Bow Valley Resource Services Ltd.

1981 Annual Report

The illustrations ON THE COVER of the 1981 annual report reflect the long history, experience and development of what are now the operations of Bow Valley Resource Services Ltd. ("BVRS"). The first illustration is of a shot-hole rig used by the three Seaman brothers to commence seismic drilling activities in western Canada in 1949. The Company expanded this activity to include complete seismic crews, slim-hole drilling and logging.

Participation in contract oilwell drilling commenced in 1952 with the acquisition of a trailer-mounted drilling rig which was very efficient to operate and move. The second illustration depicts a modern land drilling rig. Ten deep drilling rigs were acquired in 1959 with the purchase of Hi-Tower Drilling Co. Ltd. BVRS is now one of Canada's largest oilwell drilling contractors.

A series of acquisitions and mergers in the 1960s and 1970s provided diversification through a wide variety of businesses engaged in oilfield supply services, diamond drilling services, environmental products and services, and forest products and mining industrial supplies. The segment illustrating the modern drilling rig also depicts one of the mobile service rigs manufactured by the Company.

The final illustration is of the Bow Drill 1, a semi-submersible drilling rig, and a new dimension of the Company's investment strategy.

Services and sales to the natural resource industries have always been a major and successful part of the Bow Valley group of companies. Bow Valley Resource Services Ltd. was established as a legal entity in 1977, specifically to consolidate and manage the drilling, manufacturing, and service operations of Bow Valley Industries Ltd. ("BVI"), the parent company. BVRS operated as a wholly-owned subsidiary of BVI until February 1981 when a public offering of common stock and convertible debentures was successfully completed. The parent company retained a 78% interest in BVRS, 68% if all the debentures were to be converted. BVRS' shares are traded on The Toronto Stock Exchange and the Montreal Stock Exchange and the Company had 1,991 recorded shareholders as of December 31, 1981.

Annual Meeting of Shareholders

The first Annual General Meeting of the Shareholders of Bow Valley Resource Services Ltd. will be held in the Glencoe Room of the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta, at 10:00 a.m. on Tuesday, May 11, 1982.

Contents of the First Annual Report to Public Shareholders

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The year 1981 was one of continued expansion and adaptation to a vastly changed political and economic environment. Revenues increased but income before taxes decreased. A very low effective tax rate resulted in modestly improved after tax earnings.

Highlights of 1981

Corporate Reorganization.
Public ownership of 22% of common shares.
Initial public offering in February 1981 totalling $64.8 million and including $28.5 million convertible debentures and 2,850,000 common shares. The total number of shares outstanding as of December 31, 1981, was 12,970,000.

Commitments were made in 1981 to expend $327 million on offshore drilling equipment: $143 million was spent in 1981, $66 million will be spent in 1982 and $118 million in 1983.

Financial	**1981**	**1980**	**1979**
(in thousands of dollars, except per share amounts)			
Gross revenue	**$ 283,653**	$ 186,325	$ 152,913
Cash flow from operations	**29,161**	27,344	14,383
Net income	**15,018**	14,879	10,522
Per share (after preferred share dividends)			
— cash from operations	**2.28**	2.70	1.42
— net income	**1.16**	1.47	1.04
— common dividends paid	**0.125**	—	—
Weighted average shares outstanding	**12,556**	10,120	10,120
Capital expenditures	**168,112**	49,227	12,064
Shareholders' equity	**95,931**	37,880	23,001
Long term debt	**161,706**	19,734	14,840
Working capital	**52,786**	29,394	24,514
Deferred income taxes	**17,076**	13,299	6,510
Total assets	**334,987**	149,710	96,172

To the Shareholders

Byron J. Seaman, Chairman of the Board and Chief Executive Officer

A Year for Adaptation

Adaptation could well have been the slogan for 1981. Corporate strategy, policy, and investment philosophy have had to be revised because of a vastly changed economic and political environment. During the past 18 months the National Energy Program, ("NEP") was introduced, taxes increased and interest costs were high.

The oil industry traditionally financed new expenditures from cash flow but in 1981 reduced cash flows left substantially less for capital reinvestment.

Predictably, industry reduced exploration and development spending in 1981. Seismic activity decreased, the number of wells drilled in western Canada declined 24% compared to 1980, and total footage drilled in Canada reduced about 31% from 1980 levels. After several years of steady increases in Canadian drilling, the level of exploration activity was suddenly retracted to 1977 levels.

The oil and gas industry needs a favourable business climate to ensure energy self-sufficiency for Canada. Such a climate did not exist in Canada in 1981, but there are indications that the situation will improve.

BVRS does not participate as an operator in oil and gas exploration and development but the Company's operating results are sensitive to the netbacks to oil and gas producers.

The Company believes that the recent Federal and Provincial Energy Pricing and Taxation Agreements will provide more stability in the oil and gas industry. The concessions offered by the Alberta Government to the producers, will benefit drilling activity. Saskatchewan's agreement with the Federal Government is expected to lead to increased activity, particularly in shallow drilling. Nova Scotia's agreement with the Federal Government will undoubtedly offer encouragement for offshore oil and gas exploration and the National Energy Board is expected to allow increased gas exports.

The major success for the oil industry in 1981 was exploration offshore Newfoundland and Nova Scotia. Even these favourable events, however, are tempered by the length of time associated with developing and marketing frontier oil. The framework for a workable solution is partially in place. A timely resolution between the Federal and Newfoundland Governments would help restore confidence in the industry and dramatically increase offshore drilling in eastern Canadian waters.

