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DARYL K. SEAMAN, President
BYRON J. SEAMAN, Senior Vice-President
HENRY C. VAN RENSSELAER, 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

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J. RICHARD HARRIS, Vice-President, Exploration, Bow Valley Industries Ltd., Calgary, Alberta
WILLIAM A. HOWARD, Q.C., Barrister and Solicitor, Calgary, Alberta
WILLIAM S. HULTON, C.A., Financial Consultant, Vancouver, B.C.
JAMES S. PALMER, Barrister and Solicitor, Calgary, Alberta
DARYL K. SEAMAN, President, Bow Valley Industries Ltd., Calgary, Alberta
BYRON J. SEAMAN, Senior Vice-President, Bow Valley Industries Ltd., Calgary, Alberta
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THATCHER L. TOWNSEND JR., Vice President, Wachovia Bank & Trust Company, N.A., Winston-Salem, North Carolina, U.S.A.
HENRY C. VAN RENSSELAER, Vice-President, Finance, Bow Valley Industries Ltd., Calgary, Alberta

Head Office

630 - 6th Avenue South West, Calgary, Alberta

Transfer Agents

Common Stock
GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York, U.S.A.

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
SCHRODER TRUST COMPANY, New York, U.S.A.

Preferred Stock, Series A
GUARANTY TRUST COMPANY OF CANADA, Calgary, Winnipeg, Toronto and Montreal

Auditors

PRICE WATERHOUSE & CO., Calgary, Alberta

Legal Counsel

HOWARD, MOORE, DIXON, MACKIE & FORSYTH, Calgary, Alberta
BURNET, DUCKWORTH, PALMER, TOMBLIN, O'DONOGHUE, BEATTIE & HAIGH, Calgary, Alberta
PAUL, WEISS, RIFKIND, WHARTON & GARRISON, New York, U.S.A.

Bankers

THE ROYAL BANK OF CANADA, Calgary, Alberta
THE MERCANTILE BANK OF CANADA, Calgary, Alberta



Mackenzie Delta area of the Arctic coastal plains.

Highlights

	1971	1970 Restated for poolings of interest	1970 As previously reported
Gross income	\$40,204,002	\$44,738,773	\$44,139,209
Depreciation and depletion	\$ 3,482,156	\$ 2,795,663	\$ 2,541,593
Income before extraordinary items	\$ 622,491	\$ 1,989,234	\$ 2,365,488
Extraordinary items	\$ (641,510)	\$ —	\$ —
Net income (loss)	\$ (19,019)	\$ 1,989,234	\$ 2,365,488
Shares outstanding at year end	4,630,484	4,430,496	3,249,342
Cash flow per common share*	\$.84	\$ 1.03	\$ 1.42
Net income (loss) per common share*	\$ (.13)	\$.32	\$.55

* Based on the average number of shares outstanding during the respective years (1971—4,544,507; 1970 restated—4,376,295; 1970 as previously reported—3,233,243) and after dividend requirements on Series A Preferred Shares and Second Preference Shares.

ANNUAL GENERAL MEETING

The 1971 Annual General Meeting of the Shareholders of Bow Valley Industries Ltd. will be held at the offices of the Company at 10 a.m. September 28, 1971.



Darl K. Seaman, President, discusses company plans with J. Richard Harris, Vice-President, Exploration.

President's Message

The amalgamation of Bow Valley Industries Ltd. and Syracuse Oils Limited took place on April 30, 1971. Therefore, the fiscal 1971 and historical financial data presented in this report are for the amalgamated company prepared in accordance with pooling of interests principles.

Gross income in the latest fiscal year amounted to \$40,204,002 compared with \$44,738,773 in the previous year. Net income before extraordinary items was \$622,491 or 1¢ per common share versus \$1,989,234 or 32¢ per common share last year. Extraordinary losses during fiscal 1971 totalled \$641,510, occasioned mainly by a loss in foreign exchange and the expense of amalgamation. The result was a net loss for the year of \$19,019, equivalent to 13¢ per share after preferred dividends, compared with net income of \$1,989,234, or a profit of 32¢ per share in the preceding year. Cash flow per common share in the latest year amounted to 84¢ compared with \$1.03 in the previous year.

During the first nine months of the year a number of developments adversely affected earnings. The year began with the unpegging of the Canadian dollar which immediately rose in value in relation to the U.S. dollar, causing an exchange loss in Bow Valley's U.S. deposits. The reduction in Canadian oil export quotas to the United States which took place in March of 1970 and was not rescinded until November of 1970, coupled with generally disappointing exploration results in the western provinces and reduced availability of high risk exploration funds occasioned by the 1969-1970 stock market decline, and uncertainty regarding Canadian taxation policies, all combined to adversely affect

the Canadian oil and gas industry's service business and Bow Valley's earnings. A series of prolonged strikes in British Columbia affecting the forest products industry and the unpegging of the Canadian dollar which weakened the competitive position of Canadian forest products in the U.S. market resulted in lower levels of activity for Bow Valley's subsidiaries serving that industry. An inadvertent error in connection with the timely filing of work deposits covering seven permits primarily offshore in the Arctic Islands required the establishment of an extraordinary reserve in the amount of \$809,308, further impairing Bow Valley's earnings.

In contrast to earlier problems, a number of events which took place later on in the year had favourable implications for your company's future earnings and business. The price and marketing outlook for Canadian crude suddenly improved under the influence of growing energy shortages in the United States and concerted action by the large overseas producing countries to raise world crude oil prices. The result was a 25¢ per barrel increase for Canadian crude in December and improved U.S. quotas. During the month of May, two further developments improved Bow Valley's outlook. The Canadian government restored the lands involved in Bow Valley's previously mentioned "permit problem", enabling the company to reverse out the extraordinary loss reserved for in the interim financial statements, and Imperial Oil announced the first of two new discoveries near Bow Valley's extensive land holdings in the Mackenzie Delta. Imperial's Mayogiak P-17 well, located four and one-half miles east of Bow Valley's nearest acreage, was drilled to 12,093 feet and is awaiting the onset of ground freezing conditions which will allow the movement to the wellsite of additional equipment required for testing. Imperial announced encountering oil and gas in this well at a

depth of 3,800 feet with a further zone at 9,400 feet flowing light gravity crude oil to the surface. The second recent success, the Taglu T-33 gas discovery, located approximately fifty-two miles west of the Mayogiak well is also in proximity to Bow Valley's land holdings along the Delta front, being nine and one-half miles distant from the nearest Bow Valley acreage. Imperial is currently involved in testing several separate reservoirs in the Taglu well between 8,150 feet and 9,760 feet and has announced it plans to drill nearby both the Taglu and Mayogiak wells after freeze up. Imperial has brought two more drilling rigs to the Mackenzie Delta subsequent to the latest discoveries and a further two rigs are believed to be in transit to the area for other companies. Bow Valley's technical personnel consider it encouraging for the geologic environment of the company's acreage that of the three tests so far drilled along the coastline of the Mackenzie Delta in proximity to Bow Valley's land holdings, namely Ellice Island, Taglu, and Mayogiak, two of the three have been discoveries. Bow Valley is engaged in a shallow water reconnaissance seismic program on its Delta acreage this summer and will conduct onshore seismic as soon as the ground freezes.

During the year Panarctic Oils Ltd. made a large gas discovery on King Christian Island. In July of 1971 Panarctic announced the signing of a \$75,000,000 agreement with several U.S. gas transmission companies involving an expanded exploration program on Panarctic's lands in the Arctic Islands.

Your company looks forward to increased exploration activity on and around Bow Valley's land holdings in the Mackenzie Delta, Arctic Islands, North Sea, Abu Dhabi, and Indonesia. Announcement of drilling plans on your company's properties will be made as soon as locations have been determined.

In October, 1970 MacPherson Drilling Co., Inc. of Montrose, Colorado, was acquired by Bow Valley's wholly owned subsidiary Connors Drilling Ltd., further expanding your company's mining contract drilling operations. The consideration for the acquisition was \$451,500 U.S. Funds.

As a result of the amalgamation, Bow Valley's Board of Directors has been expanded. Mr. J. Richard Harris, former President and General Manager of Syracuse Oils Limited, Mr. James S. Palmer, and Mr. Thatcher L. Townsend, Jr., all of whom were formerly Directors of Syracuse Oils Limited have now become Directors of the amalgamated company.

The Officers and Directors of Bow Valley wish to express their appreciation to all of the employees of the company for their efforts during the past year.



President

August 23, 1971

Photo courtesy Gerry Rempel, Imperial Oil Limited.



Aerial views taken in spring (above) and winter (below) of Tuktoyaktuk and some of Bow Valley's acreage nearest the recent Imperial Oil Mayogiak dual zone oil discovery.



Photo courtesy The Alberta Gas Trunk Line Company Limited

Oil and Gas Exploration and Development

Canadian Activity

The amalgamation on April 30, 1971 of Bow Valley Industries Ltd. and Syracuse Oils Limited resulted in the amalgamated company having substantial exploratory land holdings in a number of sedimentary basins in Canada and elsewhere in the world currently considered prospective for commercial accumulations of oil and gas. At May 31, 1971 the amalgamated Bow Valley held working interests in approximately 78,000,000 gross acres equivalent to 10,000,000 net acres in the four western Canadian provinces, the Yukon and Northwest Territories, the Mackenzie Delta, the Arctic Islands, Foxe Basin, Hudson Strait, Hudson Bay and the Atlantic East Coast. Overseas, Bow Valley held exploratory acreage in the North Sea offshore from the United Kingdom, Norway and Holland; in the Adriatic Sea, offshore from Italy; South Africa; Abu Dhabi; the Maldive Islands and Indonesia. In addition, the Company's 2.24 percent ownership in Panarctic Oils Ltd. gave it an interest in approximately 55,000,000 acres in the Canadian Arctic Islands.

The Mackenzie Delta, Arctic Islands, Canadian East Coast, the North Sea and offshore Indonesia are new exploratory areas currently the recipient of large expenditures by the oil and gas industry, while the Western Canadian sedimentary basin and Abu Dhabi continue to be areas of large potential reserves. It is anticipated that a considerable number of wells will be drilled both on, and in proximity to, Bow Valley's main exploratory properties in the next three years.

At the fiscal year end Bow Valley's producing properties were all in Canada. Net proven reserves from these properties after deducting all royalties, as determined by McDaniel Consultants (1965) Ltd. at May 31, 1971, were 9,207,600 barrels of oil, 123 billion cubic feet of natural gas and 333,000 barrels of natural gas liquids.

The Company's production of crude oil, natural gas and natural gas liquids during the 1971 fiscal year was derived entirely from producing properties in British Columbia, Alberta, Saskatchewan and Ontario. Net crude oil production after royalties amounted to 697,002 barrels (1,910 bbls/day) representing a 1.5 percent increase over the 686,985 barrels (1,882 bbls/day) produced one year earlier. Net natural gas production of 4,624 MMcf (12,668 Mcf/day) after royalties was 6.2 percent lower than the 4,940 MMcf (13,530 Mcf/day) produced during 1970 due to unscheduled shutdowns at the Great Canadian Oil Sands plant, the Company's principal industrial customer. Net production of natural gas liquids after royalties amounted to 33,952 barrels (93 bbls/day) a 34 percent increase over the 25,213 barrels (69 bbls/day) produced last year. In addition to these production increases, the Company received wellhead price increases averaging approximately 25¢ per barrel on all crude oil production effective December 15, 1970.

As depicted by the table below, the Company participated in the drilling of 43 gross wells or 18.64 net wells during the past year. Twenty-five of these wells were completed as successful gas wells and the remainder were abandoned. In addition to these wells, 16 wells were drilled at no cost to the Company on lands farmed out to others in which Bow Valley has retained a royalty or working interest. One of these wells was completed as a successful oil well and four were completed as successful gas wells.

During the 1971 fiscal year, the amalgamated Company spent, for its own account, \$5,482,045 on oil and gas exploration and development. Comparable expenditures during the preceding year by its two predecessor companies amounted to \$5,403,144. In addition to its own investment, Bow Valley expended \$690,377 on behalf of its drilling participants in the latest fiscal year compared to \$1,308,449 expended in the preceding year.

