



Mainland's new electric melting furnace.



Left to right: J. A. Law, Manager, Flame-Master, D. G. Hobbs, Manager, Atmos Eng., A. J. Solie, Manager, Climate-Master.

FLAME-MASTER and CLIMATE-MASTER are divisions of Bow Valley involved in the sale and manufacturing of heating and cooling equipment. ATMOS ENGINEERING SALES LTD. is a subsidiary of Bow Valley involved in selling such equipment.

Flame-Master registered a modest decline in sales for the year under review while earnings were down somewhat more in comparison with results during the preceding year. Housing starts in Alberta held up well in spite of higher interest rates which adversely

affected housing starts in Saskatchewan and British Columbia, markets also served by Flame-Master. The decline in sales was attributable, in part, to material shortages which developed during the year and a rail strike which affected operations.

The most important development during the year for Flame-Master was a plant expansion program which is now completed and has added 23,000 square feet to the Edmonton manufacturing and warehouse facility, increasing the area to 55,000 square feet. The additions to capacity provide the potential of tripling production and should result in improved operating efficiencies. The major capital equipment addition involved in the expansion was a new finishing and paint line.

The production area is now fully air-conditioned, utilizing a 70-ton rooftop unit manufactured by Climate-Master.

While the short term outlook for residential construction cannot be separated from the trend of interest rates which are now at record high levels, longer term prospects appear excellent in view of the programmed development of the Athabasca Tar Sands in Alberta and a number of petrochemical and other manufacturing complexes contemplated for that province. These developments should result in increased employment opportunities accompanied by a further expansion in the demand for housing which will be of benefit to Flame-Master's business.



Flame-Master's new facilities in Edmonton, Alberta.

The Climate-Master division, engaged in the manufacture and sale of heating and cooling units for industrial use, registered a 35 percent sales improvement over the preceding year. The sales increase resulted largely from a tripling of business in Alberta as well as penetration of markets in the Province of Saskatchewan and in the Ottawa and Toronto areas. The order backlog at year end was approximately three times larger than a year ago. Earnings showed a modest decline over results in the previous year by virtue of a rise in general and administrative costs incurred in adding personnel for the expansion of the company's business, both in product lines and territories served. The present 13,000 square foot production facility is expected to provide adequate operating space during fiscal 1975.

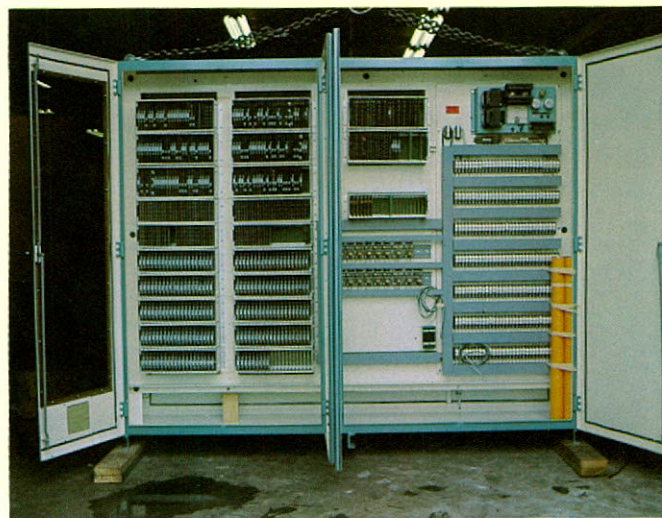


J. W. Gunn, Manager,
Elworthy.

ELWORTHY & COMPANY LTD., a wholly-owned subsidiary of Bow Valley located in Burnaby, British Columbia, is involved in electrical engineering, manufacturing, installations, sale of equipment, repairs, and motor

rewinding. The company employs approximately 100 people in a plant and office facility of just under 15,000 square feet. Sales and net income in the latest year both showed good improvement over prior year's results.

Elworthy designs and manufactures a variety of special electrical and electronic controls, electrical, pneumatic, and hydraulic positioners, metal detectors, counting and measuring devices, and motor drives of all sizes up to several hundred horsepower. While the greatest part of the company's business currently comes from sawmills in British Columbia, the percentage of sales going to eastern Canada and the United States is growing.



Electronic control equipment manufactured by Elworthy.



W. A. Rennison, Manager,
Wesdrill.

The **WESDRILL EQUIPMENT** division of Bow Valley manufactures and supplies diamond drill bits and related equipment for mineral exploration. Since the division was acquired by Bow Valley in fiscal 1972,

sales volume has more than doubled to over \$2,000,000 per year and net income has also shown substantial improvement. The division had a fine year in fiscal 1974 with sales and earnings showing good growth.