Corporate Restructuring

Although experience and history in contract drilling and manufacturing are lengthy, Bow Valley Resource Services Ltd. ("BVRS") was not established as a legal entity until 1977, as a wholly owned subsidiary of Bow

Valley Industries Ltd. ("BVI"). In 1981 BVRS' identification as a separate integrated operating unit became more distinct. The more autonomous relationship with BVI provides for the development of a management team, which is now fully devoted to its own areas of expertise. BVRS will manage all oilwell drilling activity and the diversified base of manufacturing and supply services to the energy sector. BVRS will also participate in the management of some of the support services for offshore drilling.

The Company has completed management changes including the administration of functions previously undertaken on its behalf by the parent company. The Company has a six member Board of Directors. We welcome T. S. Dobson, G. W. Govier, and B. W. Watson as Directors of the Company. Three members are common to BVI's Board of Directors — B. J. Seaman, D. R. Seaman and D. K. Seaman.

Senior Vice-President W. C. Hay is responsible for all drilling activities including land and offshore oilwell drilling. Senior Vice-President A. M. Parent is responsible for all manufacturing including distribution, environmental, heating, ventilating, and air conditioning activities. T. A. Legge, previously Vice-President and Treasurer of BVI, has been appointed Senior Vice-President, Finance and Chief Financial Officer. P. E. Sherburn has been appointed Senior Vice-President, Administration and Planning.

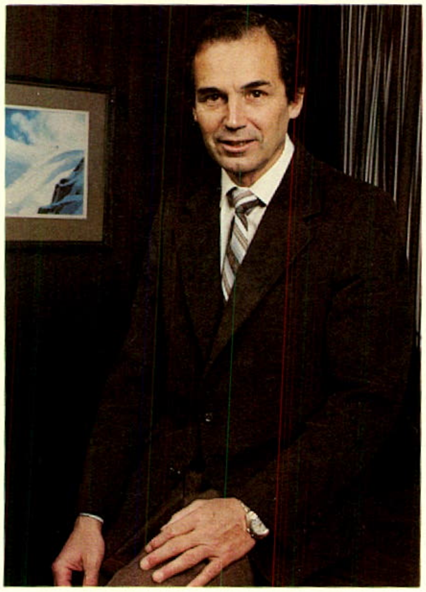
Annual General Meeting

All shareholders are encouraged to attend the Annual General Meeting to be held at 10:00 a.m. on May 11, 1982, at the Calgary Convention Centre. Those shareholders who are unable to attend are urged to exercise their right to vote by completing and returning the proxy form.

B. J. Seaman
Chairman and
Chief Executive Officer

March 29, 1982, Calgary, Alberta

President's Report



Donald R. Seaman, President and Chief Operating Officer

This is the first annual report to public shareholders of Bow Valley Resource Services Ltd. and we will take the opportunity to examine the Company and how we are adapting to maintain successful operations.

BVRS is committed to become a major participant in Canadian east coast offshore drilling. The Company acquired the Bredford Dolphin, renamed Bow Drill 1, semi-submersible drilling vessel in March 1981 for $133 million. The vessel is contracted until March 1985 to Petro-Canada Exploration Inc. Bow Drill 1 is the first Canadian-owned semi-submersible drilling vessel, and the first to be contracted to a Canadian company to work in Canadian waters. Capital expenditures for offshore drilling equipment totalling $143 million were made in 1981 and commitments were made to spend $66 million in 1982, and $118 million in 1983 to increase the offshore drilling fleet to three vessels. BVRS has arranged for the construction of two semi-submersible drilling vessels, Bow Drill 2 and 3, which will be owned 65% by BVRS and 35% by Husky Oil Operations Ltd. Bow Valley Industries Ltd. and Husky Oil Operations Ltd. have contracted the Bow Drill 2 and Bow Drill 3 for four years commencing with delivery in June and November 1983 respectively. The Company has arranged very favourable financing at less than current market rates, for each of the new offshore vessels.

On April 1, 1981, BVRS in a 50% partnership with NOVA, AN ALBERTA CORPORATION, acquired the truck manufacturing, parts, marketing, and distribution business which was previously part of White Motor Corporation of Canada Ltd. The new company, Western Star Trucks Inc., produces custom-built diesel trucks for heavy duty operations. The assembly plant in Kelowna, British Columbia, is very modern. The centre for administration and marketing is Mississauga, Ontario. A marketing agreement with Volvo White Truck Corporation enables trucks to be marketed throughout the United States.

The acquisition of the Bow Drill 1 and the proportionately consolidated 50% interest in Western Star Trucks Inc. primarily accounted for the 52% increase in BVRS' gross revenue to $283.7 million in 1981. Cash flow from operations increased to $29.2 million from $27.3 million in 1980. Net income before taxes decreased to $17.8 million in 1981 from $24.2 million in 1980. After allowing for income taxes, net income was $15 million in 1981 compared to $14.9 million in 1980. The improvement in net income was due primarily to a lower effective tax rate. The average number of common shares outstanding increased from 10,120,000 to 12,556,144 and resulted in earnings per share decreasing from $1.47 in 1980 to $1.16 in 1981.

A Special General Meeting of BVRS shareholders on September 10, 1981, approved the placement of one million variable rate Series A cumulative redeemable preferred shares at $10 per share with a Canadian chartered bank. The first preferred dividend totalling $480,000 was paid on November 20, 1981.

Capital expenditures totalled $168 million in 1981 and total assets increased 124% to $335 million primarily because of acquisitions. Capital expenditures of $118 million are planned for 1982.