Drilling Activity — Fiscal 1971

Development Wells		OIL		GAS		ABANDONED	
TOTAL		Gross	Net	Gross	Net	Gross	Net
Gross	Net	Gross	Net	Gross	Net	Gross	Net
8	3.09	—	—	3	1.50	5	1.59
Exploratory Wells		OIL		GAS		ABANDONED	
TOTAL		Gross	Net	Gross	Net	Gross	Net
Gross	Net	Gross	Net	Gross	Net	Gross	Net
35	15.55	—	—	22	13.04	13	2.51

Production Summary

	Fiscal year ended May 31		
	1971	1970	1969
Crude Oil (barrels).....	697,002	686,985	590,315
Natural Gas Liquids (barrels).....	33,952	25,213	29,320
Natural Gas (mcf).....	4,624,101	4,940,098	4,877,004

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

SUMMARY OF EXPLORATORY ACREAGE

As of May 31, 1971

LOCATION	TYPE OF INTEREST	GROSS ACRES	NET LEASABLE ACRES	
			Bow Valley	Bow Valley's Participants
A. CANADA				(2)
Alberta	Leases	549,364	208,102(1)	112,239
	Petroleum and Natural Gas Reservations	633,271	135,688(1)	18,080
	Petroleum and Natural Gas Permits	134,572	104,752(1)	3,960
	Drilling Reservations	19,360	391(1)	1,539
	Natural Gas Licences	21,120	7,200(1)	—
Arctic Coast and Mackenzie Delta	Federal Oil and Gas Permits	709,594	85,518(1)*	104,522*
Arctic Islands	Federal Oil and Gas Permits	2,324,222	98,781(1)*	163,763*
Yukon and Northwest Territories	Federal Oil and Gas Permits	354,734	71,353*	—
Foxe Basin	Federal Oil and Gas Permits	427,608	74,832*	—
Hudson Strait	Federal Oil and Gas Permits	491,026	85,930*	—
Hudson Bay	Federal Oil and Gas Permits	693,712	138,743*	—
Atlantic East Coast	Federal Oil and Gas Permits	1,075,307	171,257(1)*	4,476*
British Columbia	Leases	129,310	11,211(1)	24,081
	Petroleum and Natural Gas Permits	42,789	1,003(1)	15,043
Saskatchewan	Leases	8,800	1,984(1)	352
Manitoba	Leases	800	293(1)	—
B. OVERSEAS				
England	Production Licence	110,407	38,643	—
Norway	Production Licence	276,758	39,437	—
	Reconnaissance Licence	135,000†	27,000†	—
Holland	Exploration Licence	45,995	3,197	—
Italy	Exploration Permits	169,530	16,282	—
Abu Dhabi	Concession Area	778,381	155,676	—
South Africa	Prospecting Leases	6,890,240	817,871	—
Maldiv Islands	Petroleum Exploration Licence	30,201,173	3,775,147	—
Indonesia	Production Sharing Contract Areas	31,721,132	3,923,469	—
Total Acreage		77,944,205	9,993,760	448,055

(1) Excludes Bow Valley's net profits interest.

(2) Bow Valley has a 25 percent net profits interest after payout in any future production from these lands.

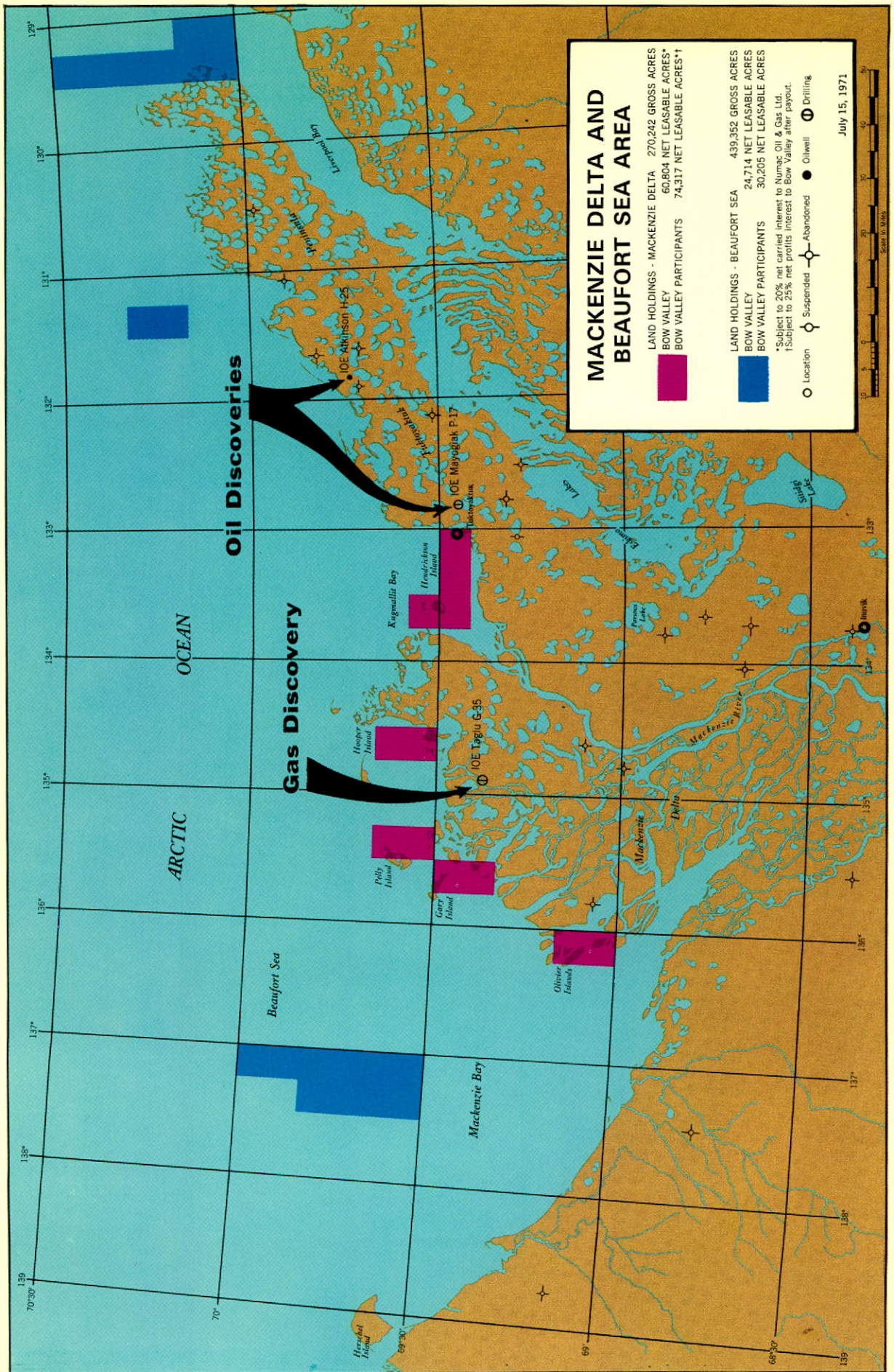
* These figures have been adjusted by a reduction of 50 percent to take into account the revocation of Oil and Gas Land Order 1-1961 effective April 15, 1970.

† Production licence awarded on June 11, 1971.

MACKENZIE DELTA:

Oil and gas exploration activity in the Mackenzie Delta continued to increase during the year culminating in two exploratory successes during the early summer of 1971 by Imperial Oil Enterprises Ltd. near Bow Valley's Mackenzie Delta holdings. The first of these wells, the IOE Mayogiak P-17, is four and one-half miles east of the Company's Permit No. 943. This well encountered oil and gas at 3,800 feet and flowed light-gravity crude oil to surface from a depth of 9,400 feet, classifying it as the first dual-zone oil discovery in the Canadian Arctic and the first oil discovery in the area since the Atkinson Point discovery by Imperial in January 1970. The second recent success, the IOE Taglu G-33, is nine and one-half miles southwest of Bow Valley's Permit No. 947. This well tested a large flow of gas and condensate from a depth of 8,100 feet and is reported

to be testing several separate reservoirs between 8,150 feet and 9,760 feet. Both of these successes will undoubtedly result in increased exploratory activity along the Mackenzie Delta coastline in proximity to Bow Valley's extensive land holdings in the area. Additional drilling rigs are currently being moved to the Delta and it is estimated that at least eight rigs will be active in this area during the 1971-72 winter drilling season. Bow Valley is preparing to conduct approximately 200 miles of marine seismic during the month of August 1971 on its permits located offshore in the Mackenzie Delta and expects to conduct further onshore seismic as soon as the ground freezes this fall. The location and timing of the first exploration drilling on Bow Valley lands will be determined upon completion of these seismic programs.



ARCTIC ISLANDS:

As reported earlier, the lands involved in the seven oil and gas permits in the offshore waters of the Arctic Islands which were in default due to an inadvertent error in the timely filing of work deposits have been restored by the Canadian government. This permitted the Company to eliminate the loss of \$809,308 previously provided for in connection with these properties.

The accompanying map of the Arctic Islands shows the total lands committed to Panarctic Oils Ltd. in which Bow Valley holds a 2.24 percent interest. At May 31, 1971 a total of eight rigs were either drilling or moving to locations in this area. Four of these rigs were under contract to Panarctic and four were under contract to companies working under Panarctic farmouts. One of the wells drilled by Panarctic during the year, located on King Christian Island, resulted in a large gas discovery.

In July of this year, Panarctic announced the signing of a \$75,000,000 exploration and development program to be conducted on its Arctic lands. Panarctic's partners in this program are Tenneco Oils and Minerals Limited, Columbia Gas Systems Incorporated, Texas Eastern Transmission Corporation and Northern Natural Gas Company.

Bow Valley increased its land holdings in the Arctic Islands during 1971 through the acquisition of a 10 percent working interest in 1,600,000 gross acres located on Axel Heiberg Island.

BRITISH COLUMBIA:

During the 1971 fiscal year the Company participated in the drilling of wells at East Clarke Lake and North Cache Creek. Both of these wells were unproductive and have been abandoned. The Company also participated in the drilling of an extension well to the Yoyo gas field in northeastern British Columbia. Reserves developed from the drilling of this well are still being evaluated.

ALBERTA:

During the 1971 fiscal year, the Company participated in the drilling of 38 wells in Alberta. Twenty-four of these wells were completed as successful gas wells. The remainder were unproductive and abandoned.

A triple-zone gas discovery in the Lyle Lake area of east-central Alberta resulted in a nine-well drilling program of which seven wells have since been completed as shut-in gas wells. The Company presently holds approximately a 15 percent working interest in 230,000 acres in this area and further development drilling will be undertaken shortly.

A development gas well was drilled and completed in the Craigend area during the fiscal year bringing to sixteen the number of shut-in gas wells now completed in this field. Bow Valley is presently completing plans to connect ten of these wells and gas deliveries should commence in October 1971. The Company holds a 50

percent working interest in this field which is expected to produce about 10 million cubic feet per day.

The Company purchased a 75 percent interest in two shut-in gas wells located in the Lottie Lake area and has drilled one further extension well which has been completed as a successful gas well. In the same vicinity, Bow Valley participated in the drilling of two wells at Ashmont which were both abandoned.

Two gas wells were drilled and completed in the Company's producing Lac La Biche gas field which resulted in the development of a new pool in this area. One of these wells was connected to the existing gathering system in December 1970 and the second well is to be connected very shortly. This field is producing about 15 million cubic feet per day and Bow Valley currently receives approximately 82 percent of the gross revenue derived from this production.