Wesdrill presently employs 60 people in a 14,000 square foot office and manufacturing plant in Richmond, British Columbia. The division has salesmen in Ontario, Quebec, the State of Arizona, and in Mexico. The Phoenix, Arizona office, opened during fiscal 1973, accounted for approximately 20 percent of total Wesdrill sales volume in the year just ended. Wesdrill has recently added a new line of drill tubing and is now manufacturing and marketing a new drilling machine of its own design.



Wesdrill's new Model 60 surface diamond drill.



Wesdrill technician setting diamonds in drill bits.

Mining Contract Drilling



H. Cameron, Manager
Connors Drilling.

CONNORS DRILLING LTD. of Vancouver, British Columbia, Bow Valley's mining contract drilling subsidiary, had a good year in fiscal 1974 with sales and net income registering substantial improvement over the prior year.

Connors' subsidiary in the United States, MACPHERSON DRILLING CO., INC., had a disappointing year with a decline in sales and a greater net loss than the year before. The

combined businesses showed higher sales and profit for the year in comparison with fiscal 1973 results.

Footage drilled by Connors Drilling Ltd. amounted to 509,795 feet for the year, an 8 percent gain over the prior year. During the year, Connors moved its main warehouse and repair facility from Vancouver, British Columbia, to Leduc, Alberta. The move was motivated by the growing geographical diversification of the company's business which, at this writing, involves all the western provinces and the Yukon and Northwest Territories. The company's head office will continue to be located in Vancouver.



Connors Drilling at work in the Yukon.

Affiliated Companies

At fiscal year end, Bow Valley's ownership in affiliated companies consisted of an 11.3 percent interest in DIGITECH LTD., a 10.4 percent interest in WESTERN ROCK BIT COMPANY LIMITED, and a 2.2 percent interest in PANARCTIC OILS LTD. Bow Valley also holds an option, exercisable until November 1, 1980, to acquire 131,048 shares of Digitech Ltd. at a price of \$1.24 per share which, if exercised, would raise Bow Valley's ownership of Digitech to 14 percent, assuming full dilution.

Digitech Ltd. provides a fully-integrated exploration data processing service. The

company recorded a profit in its fiscal year ended June 30, 1974. Western Rock Bit Company Limited manufactures and sells oilwell drilling bits and markets mining drilling bits. The company also produces pressure vessels for a variety of liquified petroleum gas applications. On April 30, 1974, Western Rock Bit completed its most successful year since incorporation. Panarctic Oils Ltd. is 55 percent owned by 30 natural resource companies and 45 percent owned by the Canadian government. Panarctic holds interests in 77,600,000 gross acres in the Arctic Islands on which five gas discoveries have been made plus a non-commercial oil discovery at Bent Horn on Cameron Island.

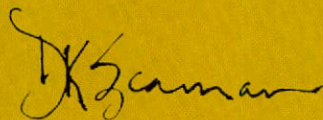
Consolidated Balance Sheet

May 31, 1974 (Canadian dollars)

ASSETS

	<u>1974</u>	<u>1973</u>
Current assets		
Cash, including deposit receipts	\$ —	\$ 784,733
Accounts receivable —		
Trade	14,343,586	9,945,746
Other	1,276,731	1,216,125
Inventories (Note 2)	9,381,441	7,420,971
Prepaid expenses	1,031,607	746,846
	<u>26,033,365</u>	<u>20,114,421</u>
Capital assets, at cost (Notes 1 and 3)	70,456,939	64,462,394
Less: Accumulated depreciation and depletion	<u>27,137,230</u>	<u>23,867,386</u>
	43,319,709	40,595,008
Goodwill (Note 1)	4,101,249	4,111,713
Other assets and deferred charges		
Interest in Panarctic Oils Ltd., at cost (Notes 10 and 11)	2,284,166	2,284,166
Interest in Kommandittselskapet Oslo Drilling A/S & Co., at cost (Note 4)	1,262,298	1,162,298
Investments in and advances to other companies, at cost	615,957	429,361
Unamortized deferred charges (Note 1)	522,511	472,132
Sundry	400,094	323,387
	<u>5,085,026</u>	<u>4,671,344</u>
	<u>\$78,539,349</u>	<u>\$69,492,486</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director