In February 1981 BVRS successfully completed its initial public offering which totalled $64.8 million and included 2,850,000 common shares and $28.5 million 11% convertible unsecured subordinated debentures. The share issue represented 22% of the issued share capital of the Company and reduced the Bow Valley

Industries Ltd. shareholding to 78%. Proceeds were used to repay long term debt, all advances from the parent, and to supplement working capital. The Company had bank borrowings of U.S. $124 million as of December 31, 1981, and shareholders' equity totalled $95.9 million. The return on average shareholders' equity in 1981 was 22.4%.

Revenue from the drilling group increased from record 1980 levels due to the addition of offshore oilwell drilling. A reduced Canadian market for land drilling services resulted in lower overall rig utilization rates and a very competitive environment resulted in lower operating income. Competitive bidding will continue to adversely affect drilling profits in Canada during 1982.

The Company purchased the oilwell drilling assets and operations of Apollo Drilling in the United States in April 1980. Apollo operates mainly in the Rocky Mountain area of the United States where demand remained strong throughout 1981 for contract drilling services. Apollo has one rig under construction for delivery in April 1982 which will bring the United States rig total to nine. The flexibility derived from having established operations and strong management personnel in Canada and the United States will enable the drilling group to maintain a high standard of operations. The Company continues to monitor domestic and international drilling markets for additional opportunities.

Equipment and industrial products are manufactured and supplied for the oil and gas, mining and forest products industries in Canada and internationally. In 1980 the Company initiated expansion of manufacturing opportunities for the oil and gas industry and in 1981 these efforts were rewarded with substantial revenue and earnings from sales — in particular, service rigs and rotary tables — mostly to the United States.

Revenues and earnings from the distribution of products mainly to the oil and gas, forest products and mining industries were lower in 1981 when compared to 1980. A more buoyant economy is needed in 1982 to improve results significantly.

Despite economic conditions, the heating, ventilating and air conditioning group has increased its market share and experienced record revenues and earnings in 1981. The environmental group expanded its consulting and technical services and sales of process instrumentation.

The Company continues to examine new business opportunities, particularly as they relate to servicing the new mega-projects for western Canada and the frontier areas.

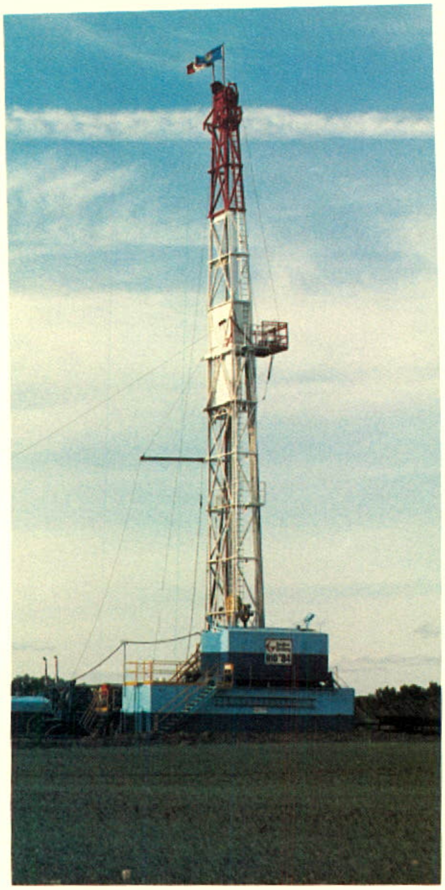
BVRS' opportunities and problems are related directly to the economic fluctuations that occur in each business segment. The challenge to BVRS is to anticipate these changes and emphasize activities that have, or will have, the highest rate of return.

The Company's strength and success is based on the vast experience, proven adaptability and knowledge of the supervisory personnel in its various business units. The Company will continue to encourage this entrepreneurial spirit.

The year 1981 was a milestone, a recognition attributable to the loyalty, initiative and hard work of our employees. The Directors and Management of Bow Valley Resource Services Ltd. thank them sincerely for their excellent performance. We also gratefully acknowledge the support of our new shareholders and look forward to many more years together.

D. R. Seaman
President and
Chief Operating Officer

March 29, 1982, Calgary, Alberta



Development drilling in Alberta

Bow Drill I with attendant supply boat and logistical support

Foundry ladle

BVRS manufactures oilwell service rigs and supplies auxiliary equipment

Profile on Operations

Growth-oriented, diversified, offering contract oilwell drilling services, industrial and environmental products and supplies primarily to the natural resource industries in Canada and the United States.

Drilling Group

Land Drilling:

Deep Oilwell Drilling
— Hi-Tower Drilling
— Apollo Drilling (United States)

Shallow Oilwell Drilling
— Sedco Drilling

Diamond Drilling
— Connors Drilling
— Connors Drilling Inc. (United States subsidiary)

Offshore Drilling
— Bow Valley Offshore Drilling Limited Partnership
— Bow Valley Husky Offshore Drilling Ltd. Partnership (65%-owned)
— Bow Valley Husky (Bermuda) Ltd. (65%-owned)

Manufacturing Group

Manufacturing
— Mainland Manufacturing
— Wesdrill Equipment
— Elworthy
— CM & E Division of Mainland Industries Inc. (United States subsidiary)

Heating Ventilating and Air Conditioning
— Climate-Master
— Flame-Master

Environmental
— Western Research

Distribution
— Mainland Oilfield Supply
— Mainland Industrial Products
— Harvey Oilfield Supplies (49%-owned)

Special Projects

Truck Products
— Western Star Trucks Inc. (50%-owned)

Hi-Tower oilwell drilling rig in Alberta

Land Drilling

William C. Hay, Senior Vice-President, Drilling

Overview

thousands of dollars	1981	1980
Revenue	**$98,610**	$106,815
Operating Income	**20,832**	23,856
Total Assets at year end	**96,389**	97,444

BVRS is one of Canada's leading contract oilwell drilling companies. The oilwell land drilling divisions are Hi-Tower Drilling and Sedco Drilling in Canada and Apollo Drilling in the United States. These drilling divisions employ 853 people who operated 47 drilling rigs, mainly in western Canada and the Rocky Mountain states during 1981. The divisions provide drilling equipment, personnel and camps for both the development of proven fields and the exploration of new areas.