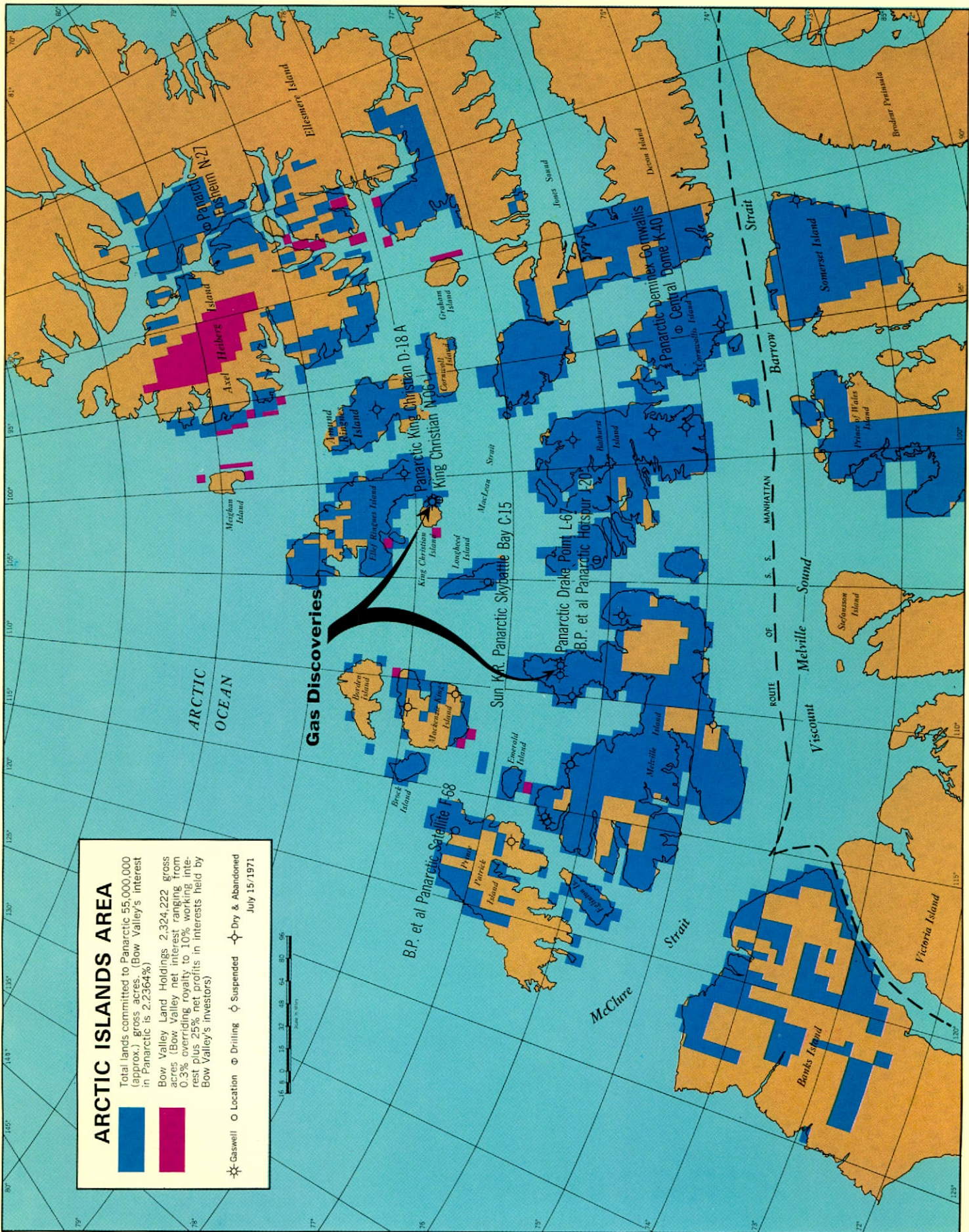
During the 1971 fiscal year, Bow Valley drilled ten additional wells for its own account in the Medicine Hat area which have all been completed as shallow Milk River sand gas wells. Bow Valley also participated in the drilling of three shut-in Medicine Hat sand gas wells and has retained a 50 percent interest in these latter wells. Evaluation of the Milk River sand is currently underway. Five wells presently completed in this field are currently delivering gas on an experimental basis through an existing gas gathering system. If gas prices increase as anticipated, Bow Valley will take steps to further develop and market reserves from this pool.

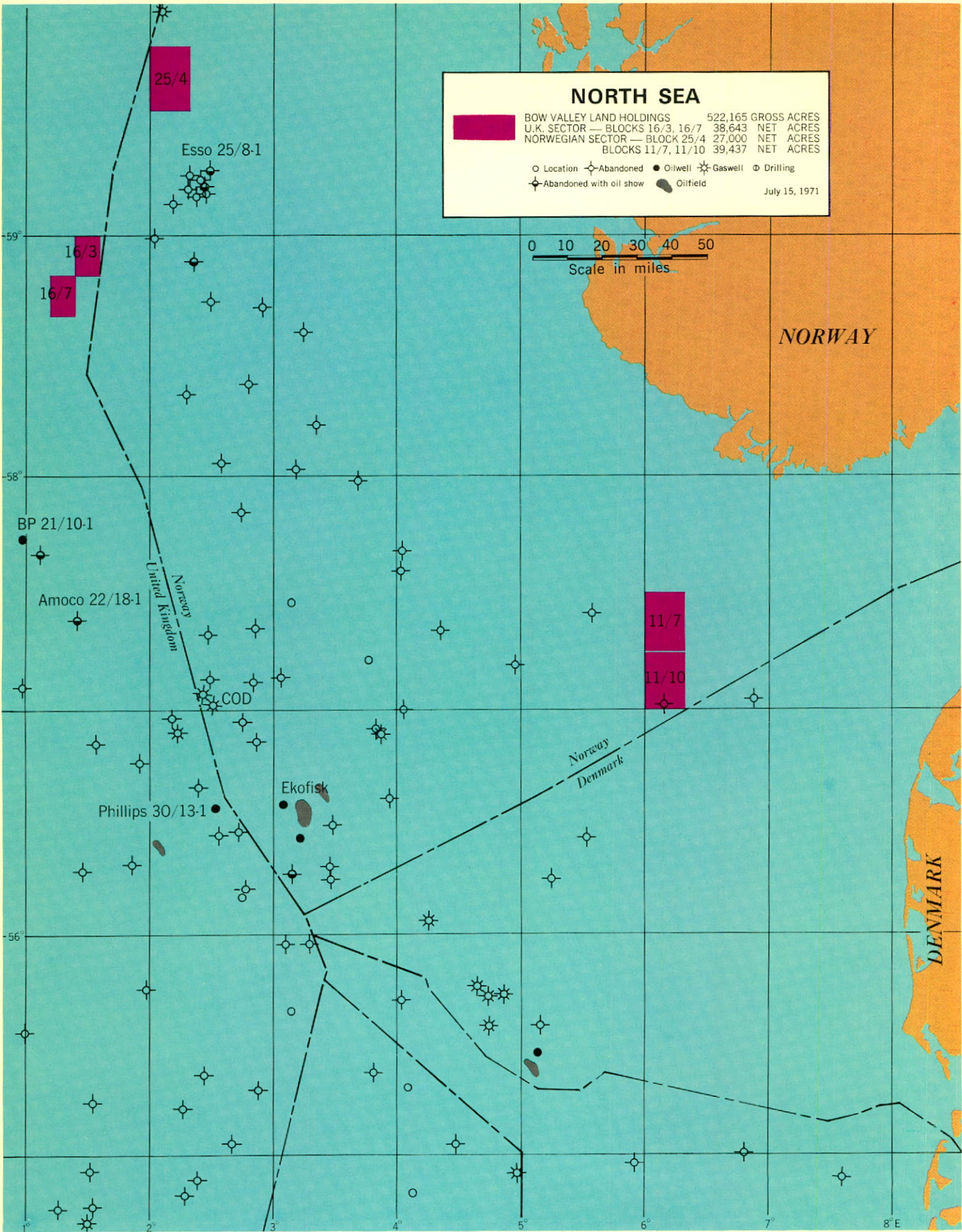
Bow Valley has elected not to participate further in the drilling of a well in the Moberly Creek area which has been temporarily suspended after encountering serious technical difficulties. In giving its abandonment notice, the Company has relinquished all interest in the well and the adjoining farmout lands.

In addition to the 38 wells in which the Company directly participated, Bow Valley also participated indirectly in the drilling of nine other wells. Two of these wells were drilled on lands farmed out in the Cadotte area and one of these wells was completed as a successful oil well. Two further wells were drilled in the Winnifred field and these were both completed as successful gas wells. The remaining five farmout wells were drilled in various other areas of the Province and have all been abandoned. All of these wells were drilled at no cost to Bow Valley and the Company has retained a royalty or working interest in these lands.

ATLANTIC EAST COAST:

Bow Valley held an approximate 35 percent interest in 1,075,000 acres located off the eastern coast of Canada at May 31, 1971. Further offshore acreage was acquired in this area in July of this year through the acquisition of an 8 percent working interest in 1,074,000 acres. Exploratory interest in the area was heightened earlier this summer with the announcement that Mobil Oil Canada Ltd. had encountered significant shows of natural gas and condensate from a well being drilled on Sable Island.





NORTH SEA

	BOW VALLEY LAND HOLDINGS	522,165 GROSS ACRES
U.K. SECTOR — BLOCKS 16/3, 16/7		38,643 NET ACRES
NORWEGIAN SECTOR — BLOCK 25/4		27,000 NET ACRES
	BLOCKS 11/7, 11/10	39,437 NET ACRES

○ Location	⊗ Abandoned	● Oilwell	⊛ Gaswell	⊕ Drilling
⊗ Abandoned with oil show	● Oilfield			

July 15, 1971

0 10 20 30 40 50
Scale in miles

Overseas Activity

NORTH SEA:

In the U.K. sector of the North Sea, one licence including Blocks 16/3 and 16/7 was awarded to the Company during the 1971 fiscal year. These blocks are about 75 miles northeast of the 21/10-1 oil discovery made recently by British Petroleum. Bow Valley holds a 35 percent interest in the licence which contains approximately 110,000 acres. Marine seismic surveys have been completed and the interpreted data has been received. Bow Valley and the other companies having an interest in the Blocks are presently formulating drilling plans for these properties. Bow Valley is actively investigating other areas in the U.K. sector which have been posted in the current round of bidding which closes August 20, 1971.

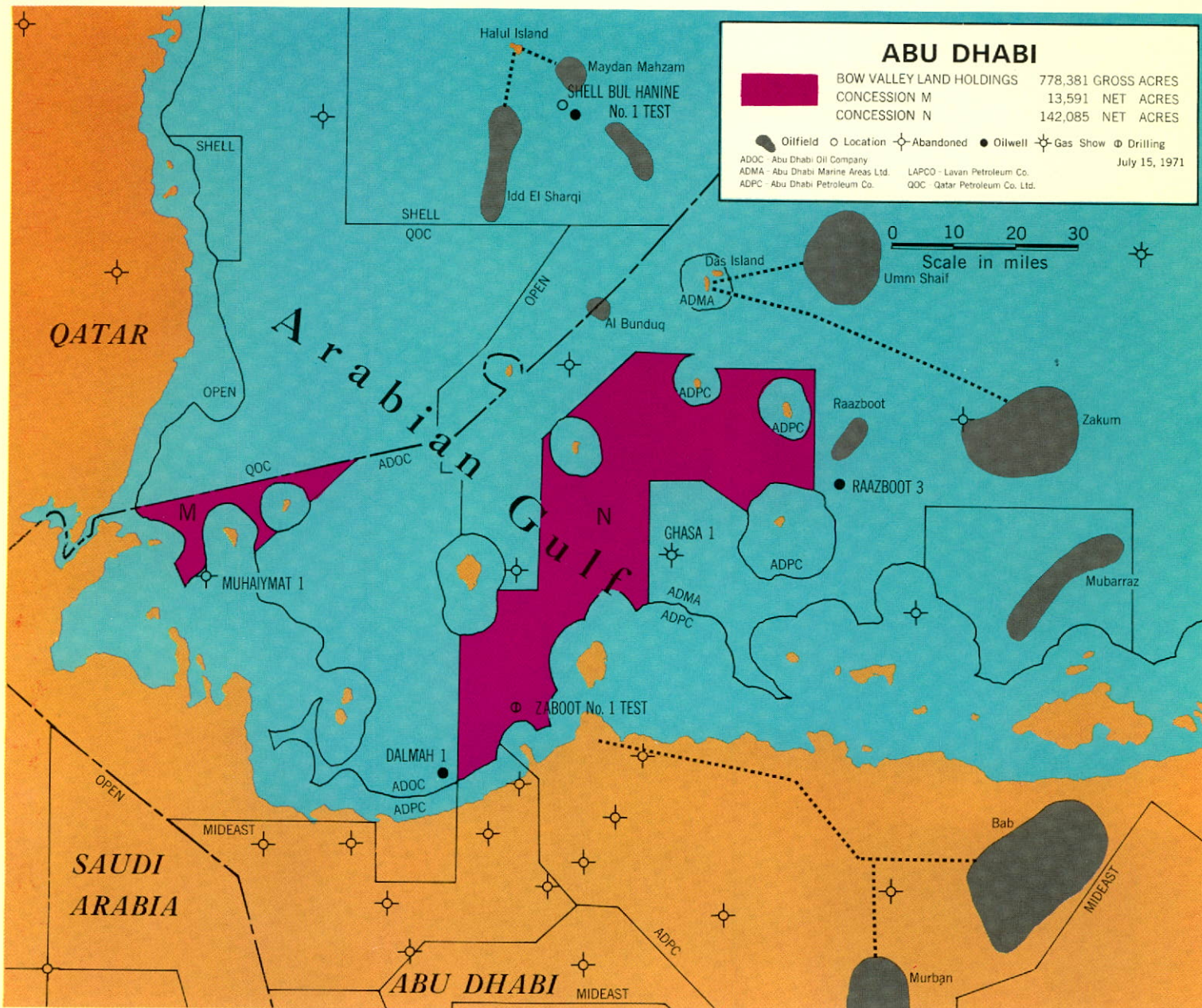
Shortly after the close of the 1971 fiscal year, the Company was advised that it had formally been awarded Block 25/4 in the Norwegian sector of the North Sea. Bow Valley holds a 20 percent interest in this 135,000-acre licence on which a marine seismic program had previously been shot, interpreted and