LIABILITIES

	<u>1974</u>	<u>1973</u> (restated)
Current liabilities		
Operating bank loans, including cheques issued, (1974 — 11.5%; 1973 — 7.25%), secured (Note 5)	\$ 6,887,793	\$ 3,786,390
Bankers' acceptances (1974 — 12%; 1973 — 6.9%), secured (Note 5)	2,560,000	1,800,000
Accounts payable and accrued	9,525,297	8,500,720
Estimated income taxes payable	319,946	134,852
Long term debt due within one year	<u>3,658,337</u>	<u>3,427,120</u>
	22,951,373	17,649,082
Long term debt (Note 6)	16,125,692	14,467,908
Deferred revenue	117,350	185,345
Provision for major overhauls (Note 1)	526,167	376,323
Deferred income taxes (Note 1)	8,389,468	7,072,637
Shareholders' equity		
Share capital (Note 7) —		
5½% Cumulative redeemable preferred shares		
series A of a par value of \$20 each —		
Authorized and issued — 100,000 shares		
Outstanding — 79,265 shares (1973 — 82,240)	1,585,300	1,644,800
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 — 7,000,000 shares		
Issued and outstanding — 4,770,626 shares		
(1973 — 4,766,396)	15,348,708	15,259,807
Capital redemption reserve fund, on redemption		
of preferred shares	414,700	355,200
Contributed surplus	103,749	91,580
Retained earnings (Note 8)	<u>2,976,842</u>	<u>2,389,804</u>
	30,429,299	29,741,191
Contingent liabilities and commitments (Note 10)		
	<u>\$78,539,349</u>	<u>\$69,492,486</u>

See notes to financial statements.

Consolidated Statement of Income

For the year ended May 31, 1974 (Canadian dollars)

	<u>1974</u>	<u>1973</u> (restated)
Revenue		
Engineering, forest products equipment and foundry sales	\$20,503,821	\$13,428,374
Contract drilling — oil and gas	20,186,090	18,104,801
Sale of oilfield equipment, supplies and services	9,186,338	7,434,617
Pipeline construction and plant maintenance	7,250,587	8,452,559
Contract drilling — mining	5,603,605	5,061,869
Oil and gas sales, less royalties	3,500,040	2,631,162
Heating equipment sales	2,734,179	2,932,700
Aviation services	1,999,162	1,781,577
Pollution control equipment and services	1,517,319	1,268,434
Gain (loss) on trading of oil and gas properties	(73,145)	(63,818)
Other	1,018,383	689,266
	<u>73,426,379</u>	<u>61,721,541</u>
Costs and Expenses		
Direct costs	54,230,410	46,334,276
General and administrative	7,865,929	6,990,907
Depreciation (Note 1)	3,729,740	3,493,083
Depletion (Note 1)	1,266,165	1,184,854
Mining properties abandoned	36,664	74,823
Amortization of deferred charges (Note 1)	322,132	283,164
Interest —		
On long term debt	1,669,357	1,025,183
Other	827,441	455,772
	<u>69,947,838</u>	<u>59,842,062</u>
Income Before Income Taxes and Extraordinary Item	3,478,541	1,879,479
Taxes on Income (Note 1)		
Current	449,507	224,789
Deferred	1,316,832	588,156
	<u>1,766,339</u>	<u>812,945</u>
Income Before Extraordinary Item	1,712,202	1,066,534
Extraordinary Item		
Reduction of income taxes	—	66,100
Net Income	<u>\$ 1,712,202</u>	<u>\$ 1,132,634</u>
Earnings per Common Share (Note 1)		
Income before extraordinary item	\$.24	\$.10
Extraordinary item	—	.01
Net Income	<u>\$.24</u>	<u>\$.11</u>

See notes to financial statements.

Consolidated Statement of Changes in Financial Position

For the year ended May 31, 1974 (Canadian dollars)