Hi-Tower and Sedco accounted for 9% of all land drilling rigs in Canada during 1981, and drilled 796 wells (compared to 996 wells in 1980) for 2,311,309 feet (3,122,000 feet in 1980). This is estimated to be 8.6% of the total land footage drilled by the Canadian industry during 1981 compared to an estimated 8% in 1980.

National Energy Program legislation and provincial and federal pricing conflicts predictably led to a very dramatic downturn in Canadian oil and gas exploration and development in 1981. The result was a very significant decline in all oilwell drilling activity in western Canada. Reduced activity levels resulted in 39% lower total drilling days for Hi-Tower and 25% for Sedco compared to 1980 levels. Total revenue, earnings and cash flow from the Company's Canadian land drilling divisions declined from record 1980 levels due to reduced industry activity and highly competitive bidding. Results from contract land drilling in Canada in 1982 are expected to approximate 1981 levels.

Since the NEP was announced, 227 drilling rigs have left Canada bringing the recent available rig count to 458. In 1981, the Company transferred four rigs from Hi-Tower Drilling in Canada to Apollo Drilling in the United States and sold one rig. The Company's rigs in the United States experienced near-maximum utilization rates throughout 1981. There will be some reduction of contract drilling rates in the United States during 1982 and the Company expects that earnings from United States contract oilwell drilling will be reduced from the 1981 level.

Gross capital outlays in 1981 for Canadian oilwell drilling equipment totalled $8.7 million; and for United States land rigs, $8.0 million. Planned capital expenditures for drilling equipment including one new rig in 1982 total $5.8 million for Canadian activities and $8.4 million for the United States.

Hi-Tower Drilling

37.8% of total Land Drilling revenue in 1981

Hi-Tower Drilling Co. Ltd. was purchased by the Seaman brothers and a financial partner in 1959 and became the predecessor of the public company now known as Bow Valley Industries Ltd. As of December 31, 1981, Hi-Tower had 16 rigs some capable of drilling wells to 25,000 feet. Hi-Tower has gained experience in most major geological areas and differing climatic conditions, including more than ten years' experience in the Canadian Arctic and drilling from man-made islands in the Beaufort Sea.

Although the majority of contracts in 1981 provided for payment on the basis of a specified sum per day, there was an increase in payment on the basis of a specified sum per foot of hole drilled.

Hi-Tower has some long term contracts and, along with aggressive bidding and effective cost cutting, has managed to maintain satisfactory overall operating results despite the very competitive environment.

The majority of Hi-Tower's rigs will work through the winter, in Alberta and British Columbia, until the 1982 spring breakup but at widely varying contract prices. Drilling activity in the summer of 1982 is expected to be slow.

Surface diamond drill coring

Sedco Drilling

30.1% of total Land Drilling revenue in 1981.

Sedco began operations in 1950. This company expanded from shot-hole drilling to include complete seismic crews, slim-hole drilling and logging. In 1952 Sedco began oilwell contract drilling in Saskatchewan.

Throughout 1981 Sedco had 23 rigs specializing in shallow drilling to depths of 6,000 feet. Sedco's rigs have been particularly active in northern and central Alberta and the heavy oil areas of Saskatchewan and eastern Alberta.

The contract drilling environment for Sedco's class of rigs was very competitive during 1981. The majority of rigs will work through the winter until spring breakup 1982 but earnings potential will be less for the current year.

Apollo oilwell drilling rig in Montana

The Alberta Government has offered some royalty concessions to the producer which could benefit drilling activity late in 1982. Similarly, Saskatchewan's agreement with the Federal Government is expected to lead to increased activity, especially in heavy oil drilling later in 1982.

Apollo Drilling

20.6% of total Land Drilling revenue in 1981.

On April 1, 1980, BVRS acquired the majority of the oilwell drilling assets and operations of Apollo Drilling and Exploration Inc., a United States company operating in the Rocky Mountain area of the United States, at a cost of $19.4 million. Apollo operated four modern drilling rigs having depth capacities to 15,000 feet.

The acquisition of Apollo was made in accordance with the Company's corporate strategy of expanding into areas where there is a profitable market for its expertise. Apollo Drilling provides BVRS with an experienced organization facilitating expansion into the United States market. One new rig is being constructed for delivery in April 1982, which together with the four transferred from Canada will bring the Company's total rigs in the United States to nine.

Increased prices for oil plus a decontrol philosophy has created a great impetus to oil and gas exploration and development in the United States. Apollo Drilling's activity rate continued at maximum levels throughout 1981 with efficient, trouble-free operations. Benefitting directly from increased contract rates, Apollo's revenue and earnings increased significantly in 1981.

The number of rigs available in the United States increased considerably in 1981 and, although the demand for drilling is expected to remain strong, an oversupply of rigs will moderate rig utilization rates in 1982.

Connors Drilling

Diamond Drilling

11.5% of total Land Drilling revenue in 1981.