reviewed. This block is approximately eight miles south of a gas discovery made by Petronord on Block 25/1. Elsewhere in the Norwegian sector of the North Sea the Company continues to hold a 14¼ percent interest in Blocks 11/10 and 11/7 totalling approximately 277,000 acres on which a dry hole was drilled during 1969.

In the Dutch sector of the North Sea, Bow Valley was awarded offshore Block Q/14 immediately adjacent to its Block Q/11 on which a well drilled two years ago encountered gas shows. The Company has a 10 percent interest in this new 6,000-acre licence and preliminary exploratory work will probably be undertaken on this block during the coming year.

ABU DHABI:

Bow Valley owns a 20 percent working interest in a concession which includes Blocks M and N in the Arabian Gulf off the coast of Abu Dhabi. An extensive marine seismic program was undertaken on the 778,381 acres included in the concession during the



year. Following its completion and review, a drilling site was selected in the southern portion of Block N. This well, the Zaboot No. 1, has been drilled to its projected total depth and will be plugged and abandoned after testing non commercial shows of gas. The operator has proposed additional seismic evaluation before further drilling is undertaken in the concession area. Earlier this year, the Abu Dhabi Oil Company, a consortium of Japanese companies, drilled an offshore test approximately three miles from the southwestern end of Block N which flowed low-sulphur crude oil to the surface at a rate of 4,000 barrels per day.

INDONESIA:

In excess of 4,000 miles of reconnaissance and detailed marine seismic have been completed on the Karimata and Mentawai offshore production-sharing contract areas in Indonesia. These areas contain approximately

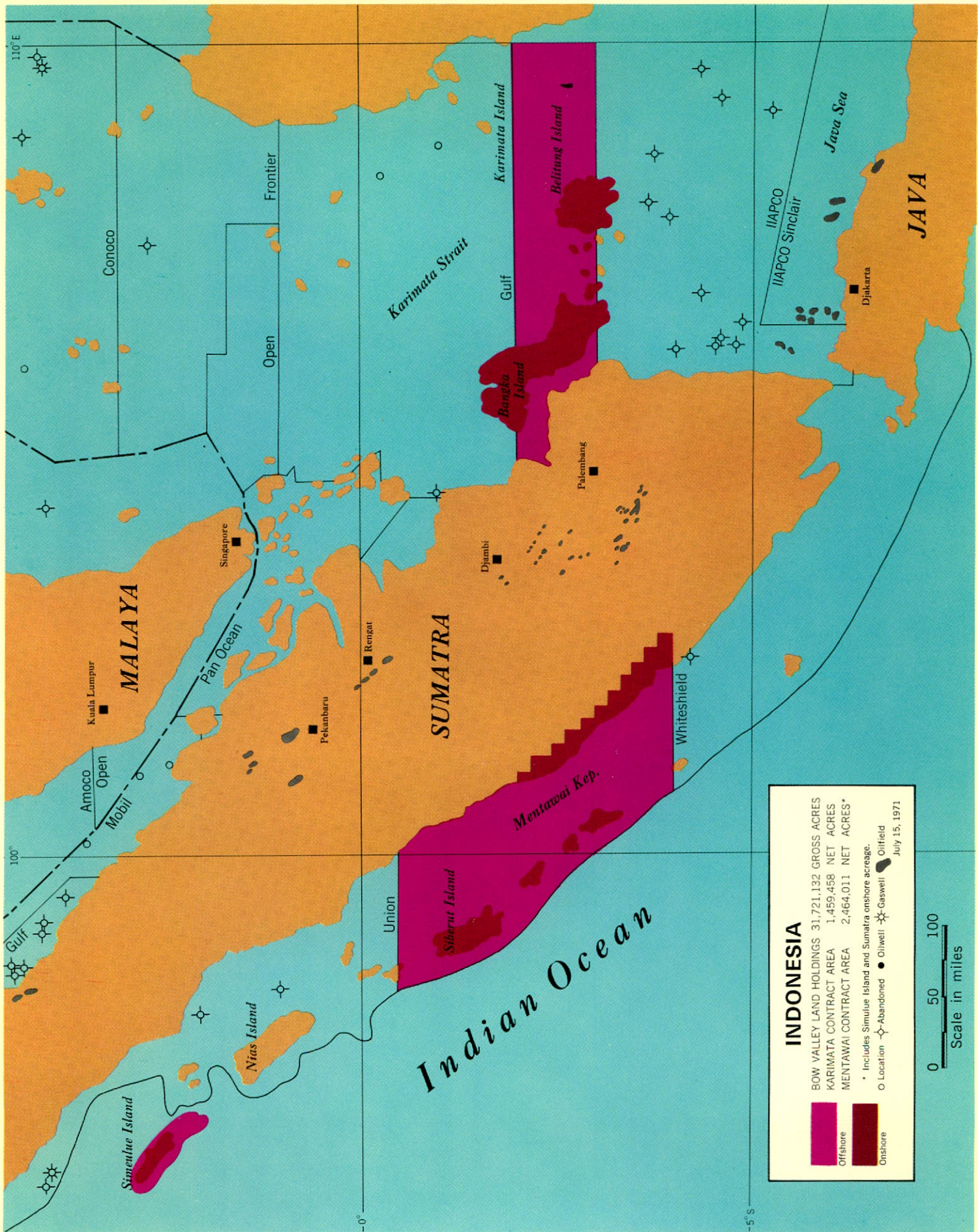
30,100,000 acres in which the Company holds a 12½ percent interest. In March of this year, Bow Valley was granted a 12½ percent interest in a further onshore extension to its Mentawai contract area comprising approximately 1,600,000 acres in southwestern Sumatra. Plans have been completed to commence exploration on these newly acquired lands in the near future. Drilling on the Company's properties in Indonesia should commence early in the 1972 calendar year.

ITALY:

The Company presently holds a 10 percent interest in six offshore permits and a 5 percent interest in one offshore permit in the Italian sector of the Adriatic Sea. These permits contain approximately 170,000 acres. A marine seismic program previously conducted on these blocks is now being interpreted and results are expected in the near future.

"Rio Das Contas" seismic vessel operating in the Mentawai contract area off the western coast of Sumatra.





Mineral Exploration

Bow Valley spent \$60,496 on mineral exploration in fiscal 1971, compared to \$195,635 expended last year. Expenditures by Bow Valley's participants were \$97,812 compared to \$261,610 in fiscal 1970.

Further work was carried out on lands in the Athabasca Sandstone terrain in Northern Saskatchewan. Prospecting on one permit of 182,600 acres, in which Bow Valley acquired a 12½ percent interest, failed to locate any mineralization and resulted in the permit being surrendered. On another permit of 192,000 acres, in which Bow Valley also holds a 12½ percent interest, considerable shallow drilling through lake ice was undertaken as a followup to surface showings of uranium mineralization, without finding any further encouragement. This assessment work will allow the permit lands to be held without more work for several years pending further study.

Prospecting and drilling was carried out in various programs in the Atlin and Cassiar areas of Northern British Columbia and the St. Elias region of the Yukon. Bow Valley has a 12½ percent interest in these programs. Drilling of a mineralized zone on claims in the St. Elias area found low grade copper values. These claims can be held several years pending improved economic conditions in the copper market. Prospecting on claims in the Cassiar area resulted in the program being terminated. Further work is planned on prospects in the Atlin and St. Elias areas.

Mining Contract Drilling

The Company's mining contract drilling operations are conducted through three companies, namely, **Connors Drilling Ltd.**, a Vancouver-based subsidiary, **MacPherson Drilling Co., Inc.**, a Colorado-based subsidiary of Connors Drilling Ltd., and **Griffith Bros. Drilling Limited**, Bow Valley's Manitoba-based subsidiary. All three operations were profitable during the year although footage drilled was down from the preceding year. Connors Drilling Ltd. drilled 363,483 feet in 1971 compared to 461,275 feet in 1970. MacPherson Drilling Co., Inc. drilled 66,284 feet from October 19th, 1970, the month in which MacPherson joined the Bow Valley organization, to the end of the fiscal year, while Griffith Bros. Drilling Limited drilled 119,464 feet in fiscal 1971 compared to 203,100 feet in fiscal 1970.

Oil and Gas Contract Drilling

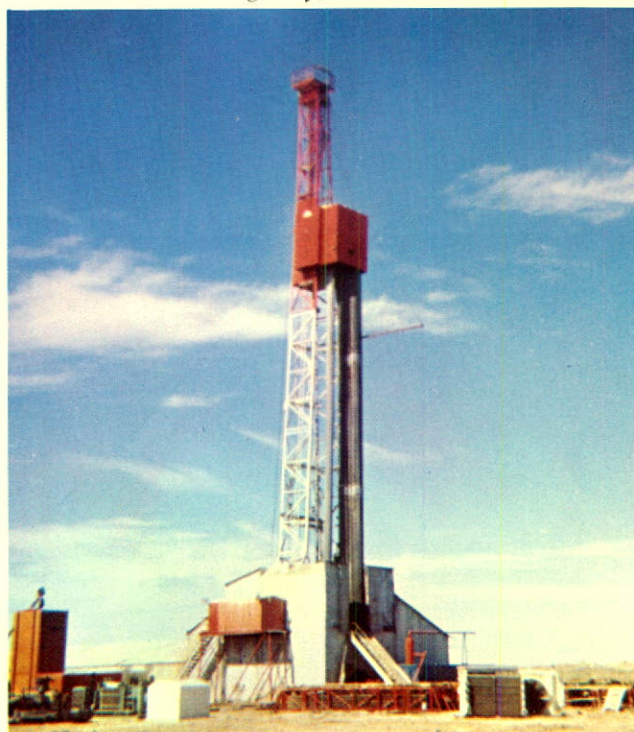
Bow Valley's oil and gas contract drilling operations are conducted through three divisions, **Antelope Drilling**, **Hi-Tower Drilling**, and **Sedco Drilling** as well as a joint venture in which Bow Valley holds a 50% interest operating in the Arctic Islands. The three drilling divisions of Bow Valley operate twenty-eight production rigs, fourteen seismic rigs, four structure test hole rigs, and ten Vibrators. During fiscal 1971 the three divisions drilled a total of 1,478,519 feet, down from the 1,561,924 feet drilled the preceding year. While the total footage was off from the previous year the number of wells drilled by the divisions increased by 10% reflecting higher activity in shallow well drilling. Profits of the divisions were off sharply from last year due to more competitive conditions within the industry, the slower pace of development drilling in western Canada, and unprofitable operations in the Denver area which were shut down in April of 1971.