	<u>1974</u>	<u>1973</u> (restated)
Source of Working Capital		
Operations —		
Income before extraordinary item	\$ 1,712,202	\$ 1,066,534
Add — Non-cash charges including depreciation, depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposals of capital assets and deferred income taxes	<u>6,496,570</u>	<u>5,733,790</u>
Working capital provided from operations before extraordinary item	8,208,772	6,800,324
Working capital provided from extraordinary item	<u>—</u>	<u>66,100</u>
Total working capital provided from operations	8,208,772	6,866,424
Share capital issued for cash	88,901	204,050
Issue of long term debt	8,945,000	7,912,806
Other	<u>9,597</u>	<u>25,816</u>
	<u>17,252,270</u>	<u>15,009,096</u>
Application of Working Capital		
Additions to capital assets		
Land, buildings, drilling and other equipment	4,220,653	7,096,187
Oil and gas properties and equipment and mining properties (exclusive of oil and gas properties held for resale)	<u>8,684,078</u>	<u>5,500,712</u>
	12,904,731	12,596,899
Less — Proceeds of disposals	<u>5,407,417</u>	<u>2,242,768</u>
	7,497,314	10,354,131
Repayment of long term debt and change in current portion	7,229,994	3,790,198
Increase in interest in Panarctic Oils Ltd.	—	564,690
Increase in interest in Kommandittselskapet Oslo Drilling A/S & Co.	100,000	554,373
Redemption of preferred shares	47,331	40,061
Dividends paid	1,065,664	1,063,666
Decrease in deferred revenue	67,995	56,499
Other	<u>627,319</u>	<u>560,613</u>
	<u>16,635,617</u>	<u>16,984,231</u>
Increase (Decrease) in Working Capital	616,653	(1,975,135)
Working Capital at Beginning of Year	<u>2,465,339</u>	<u>4,440,474</u>
Working Capital at End of Year	<u>\$ 3,081,992</u>	<u>\$ 2,465,339</u>

See notes to financial statements.

Changes in Components of Working Capital

For the year ended May 31, 1974 (Canadian dollars)

	<u>1974</u>	<u>1973</u> (restated)
Increase (Decrease) in Current Assets		
Cash, including deposit receipts	\$ (784,733)	\$(2,376,348)
Accounts receivable —		
Trade	4,397,840	1,485,004
Other	60,606	482,957
Inventories	1,960,470	1,318,042
Prepaid expenses	284,761	169,920
Net increase in current assets	<u>5,918,944</u>	<u>1,079,575</u>
Increase (Decrease) in Current Liabilities		
Operating bank loans, including cheques issued	3,101,403	(77,942)
Bankers' acceptances	760,000	660,000
Accounts payable and accrued	1,024,577	1,561,153
Estimated income taxes payable	185,094	78,644
Long term debt due within one year	231,217	832,855
Net increase in current liabilities	<u>5,302,291</u>	<u>3,054,710</u>
Increase (Decrease) in Working Capital	<u>\$ 616,653</u>	<u>\$(1,975,135)</u>

Consolidated Statement of Retained Earnings

For the year ended May 31, 1974 (Canadian dollars)

	<u>1974</u>	<u>1973</u> (restated)
Balance at beginning of year, as previously reported	\$ 8,907,261	\$ 8,069,917
Prior period adjustment to report on the tax allocation method of accounting for income taxes (Note 1)	<u>6,517,457</u>	<u>5,701,081</u>
Balance at beginning of year, as restated	2,389,804	2,368,836
Net income for the year	<u>1,712,202</u>	<u>1,132,634</u>
Deduct	4,102,006	3,501,470
Dividends paid —		
5½% Preferred shares series A	88,724	91,784
5% Second preference shares	500,000	500,000
Common shares (\$.10 per share)	476,940	471,882
Amount transferred to capital redemption reserve fund*	59,500	48,000
	<u>1,125,164</u>	<u>1,111,666</u>
Balance at end of year	<u>\$ 2,976,842</u>	<u>\$ 2,389,804</u>

*Pursuant to The Companies Act of Alberta

See notes to financial statements.

Notes to Consolidated Financial Statements

May 31, 1974

1. Summary of Significant Accounting Policies

The following accounting principles and practices of Bow Valley Industries Ltd. and subsidiary companies are set forth to facilitate the understanding of data presented in the financial statements.

Principles of consolidation:

The consolidated financial statements include the accounts of Bow Valley Industries Ltd. and its subsidiaries, all of which are wholly-owned, as well as Bow Valley's share of assets and liabilities, revenues and expenses of an unincorporated joint venture and three partnerships (herein collectively called "Bow Valley").

Capital assets (excluding oil and gas properties) and depreciation:

Additions, improvements and repairs and maintenance that significantly add to productive capacity or extend the life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to income as incurred.

Depreciation of drilling and related equipment is calculated by the diminishing balance method mainly at the rate of 20%; oil and gas well and battery equipment by the straight-line method mainly at the rate of 10%; manufacturing, sales and service equipment by the diminishing balance method, mainly at the rate of 20%; 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; buildings by the diminishing balance method at rates from 2½% to 7½%.