Overview

Diamond drilling involves the removal of core samples of rock and soil using power drills with diamond studded bits. It is an "information service" for determining the composition and structure of rock formations for use in the mining and construction industries, and by scientific institutions. It is a highly competitive industry subject to the cyclicality of metal prices and related mineral exploration levels.

The Company's contract diamond drilling is conducted by Connors Drilling in Canada and Connors Drilling Inc., a BVRS subsidiary, in the United States.

Selected Oilwell Drilling Data

The following schedule sets forth the number, utilization rate and footage drilled by the Company's rigs in Canada and the United States.

		Year Ended December 31			
		1981	**1980**	**1979**	**1978**
Canada					
Hi-Tower	Number of rigs	**16**	21	20	19
	Utilization rate	**50%**	77%	71%	71%
	Footage (ft. in thousands)	**553**	933	1,103	1,114
Sedco	Number of rigs	**23**	23	22	19
	Utilization rate	**46%**	63%	55%	57%
	Footage (ft. in thousands)	**1,759**	2,189	1,933	1,835
United States					
Apollo	Number of rigs	**8**	4	—	—
	Utilization rate	**86%**	90%	—	—
	Footage (ft. in thousands)	**512**	244	—	—
Total	Rigs	**47**	48	42	38
	Utilization rate	**54%**	71%	62%	64%
	Footage (ft. in thousands)	**2,824**	3,366	3,036	2,949

Notes: — Number of rigs at end of year.

— Utilization rate represents total spud to release days as a percentage of total days in year.

— Hi-Tower statistics for 1978 and 1979 include the Company's 50% share of the four Westburne Hi-Tower Partnership rigs. This Canadian Arctic project was terminated in 1980.

— Apollo's statistics reflect results since April 1, 1980, the date of acquisition of Apollo Drilling.

Shallow rigs move more frequently than deep rigs and their overall utilization rates are traditionally less than for deep rigs. In Canada, unlike many areas of the United States, utilization rates are affected by weather conditions which restrict the movement of equipment during spring road bans. The Company estimates that the maximum annual attainable utilization rate (spud to release, not rigging, moving, and maintenance) of its shallow rigs is 63%, its Canadian deep rigs is 77%, and its United States deep rigs is 90%. The principal contract drilling customers of the oilwell drilling group are independent oil companies and affiliates of international oil companies.

The group employs 126 people in servicing mainly the North American mining industry, with principal offices in Kamloops, British Columbia and Denver.

Connors Drilling operates 29 surface drills (compared to 29 in 1980) and 29 underground (29 in 1980) in the search for base and precious metals, coal and uranium deposits. Total footage drilled in 1981 was 283,478 compared to 373,249 in 1980. Contracts are usually paid on the basis of footage drilled. Depressed mining markets and subsequent lower drilling footage have resulted in operating results less than satisfactory.

Connors Drilling Inc. operates 24 surface drills (21 in 1980) and ten underground drills (ten in 1980) in the United States. Efficient, trouble-free operations, along with aggressive contracting, resulted in slightly higher footage drilled in 1981 — 138,000 feet compared to 128,000 in 1980 — and increased revenue compared to 1980. During the year two rotary rigs were leased which contributed immediately to operating revenue.

A more buoyant economy with more active mineral exploration is needed to significantly improve operating results from diamond drilling operations in 1982.

Bow Drill I on location off the coast of Nova Scotia

Offshore Drilling

Overview

thousands of dollars	1981	1980
Revenue	$ 29,343	—
Operating Income	14,984	—
Total Assets at year end	148,202	—

BVRS made decisions in 1981 which will have a profound effect on the future cash flow and income of the Company. A major commitment has been directed at securing a strong position in Canadian east coast offshore contract drilling.

Rationale for Participation in Offshore Drilling

The Company had gained offshore drilling experience through the 20% ownership, management and operation of a semi-submersible drilling vessel in the North Sea for four years. The vessel was sold in 1979.

World-wide offshore drilling activity is currently at record levels with the rapid growth in demand for floating rigs causing day rates to more than double over the past year. Although the net economic benefit of the increased revenue to the drilling contractor has been partially offset by high interest rates, the investment continues to be attractive.

In anticipating increased oilwell drilling activity in frontier areas of Canada, and despite a high level of international construction of new vessels, the Company has recognized the limited availability of mobile offshore drilling rigs for east coast Canadian waters.

The Company believes that the Petroleum Incentive Program and emphasis on energy self-sufficiency will stimulate keen competition for offshore acreage which will likely be leased to those companies offering significant drilling commitments. The Federal Government's stated intention to redistribute available acreage appears to confirm an increase in future activity. The Company is projecting a significant increase in the rig count for east coast Canada over the next few years.

Strategy

Three main types of vessels have been developed to date for offshore drilling — jack-up rigs, which utilize retractable legs that extend to the ocean floor for support; drill ships, and semi-submersibles. The Company selected semi-submersible vessels because they provide a very stable drilling platform, minimizing the suspension of operations due to excessive motion in harsh sea environments. The capital cost of a semi-submersible is only marginally higher than that of a drill ship. The Company believes that future offshore exploration on a worldwide scale will be best accommodated with semi-submersible rigs. Certainly the water depth and sea harshness offshore eastern Canada should determine that semi-submersibles are best suited for exploration in the greatest portion of this area. There is also the distinct possibility of development drilling by semi-submersibles in addition to the more normal exploration and appraisal drilling.