The Arctic Islands joint drilling venture in which Bow Valley holds a 50% interest currently has three rigs under contract to Panarctic Oils Ltd. and attained budgeted profits during the latest fiscal year. Two of the three new rigs are diesel-electric powered and are the most modern rigs available. The outlook for drilling activity in the Arctic is excellent in view of recent announcements that several major oil and utility companies have committed to spend large sums for exploration on Panarctic lands. These commitments will not only maintain the current level of activity for the next few years, but should create the need for additional equipment which the joint venture is in an excellent position to supply.

Connors Drilling Ltd. equipment working in northwestern British Columbia.



Joint venture rig on location in Arctic Islands for Panarctic Oils Ltd. during July, 1971.





Aviation Services

While gross revenues were off in fiscal 1971 for **Bow Helicopters Ltd.**, your company's subsidiary which provides helicopter services to the oil and gas, mining, and other industries enjoyed a profitable year in comparison with the loss registered in the preceding year. The improved profit performance in fiscal 1971 was attributable to higher rates, increased utilization of the company's larger type aircraft in the Arctic, and greater activity in connection with the airlifting of skiers. A Bell 204B helicopter was positioned in Labrador in the vicinity of the Churchill Falls development and has been working steadily since its arrival. Recent oil and gas discoveries in the Mackenzie Delta augur well for an improvement in helicopter activity in that area.

The initiation of a second skiing operation in east central British Columbia by Hans Gmoser has increased

the usage of Bell 204B helicopters during the winter and spring months. The company anticipates a steady increase in revenues from helicopter skiing activities as ski enthusiasts become more familiar with the spectacular Bugaboo and Cariboo Mountain areas of British Columbia which combine magnificent terrain and light powder snow to provide the finest skiing available in North America and possibly anywhere in the world.

Subsequent to the year end, Bow Helicopters Ltd. obtained a contract for a Bell 205 machine for use in the Arctic Islands and has also arranged for a twin-engined Bell 212 under lease for use in the north. This will be the first twin-engined helicopter brought into the western Canadian Arctic. Bow Helicopters Ltd. has the right to convert the leasing arrangement to an outright purchase if desired.

Sale of Oilfield Equipment and Supplies

Cardwell Supply Ltd.'s sales were down moderately in fiscal 1971, exclusive of the decline attributable to the termination of the warehousing contract for Great Canadian Oil Sands Limited, reflecting the lower level of development drilling activity in western Canada. In spite of the sales decline, the company's normal supply business was profitable during the year. Cardwell has a 60% interest in a joint venture which established a supply depot at Resolute Bay on Cornwallis Island. Start-up and operating expenditures in connection with this project resulted in a loss which more than offset the profits recorded by the company in its oilfield supply business.

Bow Valley believes the Resolute Bay supply depot, which is the world's most northerly supply base, has a good potential for the future in view of projected expenditures for oil and gas exploration in the Arctic Islands. During the year 4,600 tons of materials and supplies for five companies were procured, marshalled, and transported from Houston and Montreal on the Canadian M/S "Federal Hudson" and from Foynes in the Irish Republic, Glasgow, and London via the Danish freighter "Thora Dan". Unloading from these vessels to the beach by lighter and landing craft was accomplished successfully within the short "window" period available in late summer.

The company's industrial sales group increased its business during the year, which partially offset lower sales in oilfield supply items.

Barge unloading at Resolute Bay, September, 1970.



Pipeline Construction and Gas Plant Maintenance

Wonderly & Kershaw Petrochemical Services Ltd., your Company's small-diameter pipeline construction and gas plant maintenance subsidiary, experienced a difficult year in fiscal 1971. Sales for the year amounted to \$2,582,760, down from \$4,260,499 in the preceding year. The subsidiary registered a loss for the year in contrast to a satisfactory profit in the preceding year. During the first half of the fiscal year the company's pipeline construction business was adversely affected by a temporary reduction in Canadian oil export quotas to the United States which took place in March of 1970 and was not lifted until November of 1970. The uncertainty regarding the marketing situation for Canadian oil during the summer of 1970 prompted postponement of a number of gathering system pipeline projects resulting in a temporary lower level of business activity for pipeline companies. With the greatly improved market outlook for Canadian oil, coupled with higher crude prices, a number of these projects have been reinstated during the summer of 1971. Currently the pipeline construction business is good and Wonderly & Kershaw's operations, which have been profitable in every month since March of 1971, continue to show satisfactory earnings.

During fiscal 1971 Wonderly & Kershaw constructed a pipeline for a pilot project undertaken by another company to determine the possibility of transmitting liquid sulphur. The subsidiary's plant maintenance program continues to grow at Shell Canada Limited's plants in Waterton and Jumping Pound and the Aquitaine Company of Canada Limited's plant at Rainbow Lake. Wonderly & Kershaw secured the maintenance contract for the Gulf Oil Canada Limited refinery in Edmonton. Plant turn-around operations were performed for Pacific Petroleum Ltd. at Empress, Canadian Fina Oil Ltd. at Wildcat Hills, and Imperial Oil Limited at Quirk Creek.

During the year Bow Valley formed a new subsidiary, **Resolute Construction Ltd.**, which is engaged in certain specialized small-inch pipeline construction and oilfield maintenance operations.

Lighter and barge approaching unloading area at Resolute Bay.





Wonderly & Kershaw pipelining operations in southwestern Alberta.

Manufacturing and Sales Activities

Mainland Foundry & Engineering Ltd. and Elworthy & Company Ltd., Vancouver-based Bow Valley subsidiaries primarily serving the forest products industry, experienced reduced sales and earnings in fiscal 1971. The un-pegging of the Canadian dollar at the start of the fiscal year which immediately rose vis-a-vis the U.S. dollar presented sales problems for the British Columbia forest products industry which also felt the effects of lengthy tow boat and construction strikes during the first half of the fiscal year. Sales and earnings of Mainland and Elworthy registered improvement in the final quarter of the year and the trend has carried forward into fiscal 1972 with results for the month of June showing marked improvement over the same month a year ago.

During the year Mainland designed a large chipping canter which will be offered for sale in fiscal 1972. Elworthy designed a new hydraulic positioning control for large saw mill equipment and sold a number of units during the year. Other Elworthy developments include a new digital networks and a special high speed braking control for carriage networks.

Bow Valley's Edmonton-based **Flame-Master** division, engaged in the manufacture of heating and cooling units for home and industrial use, experienced a

slight increase in sales during fiscal 1971 accompanied by a decline in profits attributable to more competitive conditions within the industry. Sales and profits of Flame-Master showed improvement during the month of May, 1971 over the corresponding month a year earlier and this improvement carried forward into the first month of fiscal 1972 when sales and profits were running substantially higher than in June, 1971. Furnace sales registered a slight increase for the year under review with most of the improvement taking place in the final quarter of the year.

Flame-Master's special products division moved into new facilities in January, 1971. This division manufactures multi-zone heating and cooling units largely for industrial use. Sales of custom industrial gas-fired equipment increased during the year in response to a higher demand for specialized heating and air pollution control equipment by the mining industry.

Atmos Engineering Sales Ltd., a Calgary-based Bow Valley subsidiary engaged in the sale and engineering of heating and air conditioning equipment for industrial use and the sale of compressors for gas distribution systems and gas processing plants, showed a modest profit in fiscal 1971, the company's first year within the Bow Valley organization.



Servicing of sulphur dioxide air monitoring instrument.

Pollution Control

Western Research & Development Ltd. had an active and profitable year in fiscal 1971. During the year, the company increased its staff from twenty to thirty-eight employees and increased office and laboratory facilities. A major project for the company during the year was the further development and sale on a rental basis of the Continuous Stack Emission Monitoring System. A total of fifteen systems were sold in the first year. The system will aid sulphur recovery plants in Alberta and other areas, as well as other industries, to monitor, on a continuous basis, the emission of pollutants from stacks. The system is of value in that it provides a continuous record of pollutant emission in compliance with government regulations. The Continuous Stack Emission Monitoring System appears to have wide market potential and Western Research is actively proceeding with plans for the manufacture and distribution of the system throughout Canada and other countries.

During the past year the company has been engaged in process evaluation and control of sulphur recovery plants in Alberta. Plans have been made to expand this service and make it available to sulphur plants outside of Alberta. The project for the automatic process evaluation and control of sulphur recovery plants under Federal Government grant is well underway.

Western Research & Development Ltd. was also engaged in ambient air quality monitoring in Alberta, British Columbia, and Saskatchewan during the year and has added several new air pollution monitoring trailers. Western Research has a project underway involving the telemetering of air pollution data from individual trailers to a central location to facilitate control of the basic process. The environmental engineering and consulting group within the company experienced an active year, working on a number of new projects, including one involving an electrostatic precipitator for a power company.

Dominion Instruments Ltd., the Edmonton-based pollution control manufacturing and engineering subsidiary of Bow Valley, operated profitably during the year. Dominion manufactures components of the Continuous Stack Emission Monitoring System sold by Western Research & Development Ltd. and is also engaged in the design and manufacture of metering equipment for pipeline applications.

Both of Bow Valley's pollution control subsidiaries are expected to experience further growth in fiscal 1972.

Affiliated Companies

In December, 1970 Bow Valley exchanged its 50 per cent ownership in Computamatics Limited for common shares of CDP Computer Data Processors Ltd. Bow Valley also purchased shares of CDP Computer Data Processors Ltd. in the market and now owns approximately 27 percent of the company. CDP has a computer data processing centre based in Calgary and provides computer oriented consulting services to companies active in natural resource exploration.

Bow Valley owns a 10.7% interest in Western Rock Bit Company Limited, which manufactures a variety of bits for use in oil and gas well and seismic drilling in all parts of Canada. Western Rock Bit Company Limited also manufactures fluid-end parts for slush pumps used in the oil well drilling business and a variety of hard-surfaced chipper teeth for excavation and trenching equipment. Its wholly owned subsidiary, Western Oil and Gas Products Ltd., fabricates steel pressure vessels for sale to the liquefied petroleum gas phase of operations in the oil and gas industry.

Technician at the control console of the Catalyst Testing Unit, which Western Research is developing to test the effectiveness of catalysts used in sulphur plants.

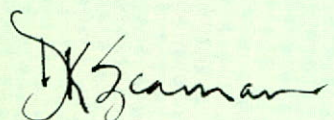


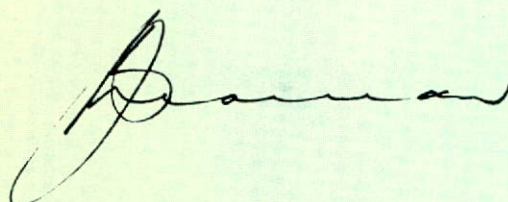
Consolidated Balance Sheet

May 31, 1971 (Canadian dollars)

	Assets		
	<u>1971</u>	<u>1970</u> (As restated) (Note 1)	<u>1970</u> (As reported)
Current Assets			
Cash, including deposit receipts (Note 2)	\$ 5,555,072	\$ 6,560,369	\$ 6,344,919
Accounts receivable—			
Trade	7,011,679	7,277,019	6,809,084
Other	1,365,096	286,038	286,038
Inventories (Note 3)	4,957,464	3,783,038	3,708,024
Prepaid expenses	335,983	538,528	526,826
	<u>19,225,294</u>	<u>18,444,992</u>	<u>17,674,891</u>
Capital Assets , at cost (Notes 4 and 5)	47,835,840	42,232,365	35,714,405
Less—Accumulated depreciation and depletion	18,099,527	14,707,258	13,357,637
	<u>29,736,313</u>	<u>27,525,107</u>	<u>22,356,768</u>
Cost of Investment in Subsidiaries in Excess of Fair Value of Net Assets , at dates of acquisition (Note 1)	3,836,532	3,567,952	3,567,952
Other Assets and Deferred Charges (Note 6)			
Interest in Panarctic Oils Ltd., at cost	1,719,476	1,132,203	1,132,203
Investments (at cost) in and advances to other companies	476,495	283,852	283,852
Sundry	157,375	249,053	123,384
Unamortized deferred charges	566,752	601,137	543,727
	<u>2,920,098</u>	<u>2,266,245</u>	<u>2,083,166</u>