Oil and gas properties and depletion:

Bow Valley follows the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead, are capitalized whether productive or unproductive. Depletion is computed on such costs by the unit of production method based on the estimated proven reserves of oil and gas. No gains or losses are ordinarily recognized upon the sale or disposition of oil or gas properties held for development purposes except under circumstances which result in major disposals of reserves. Gains or losses from the sale or disposition of oil and gas properties and rights held for resale are included in the consolidated statement of income.

Unamortized deferred charges:

Deferred charges of \$81,455 (1973 — \$117,455) relating to series A preferred share issue expense and long term debt issue expenses, are being amortized over a period of ten years and over the terms of the issues respectively. The balance of deferred charges amounting to \$441,056 (1973 — \$354,677) is being amortized over periods of three to five years.

Goodwill:

Goodwill acquired prior to fiscal 1972 in the amount of \$3,920,752 is shown in the consolidated financial statements at cost. Management believes there are no reasons to expect any significant decrease in the value of this intangible asset and accordingly does not contemplate any amortization. Goodwill acquired in fiscal 1972 is being amortized over twenty years using the straight-line method and is shown at unamortized cost.

Provision for major overhauls:

The provision for major overhauls relates to Bow Valley's helicopter operations and is calculated on the basis of hours of aircraft operation. Actual costs, when incurred, are charged against such provision. For comparative purposes, the 1973 balance has been reclassified.

Income taxes:

During fiscal 1974, as required by a recent ruling of the Canadian Provincial Securities Administrators, Bow Valley retroactively adopted the tax allocation method of accounting for income taxes whereby the income tax provision is based on the earnings reported in the accounts. Under this method Bow Valley provides for income taxes deferred as a result of claiming capital cost allowances, oil and gas lease acquisition, exploration and drilling costs and other allowable expenses for tax purposes in excess of the amounts written off in the accounts. As a result of this change the 1974 provision for income taxes has been increased by \$1,154,000 (\$.24 per share) and the 1973 provision for income taxes, as restated, has been increased by \$816,376 (\$.17 per share), resulting in corresponding decreases in the reported net incomes.

Earnings per common share:

Earnings per common share are calculated in accordance with Canadian practice on the basis of the weighted average number of common shares of Bow Valley outstanding during the year. No material change would result assuming full dilution.

Primary earnings per common share, calculated in accordance with United States practice, would not be materially different.

2. Inventories

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

	1974	1973
Finished goods	\$4,168,240	\$2,077,438
Work in progress	914,057	649,316
Raw materials	1,176,660	667,865
Materials and supplies	2,276,622	3,322,446
Oil and gas properties and rights held for resale	845,862	703,906
	<u>\$9,381,441</u>	<u>\$7,420,971</u>

3. Capital Assets

	1974			1973
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Land	\$ 573,940	\$ —	\$ 573,940	\$ 569,506
Buildings	2,896,741	647,684	2,249,057	1,308,853
Leasehold improvements	290,631	124,597	166,034	103,537
Office equipment	630,798	367,743	263,055	191,433
Automotive equipment	2,151,502	1,203,384	948,118	1,035,441
Drilling and related equipment	18,193,265	10,446,202	7,747,063	8,935,182
Manufacturing plant and equipment ...	2,544,618	1,289,471	1,255,147	1,071,726
Helicopters and related equipment	2,494,832	468,340	2,026,492	2,483,929
Sales and service equipment —				
Construction	2,034,639	1,252,420	782,219	967,692
Pollution control	585,499	262,094	323,405	357,734
Other	219,007	145,878	73,129	84,915
Oil and gas properties and equipment ...	<u>37,841,467</u>	<u>10,929,417</u>	<u>26,912,050</u>	<u>23,485,060</u>
	<u>\$70,456,939</u>	<u>\$27,137,230</u>	<u>\$43,319,709</u>	<u>\$40,595,008</u>

4. Interest in Kommandittelskapet Oslo Drilling A/S & Co.

Bow Valley has a 20% interest in Kommandittelskapet Oslo Drilling A/S & Co., a Norwegian limited partnership, which was formed to construct and operate the "Odin Drill", an offshore drilling rig. At May 31, 1974, the drilling vessel had been commissioned and was undergoing sea trials.

5. Bank Loans and Bankers' Acceptances

Operating bank loans and bankers' acceptances are secured by a \$2,000,000 floating charge demand debenture on the current assets of a subsidiary and various chattel mortgages given by Bow Valley. In addition, Bow Valley has granted the bank general assignments of accounts receivable and pledged certain inventories under Section 88 of The Bank Act.