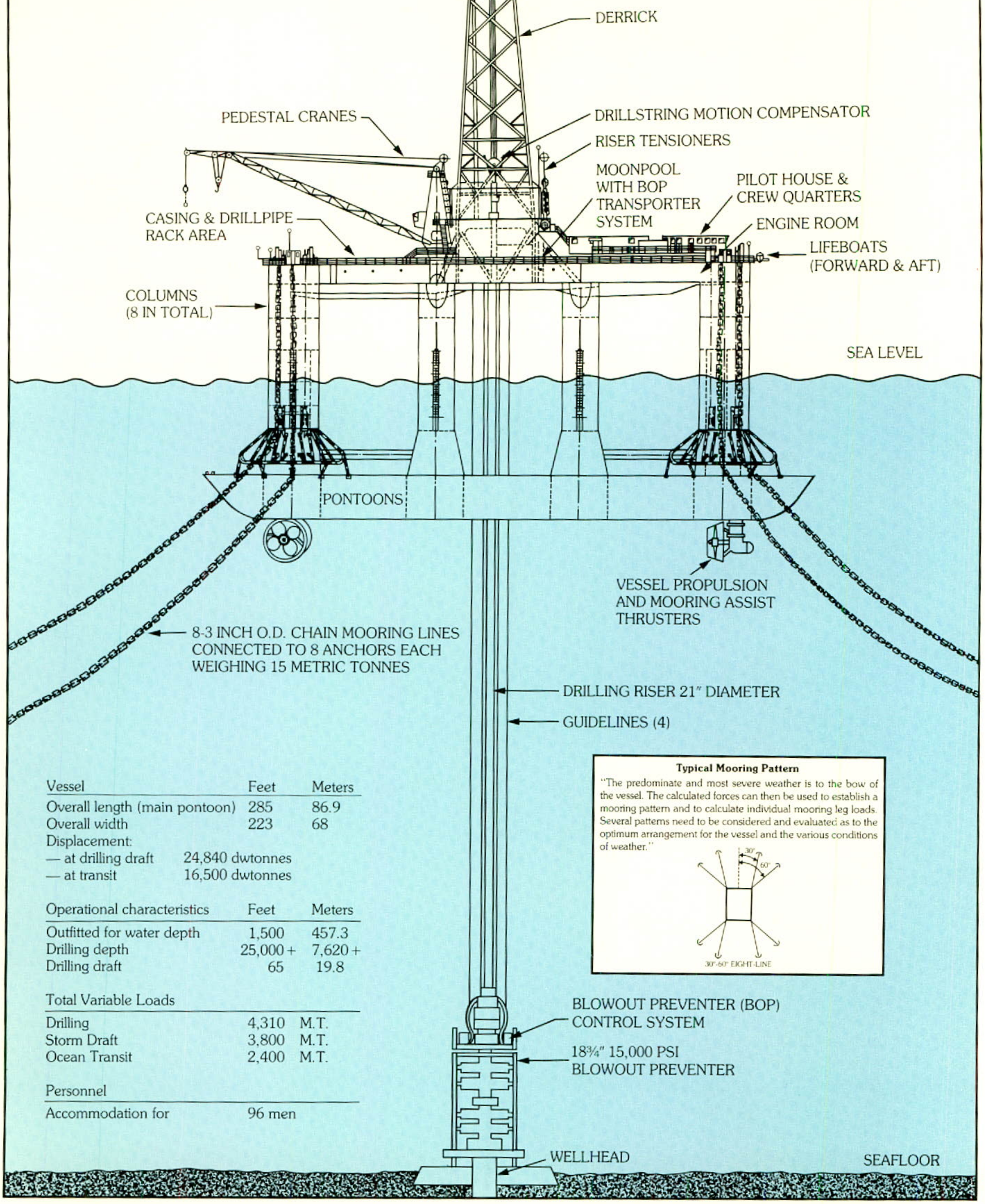
In March 1981, the Company purchased the Bredford Dolphin, renamed Bow Drill 1, for $133 million. The vessel is contracted to Petro-Canada Exploration Inc. for three more years and is currently drilling a wildcat well at a location 395 kilometres south-east of Halifax, Nova Scotia, named Banquereau C-21.

Two more semi-submersibles are currently under construction for delivery in June and November 1983. Each rig will be owned 65% by BVRS and 35% by Husky Oil Operations Ltd.

The Company's share of the total combined cost of the two new vessels will be approximately $194 million. Both vessels, upon delivery, are contracted for four years to a joint venture owned equally by Bow Valley Industries Ltd. and Husky Oil Operations Ltd. Further offshore equipment is being considered and the Company anticipates that the Canadian ownership and construction content of its semi-submersibles will ensure a preferred position to obtain further drilling contracts.

The Company's offshore drilling is being managed through Bow Valley Offshore Drilling Limited Partnership which employed 96 people as of December 31, 1981. The main office is in Calgary and offices are maintained in St. John's, Newfoundland, and Halifax, Nova Scotia. The utilization rate of Bow Drill 1 for the nine months ending December 31, 1981, was 100%. Operations were conducted in the Irish Sea and off the coast of Spain before relocating to the Banquereau region off Nova Scotia. The Bow Drill 1 drilled a total of 28,053 feet in 1981. Total revenue was $29.3 million and operating income was $15.0 million. High interest costs absorbed most of this income in 1981. The Company expects the contribution from offshore drilling to increase in 1982.