Approved on behalf of the Board:

 Director

 Director

<u>\$55,718,237</u>	<u>\$51,804,296</u>	<u>\$45,682,777</u>
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Liabilities

	1971	1970	1970
		(As restated)	(As reported)
		(Note 1)	
Current Liabilities			
Operating bank loans, (7% - 1971, 8.75% to 9% - 1970) secured (Note 2)	\$ 3,924,853	\$ 1,685,044	\$ 1,685,044
Bankers' acceptances, (4.7% - 1971, 8.3% - 1970) secured (Note 2)	2,200,000	1,100,000	1,100,000
Accounts payable and accrued	5,591,141	6,385,249	5,378,853
Dividends payable	231,539	—	—
Estimated income taxes payable	59,437	379,007	321,237
Long term debt due within one year	2,063,240	1,177,190	994,610
	14,070,210	10,726,490	9,479,744
Long Term Debt (Note 7)	6,302,335	6,146,530	4,628,532
Deferred Revenue	360,500	554,451	204,360
Deferred Income Taxes (Note 8)	883,265	811,433	671,433
Shareholders' Equity			
Share capital (Note 9)—			
5½% Cumulative redeemable preferred shares			
Series A of a par value of \$20 each—			
Authorized and issued—100,000 shares			
Outstanding—87,540 shares (1970 - 90,290)	1,750,800	1,805,800	1,805,800
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	10,000,000
Common shares of no par value—			
Authorized—7,000,000 shares			
Issued and outstanding—4,630,484 shares	14,554,651	12,964,587	9,286,635
(1970 as restated 4,430,496 shares,			
1970 as reported 3,249,342 shares)			
Capital redemption reserve fund, on redemption of preferred shares	249,200	194,200	194,200
Contributed surplus, on redemption of preferred shares	51,954	38,501	38,501
Retained earnings (Notes 8 and 10)	7,495,322	8,562,304	9,373,572
	34,101,927	33,565,392	30,698,708
Contingent Liabilities and Commitments (Note 11)			
	\$55,718,237	\$51,804,296	\$45,682,777

Consolidated Statement of Income

For the year ended May 31, 1971 (Canadian dollars)

	1971	1970 (As restated) (Note 1)	1970 (As reported)
Revenue			
Contract drilling—			
Oil and gas	\$12,213,225	\$12,524,386	\$12,524,386
Mining	4,426,603	4,493,206	4,493,206
Sales of oilfield equipment and supplies	4,690,224	8,041,157	8,027,903
Oil and gas sales, less royalties	2,387,962	2,108,931	1,563,807
Aviation services	2,315,674	2,709,599	2,709,599
Heating equipment sales	1,447,583	1,295,540	1,295,540
Engineering, forest products equipment and foundry sales	8,178,688	8,272,767	8,272,767
Pipeline construction and plant maintenance	2,582,760	4,260,499	4,260,499
Pollution control equipment and services	603,096	—	—
Investment	651,536	657,089	645,524
Other	706,651	375,599	345,978
	<u>40,204,002</u>	<u>44,738,773</u>	<u>44,139,209</u>
Costs and Expenses			
Cost of sales	12,740,298	15,622,232	15,622,232
Operating costs	16,533,770	18,410,087	18,203,548
General and administrative	5,369,268	4,356,923	4,015,767
Depreciation (Note 4)	2,457,206	2,090,963	1,985,455
Depletion (Note 5)	1,024,950	704,700	556,138
Mining properties abandoned	76,733	32,239	32,239
Amortization of deferred charges (Note 6)	202,884	184,864	156,320
Interest—On long term debt	507,861	615,321	469,812
—Other	398,443	289,048	289,048
	<u>39,311,413</u>	<u>42,306,377</u>	<u>41,330,559</u>
	892,589	2,432,396	2,808,650
Taxes on Income (Note 8)			
Current	220,266	347,534	347,534
Deferred	49,832	95,628	95,628
	<u>270,098</u>	<u>443,162</u>	<u>443,162</u>
Income Before Extraordinary Items	622,491	1,989,234	2,365,488
Extraordinary Items (Note 14)			
Reduction of deferred income taxes	36,000	—	—
Loss on variation in foreign exchange rate	(299,211)	—	—
Amalgamation costs	(378,299)	—	—
	<u>(641,510)</u>	<u>—</u>	<u>—</u>
Net Income (Loss)	<u>\$ (19,019)</u>	<u>\$ 1,989,234</u>	<u>\$ 2,365,488</u>
Earnings (Loss) Per Common Share (Note 15)			
Income before extraordinary items	\$.01	\$.32	\$.55
Extraordinary items	(.14)	—	—
Net Income (Loss)	<u>\$ (.13)</u>	<u>\$.32</u>	<u>\$.55</u>

Consolidated Statement of Changes in Financial Position

For the year ended May 31, 1971 (Canadian dollars)

	1971	1970	1970
		(As restated)	(As reported)
		(Note 1)	
Source of Working Capital			
Operations—			
Income before extraordinary items	\$ 622,491	\$ 1,989,234	\$ 2,365,488
Add—Non-cash charges including depreciation, depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposal of capital assets and deferred income taxes	3,780,291	3,107,817	2,825,203
	<u>4,402,782</u>	<u>5,097,051</u>	<u>5,190,691</u>
Share capital issued, less costs of issue—			
Common shares issued for cash (excluding shares issued on acquisitions)	632,066	1,005,758	138,629
Common shares issued on conversion of debentures	958,000	698,000	—
Issue of long term debt	3,806,494	1,856,430	1,407,852
Other	70,946	100,800	100,800
	<u>9,870,288</u>	<u>8,758,039</u>	<u>6,837,972</u>
Application of Working Capital			
Additions to capital assets, net—			
Land, buildings, drilling and other equipment	3,434,964	3,902,399	3,902,399
Oil and gas properties and equipment and mining properties (exclusive of oil and gas properties held for resale)	3,128,084	4,624,490	2,681,126
	<u>6,563,048</u>	<u>8,526,889</u>	<u>6,583,525</u>
Less—Proceeds of disposal	1,284,625	864,585	716,002
	<u>5,278,423</u>	<u>7,662,304</u>	<u>5,867,523</u>
Extraordinary items	641,510	—	—
Repayment long term debt and change in current portion	2,708,000	1,611,734	1,414,454
Conversion of long term debt to common shares	958,000	698,000	—
Interest in Panarctic Oils Ltd.	587,273	679,324	679,324
Investments in and advances to other companies	270,925	242,023	68,601
Investments in shares of subsidiary companies, less working capital thereof	477,155	1,634,496	1,634,496
Redemption of preferred shares	41,547	41,184	41,184
Dividends paid or payable	992,963	883,963	883,963
Deferred revenue	204,360	(460,078)	(204,360)
Other	273,550	154,890	132,229
	<u>12,433,706</u>	<u>13,147,840</u>	<u>10,517,414</u>
(Decrease) in working capital	(2,563,418)	(4,389,801)	(3,679,442)
Working capital, beginning of year	7,718,502	12,108,303	11,874,589
Working capital, end of year	\$ 5,155,084	\$ 7,718,502	\$ 8,195,147
Changes in Working Capital—Increase (Decrease)			
Cash, including deposit receipts	\$ (1,005,297)	\$ (3,618,463)	\$ (3,593,886)
Accounts receivable	813,718	1,055,434	1,043,121
Inventories	1,174,426	(3,069,638)	(3,096,176)
Prepaid expenses	(202,545)	220,356	220,787
Operating bank loans	(2,239,809)	872,002	963,282
Bankers' acceptances	(1,100,000)	1,900,000	1,900,000
Accounts payable and accrued	794,108	(1,444,036)	(811,114)
Dividends payable	(231,539)	—	—
Estimated income taxes payable	319,570	(289,912)	(289,912)
Long term debt due within one year	(886,050)	(15,544)	(15,544)
(Decrease) in working capital	\$ (2,563,418)	\$ (4,389,801)	\$ (3,679,442)

Consolidated Statement of Retained Earnings

For the year ended May 31, 1971 (Canadian dollars)

	<u>1971</u>	<u>1970</u> <u>(As restated)</u> <u>(Note 1)</u>	<u>1970</u> <u>(As reported)</u>
Balance, beginning of year	\$ 8,562,304	\$ 7,945,847	\$ 7,945,847
Adjustment of prior years' income taxes (Note 8)	—	(197,770)	—
Consolidated deficit of Syracuse Oils Limited and subsidiary companies as at May 31, 1969 (Note 1)	—	(237,244)	—
Balance, beginning of year as adjusted	<u>8,562,304</u>	<u>7,510,833</u>	<u>7,945,847</u>
Net income (loss) for the year	(19,019)	1,989,234	2,365,488
	<u>8,543,285</u>	<u>9,500,067</u>	<u>10,311,335</u>
Deduct—			
Dividends paid or payable—			
Preferred Shares Series A (5½%)	97,779	100,798	100,798
Second Preference Shares (5%)	500,000	458,959	458,959
Common Shares (\$.10 per share)	395,184	324,206	324,206
Amount transferred to capital redemption reserve fund*	55,000	53,800	53,800
	<u>1,047,963</u>	<u>937,763</u>	<u>937,763</u>
Balance, end of year	<u>\$ 7,495,322</u>	<u>\$ 8,562,304</u>	<u>\$ 9,373,572</u>

* Pursuant to The Companies Act of Alberta.

Notes to Consolidated Financial Statements

May 31, 1971

1. Accounting Presentation

The consolidated financial statements include the accounts of Bow Valley Industries Ltd. and its subsidiaries (herein collectively called "Bow Valley"), all of which are wholly-owned, as well as Bow Valley's share of the assets and liabilities and revenues and expenses of two joint ventures. One involves contract drilling operations in which Bow Valley has a 50% interest and is the manager. The second involves the warehousing and sale of oilfield equipment in which Bow Valley has a 60% interest and is the manager.

During fiscal 1971, Bow Valley Industries Ltd. acquired, by amalgamation (Note 9), Syracuse Oils Limited, a company engaged in oil and gas exploration and development in Canada and in the acquisition and exploration of undeveloped oil and gas interests in various parts of the world. The amalgamation agreement was dated February 2, 1971, became effective April 30, 1971 and, effectively, resulted in Bow Valley Industries Ltd. issuing 1,312,556 common shares for all the outstanding shares of Syracuse Oils Limited. This acquisition has been accounted for as a pooling of interests and for comparative purposes Bow Valley's fiscal 1970 accounts have been restated. The following table sets forth the results of consolidated operations of Syracuse Oils Limited and its subsidiaries which results have been combined with those of Bow Valley:

	Year ended May 31, 1971	Year ended May 31, 1970
Revenue	\$ 784,560	\$ 599,564
Loss (before income taxes)	\$ (413,040)	\$ (376,254)

In conforming the accounting practices of Syracuse Oils Limited with those of Bow Valley, the following adjustments were made to the results previously reported by Syracuse Oils Limited:

	Year ended May 31, 1970	Prior periods
Charges to operations		
Depreciation and gains on disposal of capital assets	\$ (29,894)	\$ 94,369
Exploration and development costs, gain on disposal of investments, mining properties abandoned and related depletion	121,207	475,927
	<u>\$ 91,313</u>	<u>\$ 570,296</u>

Effective October 1, 1970 Bow Valley Industries Ltd. acquired (for \$465,400) the outstanding shares of MacPherson Drilling Co., Inc. which conducts a contract diamond drilling business principally for the mining industry and has operations in the western part of the United States, Minnesota and Alaska. This acquisition has been accounted for as a purchase and results of operations have been included in the statement of income since October 1, 1970 as follows:

Revenue	\$ 689,614
Loss (before income taxes)	<u>\$ (26,796)</u>

During fiscal 1970 Bow Valley Industries Ltd. acquired the outstanding shares of Atmos Engineering Sales Ltd., Dominion Instruments Ltd., Elworthy & Company Ltd., Griffith Bros. Drilling Limited, Western Research & Development Ltd. and Wonderley & Kershaw Petrochemical Services Ltd. The total consideration consisted of 40,320 previously unissued common shares of Bow Valley Industries Ltd. and \$1,833,000 cash. Additional consideration, as outlined in Note 11, may also be payable. These transactions have been accounted for as purchases and the earnings of the subsidiaries have been included from the effective dates of acquisition.