6. Long Term Debt

	<u>1974</u>	<u>1973</u>
Bow Valley Industries Ltd.		
7% Sinking Fund Debentures Series A, due March 1, 1986, redeemable with annual sinking fund instalments of \$158,000 in each of the years 1975 to 1985 inclusive (Authorized — \$4,000,000)	\$ 2,727,000	\$ 2,873,500
Obligation as participant in Panarctic Oils Ltd., due on a call basis	—	423,005
Bank loans, at current interest rates 12½% (1973 — 7½%), repayable at the rate of \$217,000 per month (1973 — \$175,000), secured mainly by oil and gas producing properties*	14,450,667	11,524,667
Note payable on equipment purchases with interest at 7% due in 1974, secured by retention of title	—	71,392
10.7% Mortgage payable in annual instalments of \$26,760	138,260	165,020
Other notes payable, 1975 to 1977	60,000	80,000
	<u>17,375,927</u>	<u>15,137,584</u>
Subsidiaries:		
Bank loans, at current interest rates — 12½% (1973 — 8½% - 9½%), repayable at the rate of \$51,814 per month (1973 — \$51,661), secured by parent company (Bow Valley Industries Ltd.) guarantee and by chattel mortgages on equipment*	2,216,190	2,420,621
4% Note payable in annual instalments of \$64,113 in 1975 and \$67,495 in 1976, secured by parent company (Bow Valley Industries Ltd.) guarantee	131,608	196,185
7% Debenture, repayable at the rate of \$3,461 per month including interest, secured by a fixed and floating charge on that subsidiary's assets	60,304	96,737
Other long term obligations	—	43,901
	<u>2,408,102</u>	<u>2,757,444</u>
Total long term debt	19,784,029	17,895,028
Less: Amount due within one year	3,658,337	3,427,120
	<u>\$16,125,692</u>	<u>\$14,467,908</u>

* The terms of the bank loans extend up to 1981, but the banks reserve the right to call the loans on demand.

The 7% Sinking Fund Debentures Series A are secured by a first floating charge on all of Bow Valley's undertaking subject to permitted encumbrances.

The aggregate maturities of long term debt in each of the five years subsequent to May 31, 1974 are as follows: 1975 — \$3,658,337; 1976 — \$3,950,471; 1977 — \$3,864,989; 1978 — \$3,267,491; 1979 — \$2,859,426.

7. Share Capital, Share Purchase Warrants and Share Options

5½% Cumulative redeemable preferred shares series A:

Bow Valley is required to expend \$40,000 per year (or such lesser amount as would increase the fund to \$80,000) on a series A preferred share purchase fund for redemption or retirement of its 5½% cumulative redeemable preferred shares series A, provided such shares are available in the open market for purchase at a price not exceeding their par value plus reasonable cost of acquisition. The series A preferred 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.

5% Cumulative redeemable convertible second preference shares:

The 5% cumulative redeemable convertible second preference shares of a par value of \$100 each are convertible at any time prior to April 2, 1979 into common shares at an initial conversion price of \$30 per common share (3-1/3 common shares for one preference share). These shares rank junior to the series A preferred shares and are subject to redemption on or after April 1, 1974 at \$105 per share, plus accumulated unpaid dividends, except that during the period from April 1, 1974 to April 1, 1979 redemptions are subject to deferral under certain conditions.

On or before March 31 in each year, commencing with the year 1980, Bow Valley is required to set aside as a sinking fund an amount equal to 5% of the par value of the second preference shares outstanding at the close of business on April 1, 1979 for the purpose of either redeeming or purchasing the shares.

The following table sets out the changes in issued common share capital during the year ended May 31, 1974:

	<u>Number of shares</u>	<u>Amount</u>
Balance, May 31, 1973	4,766,396	\$15,259,807
Shares issued for cash upon exercise of options	4,230	88,901
Balance, May 31, 1974	<u>4,770,626</u>	<u>\$15,348,708</u>

Of the authorized but unissued common shares, 572,284 were reserved at May 31, 1974 for the following:

- (a) Outstanding warrants which entitle the holders thereof to purchase an aggregate of 22,286 common shares at \$42.50 per share of which 19,339 expire on September 22, 1974, and 2,947 on February 16, 1975.
- (b) Options granted, or to be granted, up to an aggregate of 196,665 common shares of Bow Valley to officers and employees of Bow Valley under the terms of the Bow Valley Industries Ltd. Incentive Stock Option Plan.
- (c) 5% Cumulative redeemable convertible second preference shares convertible into, initially, 333,333 common shares of Bow Valley.
- (d) Further consideration with respect to the acquisition of Western Research & Development Ltd. amounting to 20,000 common shares (Note 10).