SCHEMATIC OF AN "AKER" SEMISUBMERSIBLE DRILLING VESSEL REPRESENTATIVE OF THE TYPE BOW VALLEY RESOURCES CURRENTLY HAS UNDER CONSTRUCTION IN NEW BRUNSWICK



Vessel	Feet	Meters
Overall length (main pontoon)	285	86.9
Overall width	223	68
Displacement:		
— at drilling draft	24,840 dwtonnes	
— at transit	16,500 dwtonnes	

Operational characteristics	Feet	Meters
Outfitted for water depth	1,500	457.3
Drilling depth	25,000 +	7,620 +
Drilling draft	65	19.8

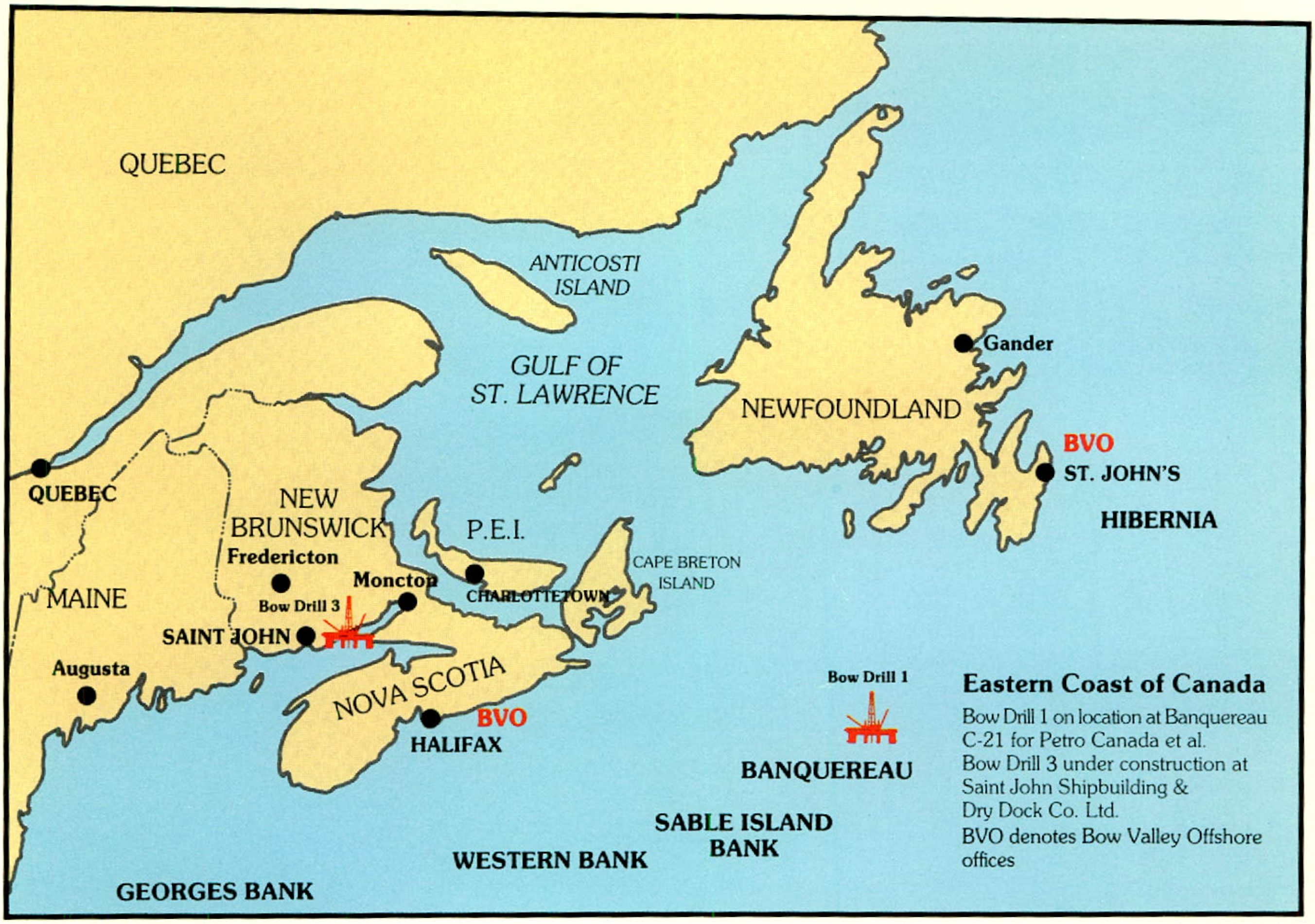
Total Variable Loads	
Drilling	4,310 M.T.
Storm Draft	3,800 M.T.
Ocean Transit	2,400 M.T.

Personnel	
Accommodation for	96 men

Typical Mooring Pattern

"The predominate and most severe weather is to the bow of the vessel. The calculated forces can then be used to establish a mooring pattern and to calculate individual mooring leg loads. Several patterns need to be considered and evaluated as to the optimum arrangement for the vessel and the various conditions of weather."