The cost of investments in subsidiaries in excess of fair value of net assets at date of acquisition is not being amortized. Management believes there are no reasons to expect any significant decrease in the value of this intangible asset and accordingly does not contemplate amortization of such excess cost.

At May 31, 1971 and May 31, 1970 the investment in subsidiaries, as shown by the books of Bow Valley Industries Ltd., exceeded by \$3,296,486 and \$3,443,886, respectively, the equity of Bow Valley Industries Ltd. in the net assets of consolidated subsidiaries as shown by their books. This excess has been treated in the consolidated financial statements as follows:

	May 31, 1971	May 31, 1970
Cost of investment in subsidiaries in excess of fair value of net assets at date of acquisition—		
Shown separately in the consolidated balance sheet, relating to the acquisition of certain subsidiaries	\$3,836,532	\$3,567,952
Less—Goodwill, amalgamated subsidiaries	721,013	721,013
	<u>3,115,519</u>	<u>2,846,939</u>
Allocated to tangible assets—		
Oil and gas properties and equipment	12,516	—
Drilling and other equipment, less accumulated depreciation	77,971	97,464
Manufacturing plant and equipment, less accumulated depreciation	146,667	166,667
Sales and service equipment, less accumulated depreciation	69,750	107,308
Land and buildings, less accumulated depreciation	83,606	87,787
Other assets	19,220	19,220
Charged (credited) to retained earnings	(228,763)	118,501
	<u>\$3,296,486</u>	<u>\$3,443,886</u>

2. Current Assets Subject to Liens, Operating Bank Loans and Bankers' Acceptances

Bankers' acceptances and operating bank loans are secured as follows:

- a \$2,000,000 floating charge demand debenture on the current assets of a subsidiary and a \$2,000,000 chattel mortgage of the subsidiary and guarantees of Bow Valley Industries Ltd.
- Bow Valley Industries Ltd. and certain subsidiaries have given a general assignment of receivables, an assignment of bank deposit receipts (approximately \$3,500,000 at May 31, 1971) and an assignment of certain oil and gas production under Section 82 of The Bank Act.

3. Inventories

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

	1971	1970 (As restated)	1970 (As reported)
Finished goods	\$1,157,286	\$2,011,072	\$2,011,072
Work in progress	418,603	114,065	114,065
Raw materials	293,386	428,597	428,597
Materials and supplies	2,506,561	1,082,374	1,042,719
Oil and gas properties and rights held for resale	581,628	146,930	111,571
	<u>\$4,957,464</u>	<u>\$3,783,038</u>	<u>\$3,708,024</u>

4. Capital Assets and Depreciation Policies

	1971			1970	
	Cost	Accumulated depreciation and depletion	Net book value	(As restated) Net book value	(As reported) Net book value
Drilling and related equipment	\$14,752,270	\$ 8,727,736	\$ 6,024,534	\$11,232,380	\$11,232,380
Oil and gas properties and equipment	24,208,895	6,354,954	17,853,941	10,372,855	5,204,516
Manufacturing plant and equipment	1,838,662	927,955	910,707	930,307	930,307
Sales and service equipment	2,184,089	1,100,974	1,083,115	752,934	752,934
Helicopters and related equipment	2,530,043	543,008	1,987,035	2,724,420	2,724,420
Land and buildings	2,321,881	444,900	1,876,981	1,512,211	1,512,211
	<u>\$47,835,840</u>	<u>\$18,099,527</u>	<u>\$29,736,313</u>	<u>\$27,525,107</u>	<u>\$22,356,768</u>

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 at the rate of 10%, manufacturing and sales and service equipment by the diminishing balance method mainly at the rate of 20% and helicopters and related equipment by the straight line method mainly at the rate of 10% of cost less estimated residual value of 40% of cost.

5. Accounting Policy for Oil and Gas Properties

Since June 1, 1968 Bow Valley Industries Ltd. has followed 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 the total of all such costs by the unit of production method based on the total 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.

6. Other Assets and Deferred Charges

Unamortized deferred charges—

Series A preferred share issue expense and long term debt issue expense of \$189,455 at May 31, 1971 (\$225,456—May 31, 1970) is being amortized over a period of ten years and over the terms of the issues, respectively. Other deferred charges of \$180,001 included in the balance at May 31, 1971 (\$116,168—May 31, 1970) are being amortized over periods of three to five years.

Interest in Panarctic Oils Ltd.—

Bow Valley Industries Ltd. has a 2.2364% interest in Panarctic Oils Ltd. (a venture organized by private industry and the Canadian Government to explore for oil and gas in the Arctic Islands of Canada) the cost of which amounted to \$1,719,476. Further contributions may be required in the future if the above percentage interest is to be maintained. Panarctic Oils Ltd. is, at present, in the exploratory stage of operations. The most recent published financial statements indicate that all costs and expenses have been capitalized and that Panarctic Oils Ltd. is deemed to have realized no profit and sustained no loss to December 31, 1970.

Panarctic Oils Ltd. shares are closely held, are not generally traded and no quoted market value exists. In the opinion of management the fair value of Bow Valley Industries Ltd. interest exceeds cost.

7. Long Term Debt

	<u>May 31, 1971</u>	<u>May 31, 1970</u> (As restated)	<u>May 31, 1970</u> (As reported)
Bow Valley Industries Ltd.—			
7% Sinking Fund Debentures Series A, due March 1, 1986, redeemable with annual sinking fund instalments of \$151,000 in 1972 and \$158,000 in each of the years 1973 to 1985 inclusive (Authorized—\$4,000,000)	\$3,203,000	\$3,368,000	\$3,368,000
Obligation as participant in Panarctic Oils Ltd., due on a call basis estimated to be payable \$451,728 in fiscal 1972 and the balance in fiscal 1973	650,001	452,884	452,884
Bank loans, at current interest rates—8% (9%—May 31, 1970), repayable at the rate of \$77,235 per month, (\$12,202—May 31, 1970), secured mainly by oil and gas producing properties	2,443,461	592,592	592,592
Note payable on equipment purchases with interest at 7% (6.5% to 16.2%—May 31, 1970), due 1972 to 1974, secured by retention of title	214,216	373,249	373,249
Note payable in one instalment of \$15,000 in 1972	15,000	30,000	30,000
	<u>6,525,678</u>	<u>4,816,725</u>	<u>4,816,725</u>
Syracuse Oils Limited—			
Bank loans, at current interest rates—9¼% to 10½%, repayable at the rate of \$15,215 per month, secured by a general assignment of receivables and by oil and gas producing properties	—	742,578	—
7½% Convertible subordinated sinking fund debentures, due January 15, 1989 (all converted into common shares of Syracuse Oils Limited during the six months ended November 30, 1970)	—	958,000	—
	—	<u>6,517,303</u>	<u>4,816,725</u>
Subsidiaries—			
Bank loans, at current interest rates—8% (9.5%—May 31, 1970), repayable at the rate of \$26,950 per month, secured by parent company (Bow Valley Industries Ltd.) guarantee	1,129,366	273,050	273,050
Notes payable on equipment purchases with interest rates ranging from 10% to 15.5% (10% to 15.5%—May 31, 1970), due 1972, 1973, secured by retention of title	103,079	240,250	240,250
4% Note payable in five annual instalments of \$65,395 each commencing in 1971, secured by parent company (Bow Valley Industries Ltd.) guarantee	326,976	—	—
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	162,218	191,939	191,939
Other long term obligations, provisions, mortgages, payable 1972 to 1975, secured by those subsidiaries' lands and buildings	118,258	101,178	101,178
	<u>1,839,897</u>	<u>806,417</u>	<u>806,417</u>
	8,365,575	7,323,720	5,623,142
Less—Amount due within one year	<u>2,063,240</u>	<u>1,177,190</u>	<u>994,610</u>
	<u>\$6,302,335</u>	<u>\$6,146,530</u>	<u>\$4,628,532</u>

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

The aggregate maturities of long term debt in each of the five years subsequent to May 31, 1971 are as follows:

1972—\$2,063,240 1973—\$1,477,111 1974—\$1,077,733 1975—\$698,088 1976—\$366,503

8. Income Taxes

Bow Valley Industries Ltd. and those subsidiaries which may claim deductions from taxable income for oil and gas lease acquisition, exploration and drilling costs have claimed such costs for tax purposes in excess of the amounts charged to operations. As a result income taxes otherwise payable have been substantially reduced.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes. Bow Valley Industries Ltd., in common with many other companies in the Canadian oil and gas industry, believes that tax allocation in respect of oil and gas lease acquisition, exploration and drilling costs is not appropriate and this position is accepted by accounting authorities outside Canada. Accordingly, no provision has been made for deferred income taxes on timing differences involving such costs.

Had Bow Valley Industries Ltd. followed the tax allocation basis of accounting for the two years ended May 31, 1971, the provisions and net income would have been as follows:

	Provision for income taxes			Taxes applicable to extraordinary items	Resulting net income (loss)
	Current	Deferred	Total		
1970 (As reported)	\$ 347,534	\$1,395,628	\$1,743,162	\$ —	\$1,065,488
1970 (As restated)*	347,534	1,395,628	1,743,162	—	689,234
1971	220,266	377,832	598,098	(30,000)	(317,019)

*Prior to May 31, 1970, Syracuse Oils Limited claimed, for tax purposes, exploration and development costs in amounts which were less than the corresponding depletion and depreciation charged to operations. No recognition was given to any future tax benefits which may have arisen as a result. Accordingly the above amounts, as restated, have not changed from those previously reported by Bow Valley Industries Ltd.

The approximate accumulated income tax reductions relating to all timing differences were as follows:

	1971	1970	1970
		(As restated)	(As reported)
Deferred taxes under the tax allocation basis	\$6,200,000	\$5,840,000	\$5,700,000
Deferred taxes which have been reflected in the accounts and which relates mainly to tax depreciation claimed in excess of book depreciation	\$ 883,265	\$ 811,433	\$ 671,433

On October 9, 1970, income taxes with respect to fiscal 1965 were reassessed resulting in increased taxes and interest in the amount of \$57,770. Retained earnings at the beginning of fiscal 1970 have been reduced by this amount and income taxes payable increased. Additional taxes were also assessed in respect of fiscal 1967 in the amount of \$140,000 and were offset by claiming additional tax depreciation. This resulted in the deferred tax charge for 1967 being increased by \$140,000 with a corresponding increase in deferred income taxes at May 31, 1970.

9. Share Capital, Share Purchase Warrants and Share Options

5½% Cumulative Redeemable Preferred Shares Series A:

Bow Valley Industries Ltd. is required to expend \$40,000 per year (or such lesser amount as would increase the Fund to \$80,000) as a Series A Preferred Share Purchase Fund for the purchase 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 costs 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 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 (3½ 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 deferment under certain conditions. On or before March 31, in each year commencing with the year 1980, Bow Valley Industries Ltd. 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.

On April 30, 1971, Bow Valley Industries Ltd. and Syracuse Oils Limited were amalgamated into one company under the name Bow Valley Industries Ltd. (the "Amalgamated Company"). All the outstanding shares of Bow Valley Industries Ltd. were converted into shares of the amalgamated company on a one-for-one basis and all the outstanding shares of Syracuse Oils Limited were converted into shares of the amalgamated company on a five-for-one basis.