As at May 31, 1974, the details of common shares under option are as follows:

<u>Date granted</u>	<u>Number of shares</u>	<u>Option Price</u>		<u>Market value at date of grant</u>	
		<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>
May 5, 1969	2,150	\$25.89	\$ 55,664	\$27.25	\$ 58,588
September 24, 1969	300	18.75	5,625	19.75	5,925
November 13, 1969	200	17.50	3,500	16.75	3,350
May 12, 1970	2,100	12.83	26,943	13.50	28,350
February 23, 1971	5,750	16.03	92,173	16.875	97,031
June 14, 1971	250	21.61	5,403	22.75	5,688
September 29, 1971	500	25.89	12,945	27.25	13,625
November 30, 1971	63,480	23.87	1,515,268	25.15	1,596,522
May 18, 1972	6,325	28.74	181,781	30.25	191,331
December 11, 1972	2,600	41.09	106,834	43.25	112,450
March 15, 1973	1,500	33.61	50,415	35.375	53,063
June 6, 1973	20,850	25.18	525,003	26.50	552,525
May 29, 1974	46,850	17.81	834,399	18.75	878,438
	<u>152,855</u>				

The following table sets out details regarding options exercised during the year ended May 31, 1974:

<u>Date granted</u>	<u>Number of Shares</u>	<u>Option price</u>		<u>Market value at date of exercise</u>	
		<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>
May 5, 1969	1,650	\$25.89	\$ 42,719	\$31.50 to 36.125	\$ 59,094
November 13, 1969	200	17.50	3,500	38.50	7,700
May 12, 1970	250	12.83	3,207	26.50 to 28.00	6,925
February 23, 1971	1,450	16.03	23,244	26.875 to 37.875	45,219
November 30, 1971	680	23.87	16,231	26.75 to 35.50	19,930
	<u>4,230</u>		<u>\$ 88,901</u>		<u>\$ 138,868</u>

Options are exercisable within a period of five years from the date of grant or one year from the date of death of an optionee. The value assigned to the shares on the exercise of options is the option price multiplied by the number of shares issued. No charges are made against income.

8. Restrictions on Dividends

Under the terms of the Trust Deed for the 7% Sinking Fund Debentures Series A of Bow Valley Industries Ltd. and the terms of the series A preferred shares, dividends on common shares shall not be declared or paid:

- (a) If after giving effect to such declaration or payment, the aggregate of the consolidated retained earnings and capital surplus of Bow Valley will be less than \$3,000,000; and
- (b) 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 of the series A preferred shares and all preferred shares ranking in priority thereto or equally therewith then issued and outstanding.

At May 31, 1974 approximately \$495,000 (1973 restated — Nil) of the consolidated retained earnings, capital redemption reserve fund and contributed surplus were free of these restrictions.

9. Remuneration of Directors and Senior Officers

During fiscal 1974, there were eleven directors and eight officers, of whom six were also directors (1973 — same). Directors' fees and officers' remuneration for the year amounted to \$9,000 and \$308,992 respectively (1973 — \$7,603 and \$271,379). Officers who are also directors receive no remuneration in their capacity as directors.

10. Contingent Liabilities and Commitments

At May 31, 1974 Bow Valley was contingently liable as follows:

- (a) For the liabilities of the co-owners in the joint venture and partnerships (Note 1), but against which Bow Valley would have a claim against the other co-owners and the interests of the co-owners in the joint venture and partnership assets.
- (b) As guarantor of discounted conditional sales contracts and other indebtedness of third parties in the amount of \$1,219,828 (1973 — \$349,405).
- (c) As co-guarantor of payments under a two year contract for the rental of the semi-submersible drilling rig "Odin Drill" (which payments are made to a limited partnership in which Bow Valley has a 20% interest) aggregating approximately \$9,500,000 per year.
- (d) As co-guarantor of rental payments under a two year contract for the support fleet for the semi-submersible drilling rig "Odin Drill" aggregating approximately \$7,300,000 per year.

(e) Bow Valley has issued non-interest bearing demand promissory notes in the amount of \$3,000,000 to a foreign government to be held as work performance deposits in respect of exploratory rights.