The following table sets out the changes in issued common share capital during the two years ended May 31, 1971:

	Bow Valley Industries Ltd.		Syracuse Oils Limited	
	Number of shares	Amount	Number of shares	Amount
Balance May 31, 1969	3,185,112	\$8,224,966	5,298,353	\$2,112,823
Issued as part consideration for the purchase of: Wonderly & Kershaw Petrochemical Services Ltd.	36,000	828,000	—	—
Griffith Bros. Drilling Limited	4,320	95,040	—	—
Shares issued for cash upon exercise of: Warrants	17,510	82,949	—	—
Options	6,400	55,680	60,000	50,000
Private placements, for cash	—	—	148,574	817,157
Conversion of debentures	—	—	398,841	697,972
Balance May 31, 1970	3,249,342	9,286,635	5,905,768	3,677,952
Shares issued for cash upon exercise of: Warrants	22,136	105,146	—	—
Options	46,400	397,680	109,600	128,597
Conversion of debentures	—	—	547,416	958,000
Balance April 30, 1971 before amalgamation	<u>3,317,878</u>	<u>\$9,789,461</u>	<u>6,562,784</u>	<u>\$4,764,549</u>
Amalgamated company:			Number of shares	Amount
On conversion of common shares of Bow Valley Industries Ltd.			3,317,878	\$ 9,789,461
Syracuse Oils Limited			1,312,556	4,764,549
Balance on date of amalgamation, April 30, 1971			4,630,434	14,554,010
Shares issued for cash upon exercise of options			50	641
Balance, May 31, 1971			<u>4,630,484</u>	<u>\$14,554,651</u>

Of the authorized but unissued common shares 456,801 shares were reserved at May 31, 1971 for the following:

- Outstanding warrants which entitle the holders thereof to purchase an aggregate of 912 common shares of Bow Valley Industries Ltd. at \$1.875 per share to May 31, 1973.
- 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.
- Options granted, or to be granted, as to an aggregate of 80,270 common shares of Bow Valley Industries Ltd. to officers and employees of Bow Valley under the terms of the Bow Valley Industries Ltd. Incentive Stock Option Plan.
- 5% Cumulative Redeemable Convertible Second Preference Shares convertible into, initially, 333,333 common shares of Bow Valley Industries Ltd.
- Further consideration with respect to the acquisition of Western Research & Development Ltd. amounting to 20,000 common shares (Note 11).

Details of common shares under options granted at May 31, 1971 are as follows:

Date option granted	Number of shares	Option price		Market value date of grant	
		Per share	Total	Per share	Total
November 2, 1967 *	8,000	\$ 5.00	\$ 40,000	\$ 4.35	\$ 34,800
December 14, 1967	1,000	9.03	9,030	9.50	9,500
May 29, 1968	10,000	10.21	102,100	10.75	107,500
May 5, 1969	23,325	25.89	603,884	27.25	635,606
September 24, 1969	1,300	18.75	24,375	19.75	25,675
November 13, 1969 *	5,120	17.50	89,600	16.75	85,760
May 12, 1970	5,250	12.83	67,358	13.50	70,875
February 23, 1971	14,050	16.03	225,221	17.75	249,388
April 30, 1971	10,000	18.29	182,900	20.25	202,500
	<u>78,045</u>				

The following table sets out details regarding options exercised during the two years ended May 31, 1971:

Year ended	Date granted	Number of shares	Option price		Market value date of exercise	
			Per share	Total	Per share	Total
May 31, 1970	March 3, 1966	4,400	\$ 8.55	\$ 37,620	\$22.63 to \$28.00	\$ 106,000
	November 1, 1966*	4,000	3.75	15,000	18.00	120,000
	November 1, 1966*	4,000	3.75	15,000	14.00	56,000
	November 2, 1967*	4,000	5.00	20,000	15.50	62,000
	December 14, 1967	2,000	9.03	18,060	15.88 to 17.00	33,188
				105,680		377,188
May 31, 1971	March 3, 1966	44,400	8.55	379,620	16.00 to 18.50	750,113
	November 1, 1966*	4,000	3.75	15,000	16.75	67,000
	November 2, 1967*	16,000	5.00	80,000	13.60 to 17.25	241,800
	December 4, 1967	2,000	9.03	18,060	15.125	30,250
	November 12, 1969*	1,920	17.50	33,600	18.50	35,520
	May 12, 1970	50	12.83	641	20.75	1,038
				526,921		1,125,721

*Options originally issued by Syracuse Oils Limited. The number of Syracuse shares has been divided by five, the option price and market value has been multiplied by five to give effect to the amalgamation.

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

10. 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:

- If after giving effect to such declaration or payment, the aggregate of the consolidated retained earnings and consolidated capital surplus of Bow Valley will be less than \$3,000,000; and
- 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, 1971, approximately \$4,500,000 of the consolidated retained earnings was free of these restrictions.

11. Contingent Liabilities and Commitments

At May 31, 1971, Bow Valley Industries Ltd. and/or one or more of its subsidiaries were contingently liable (a) for discounted conditional sales contracts receivable in the amount of \$461,344, (b) to the extent of \$1,872,890 representing the liabilities of the co-owners in the joint ventures (see Note 1) but against which Bow Valley would have a claim upon the co-owners and the interest of the co-owners in the joint venture assets and (c) as guarantor of the indebtedness of others in the amount of \$230,000.

On July 3, 1970, a statement of claim for approximately \$770,000 was issued against a subsidiary (Bow Helicopters Ltd.) relating to an accident in July 1969. On July 29, 1970, a further statement of claim for approximately \$1,038,000 was issued against the said subsidiary relating to the same accident. Bow Valley's counsel has advised that, based upon preliminary investigation, such claims are either fully covered by insurance or to the extent not covered, the subsidiary has a meritorious defence and should prevail at trial. A further statement of claim for approximately \$18,000 plus undetermined damages has been issued against Bow Helicopters Ltd. relating to the same accident. Counsel for Bow Helicopters Ltd. has advised that, from the information conveyed to them, there is a valid defence to the action.

Pursuant to the agreement for the purchase of the outstanding shares of Bow Helicopters Ltd. (formerly Bullock Wings & Rotors Ltd.) and the outstanding shares of Atmos Engineering Sales Ltd. additional amounts of \$300,000 in 1972 and \$100,000 in 1974, respectively, will be payable by Bow Valley Industries Ltd. to the vendors subject to certain conditions being met, including earnings tests for the five-year period ending January 3, 1972 and in the four-year period ending May 31, 1974, respectively. Bow Valley's counsel has advised that one of the conditions applicable to the purchase of the Bow Helicopters Ltd. shares cannot be met and no part of the \$300,000 will be payable.

Pursuant to the agreement for the purchase of the outstanding shares of Western Research & Development Ltd. 5,500 common shares of Bow Valley Industries Ltd. 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 Industries Ltd. 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 Industries Ltd. is committed to expend an amount of approximately \$325,000 to 1974 in connection with the development of computer programs.

12. Retirement Plan

The plan, as amended, became effective on March 1, 1957 and is available on a voluntary basis to all employees on completion of one year's service. The contributions of Bow Valley are based on the amounts deemed necessary to meet the liabilities of the plan which is administered by a Trustee. For the years ended May 31, 1971 and 1970 Bow Valley contributed amounts of \$47,281 and \$35,119, respectively. No significant liability exists for the cost of past service benefits.

13. Remuneration of Directors and Senior Officers

The aggregate direct remuneration received by the directors and senior officers of Bow Valley amounted to \$320,381 in fiscal 1971 including \$62,640 paid by Syracuse Oils Limited to April 30, 1971. (1970 as restated—\$243,244 including \$33,017 paid by Syracuse Oils Limited, 1970 as reported—\$210,227).

14. Extraordinary Items

Reduction of deferred income taxes—

This reduction arises as a result of a subsidiary company carrying forward a tax loss in fiscal 1971.

Loss on variation in foreign exchange rate—

Included in cash at May 31, 1970 was \$4,976,179 (U.S.) invested in United States dollar deposit receipts which, for the purposes of the May 31, 1970 accounts, were converted to Canadian dollars at \$1.07 $\frac{3}{8}$, the exchange rate at May 31, 1970. The subsequent unpegging of the exchange rate of the Canadian dollar resulted in a rate which was lower than the rate at May 31, 1970. On May 5, 1971 these deposits were converted to term deposits with a guaranteed Canadian amount on maturity. The resulting loss has been shown as an extraordinary item.

Amalgamation costs—

These costs result from the amalgamation of Bow Valley Industries Ltd. with Syracuse Oils Limited on April 30, 1971.

15. Earnings (Loss) Per Share

Earnings per common share have been calculated in accordance with Canadian practice. The net income (loss) amounts applicable to common shares (after deducting preferred share dividend requirements) have been divided by the weighted average number of Bow Valley Industries Ltd. common shares outstanding during each period to which has been added one-fifth of the weighted average number of Syracuse Oils Limited common shares which were previously outstanding during each period (1971—4,544,507, 1970 as restated—4,376,295, 1970 as reported—3,233,243). No material change would result assuming full dilution.

Primary earnings (loss) per share, calculated in accordance with United States practice, would not be materially different from the earnings (loss) per share disclosed above.

If it were assumed that all debentures of Syracuse Oils Limited which were outstanding (\$958,000—May 31, 1970; \$1,656,000—May 31, 1969) had been converted on June 1, in each year, the adjusted basic earnings (loss) per share would have been (\$.11) for fiscal 1971 and \$.34 for fiscal 1970 as restated.

Auditors' Report

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheets of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1971 and May 31, 1970 and the consolidated statements of income, retained earnings and changes in financial position for the two years then ended. Our examination of the financial statements of Bow Valley Industries Ltd. and those subsidiaries of which we are and were the auditors was made in conformity with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Syracuse Oils Limited and subsidiary companies, which statements were examined by other Chartered Accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Syracuse Oils Limited and its subsidiaries, is based solely upon such reports.

In our opinion, the accompanying financial statements present fairly the financial position of the company and its subsidiaries as at May 31, 1971 and May 31, 1970 and the results of their operations and changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles applied consistently.

CALGARY, Alberta
July 30, 1971

PRICE WATERHOUSE & CO.
Chartered Accountants

Five Year Financial Summary

(as restated for poolings of interest)

	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
Gross income	\$40,204,002	44,738,773	34,797,030	28,338,789	24,722,166
Depreciation and depletion	3,482,156	2,795,663	2,049,640	1,836,565	1,713,638
Income before extraordinary items	622,491	1,989,234	1,353,997	727,106	1,099,836
Extraordinary items	641,510	—	251,119	400,068	239,499
NET INCOME (LOSS)	(19,019)	1,989,234	1,605,116	1,127,174	1,339,335
Shares outstanding at year-end					
Common	4,630,484	4,430,496	4,244,782	4,015,822	3,177,822
Preferred, Series A	87,540	90,290	92,980	94,980	97,480
Second Preference	100,000	100,000	100,000	—	—
PER COMMON SHARE (1)					
Cash flow	\$.84	1.03	.82	.80	1.00
Income before extraordinary items01	.32	.30	.18	.30
Extraordinary items	(.14)	—	.06	.11	.07
Net income	(.13)	.32	.36	.29	.37
Dividends per share					
Common (pre-pooling)	\$.10	.10	.10	.10	.09
Preferred, Series A	1.10	1.10	1.10	1.10	1.10
Second Preference	5.00	5.00	—	—	—

FIVE YEAR FINANCIAL SUMMARY

(as previously reported in Bow Valley annual reports)

Gross income	\$ —	44,139,209	34,253,364	28,071,784	24,487,750
Depreciation and depletion	—	2,541,593	1,775,047	1,673,784	1,576,665
NET INCOME	—	2,365,488	1,803,791	1,264,774	1,591,938
PER COMMON SHARE					
Cash flow	\$ —	1.42	1.14	1.29	1.49
Net income	—	.55	.55	.47	.62

(1) Based on the average number of common shares outstanding during the respective years (1971, 4,544,507; 1970, 4,376,295; 1969, 4,155,360; 1968, 3,504,293; 1967, 3,331,415) and after dividend requirements on Series A Preferred Shares and Second Preference Shares.

Photo Courtesy
The Alberta Gas Trunk Line Company Limited

Parkas for sale in native handicraft store at Inuvik (top).



Mackenzie Valley Pipeline Research Ltd. test facilities in the Mackenzie Delta. Above ground gas test loop, Inuvik (centre) and view of test facilities from main roadway (bottom).



Photo courtesy Mackenzie Valley Pipe Line Research Limited.

Photo courtesy Mackenzie Valley Pipe Line Research Limited.



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