During fiscal 1974 Bow Valley entered into an agreement with another company whereby that company would earn a portion of Bow Valley's interest in a foreign oil and gas concession. This agreement is conditional upon approval by the foreign government, which at May 31, 1974, had not yet been received. In the event that approval is not received, Bow Valley will be required to repay the other company approximately \$1,800,000 for drilling and exploration costs incurred by them under the terms of the agreement. In the opinion of management, the required approval will be granted during fiscal 1975.

There are outstanding claims against a subsidiary (Bow Helicopters Ltd.) in the amount of approximately \$1,300,000 relating to an accident in July 1969. Counsel for the insurers have taken the position that these claims do not fall within the coverage afforded by the applicable liability policies, but this position has been disputed. Bow Valley's legal counsel is of the opinion that the subsidiary has a meritorious defense and should prevail at trial.

Pursuant to the agreement for the purchase of the outstanding shares of Western Research & Development Ltd. 5,500 common shares of Bow Valley are to be issued to the vendors in 1975 and 4,500 common shares are to be issued to the vendors in 1980. Subject to certain conditions being met, including earnings tests for periods ending in 1975 and in 1980, a further 10,000 common shares of Bow Valley are to be issued to the vendors. Should such earnings of Western Research & Development Ltd. reach a certain level by 1975, the total 20,000 shares are to be issued in 1975.

Bow Valley has subscribed for additional shares of Panarctic Oils Ltd. in connection with a recent financing by that company. Upon the issuance of such additional shares, Bow Valley will be committed to expend approximately \$450,000 on drilling and exploration on Panarctic lands.

11. Subsequent Event

Subsequent to May 31, 1974 Bow Valley has reached an agreement involving the sale of its interest in Panarctic Oils Ltd. and Panarctic Oil Operators Ltd., including the additional shares subscribed for as outlined in note 10, for a cash consideration of \$7,852,418, plus the assumption of Bow Valley's remaining commitments pursuant to the Panarctic Fifth Expansion Agreement amounting to \$397,582.

The sale is subject to a number of approvals, including the approval of holders of 60 percent of the outstanding shares of Panarctic Oils Ltd.

Auditors' Report

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting for income taxes described in Note 1 to the financial statements.

CALGARY, Alberta
August 2, 1974, except as to note 11,
which is as of August 23, 1974.

PRICE WATERHOUSE & CO.
Chartered Accountants

Five Year Financial Summary *

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Gross income	\$73,426,379	\$61,721,541	\$48,192,977	\$40,204,002	\$44,738,773
Depreciation and depletion	4,995,905	4,677,937	3,756,960	3,482,156	2,795,663
Income before income taxes and extraordinary items	3,478,541	1,879,479	1,205,476	892,589	2,432,396
Provision for income taxes —					
Current	449,507	224,789	97,880	220,266	326,624
Deferred	1,316,832	588,156	538,552	254,950	1,103,815
	<u>1,766,339</u>	<u>812,945</u>	<u>636,432</u>	<u>475,216</u>	<u>1,430,439</u>
Income before extraordinary items	1,712,202	1,066,534	569,044	417,373	1,001,957
Extraordinary items —					
Income (expense)	—	66,100	207,979	(641,510)	—
Net income (loss)	1,712,202	1,132,634	777,023	(224,137)	1,001,957
Cash flow (after preferred and preference dividends)	\$ 7,620,048	\$ 6,208,540	\$ 4,710,341	\$ 3,805,003	\$ 4,517,532
Shares outstanding at year-end					
Common	4,770,626	4,766,396	4,753,064	4,630,484	4,430,496
Preferred, series A	79,265	82,240	84,640	87,540	90,290
Second preference	100,000	100,000	100,000	100,000	100,000
 PER COMMON SHARE (1)					
Cash flow	\$ 1.60	\$ 1.30	\$ 1.00	\$.84	\$ 1.04
Income (loss) before extraordinary items24	.10	—	(.04)	.09
Extraordinary items	—	.01	.04	(.14)	—
Net income (loss)24	.11	.04	(.18)	.09
 Dividends per share					
Common (pre-pooling)	\$.10	\$.10	\$.10	\$.10	\$.10
Preferred, series A	1.10	1.10	1.10	1.10	1.10
Second preference	5.00	5.00	5.00	5.00	5.00

(1) Based on the average number of common shares outstanding during the respective years (1974 — 4,768,873; 1973 — 4,759,683; 1972 — 4,694,731; 1971 — 4,544,507; 1970 — 4,376,295) and after dividend requirements on series A preferred shares and second preference shares.

* As restated for pooling of interests and prior period adjustments, including the retroactive adoption of tax allocation accounting.



Bow Valley Industries Ltd. 1974 Annual Report