30°-60° EIGHT-LINE



Corporate Responsibility

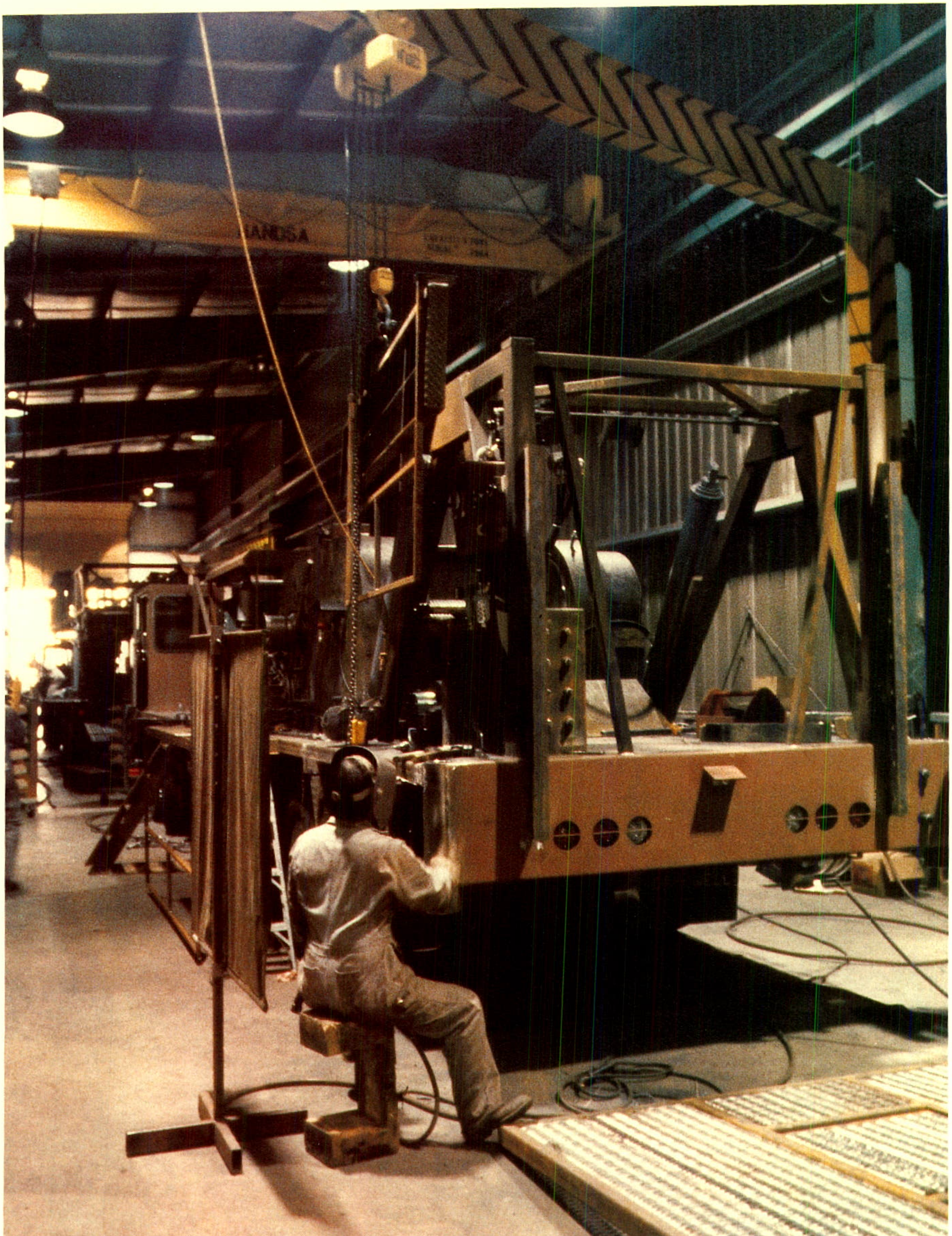
To meet the diverse and changing requirements of the natural resource industries is a challenge that affects strategic positioning of personnel, equipment and offices. BVRS' leading position has been achieved through careful attention to training programs and employee career development.

Offshore drilling brings its own unique risks to which BVRS devotes corporate attention and for which special safety procedures and insurance programs have been implemented. The Company is initiating a formalized, comprehensive, lengthy training program for offshore drilling personnel, approved and supported by Canadian Governments. This training program will be used to upgrade offshore drilling supervisory personnel in particular and to increase the Canadian proportion of drilling crews.

By constructing the Bow Drill 3 in Saint John, New Brunswick, the Company has ensured employment for shipyard workers and numerous land support staff. The Company worked closely with the Export Development Corporation and was able to attain a precedent-setting 73% Canadian construction content. To achieve this, specialized supply companies, especially with respect to the drill packages (approximately $30 million each) for Bow Drill 2 and 3, agreed to establish or expand manufacturing in Canada.

All BVRS semi-submersible drilling vessels meet DET NORSKE VERITAS CLASSIFICATION specifications and standards for seaworthiness and marine safety. These Norwegian qualifications are considered to be some of the strictest of any classification society requirements with respect to offshore drilling vessels. The Company's drilling equipment and the operator's support equipment for Bow Drill 1 is maintained properly and is in excellent operating condition.

BVRS maintains broad insurance coverage, including public liability insurance, marine liability insurance, mobilization insurance while under tow, workmen's compensation and property damage insurance, and loss of revenue insurance to protect against all of the Company's offshore rigs' marine risks.



Mainland manufacturing oilwell service rig production line

Manufacturing, Heating, Ventilating and Air Conditioning, and Environmental

A. Michael Parent, Senior Vice-President, Manufacturing

Overview

thousands of dollars	1981	1980
Revenue	**$54,603**	$45,856
Operating Income	**7,619**	5,714
Total Assets at year end ...	**35,487**	26,448

Through a series of acquisitions and mergers in the 1960s and 1970s the Company gained control of a variety of businesses primarily engaged in manufacturing equipment for and distributing products to resource-based industries in Canada and internationally. The Company also expanded into environmental products, research and development.

A total of 685 people are now employed by these groups. Revenue and earnings continued to increase in 1981 despite the economic downturn. The Company expects that the manufacturing group will experience a moderately active year in 1982 due to opportunities associated with the petroleum industry.

Mainland Manufacturing

52.2% of this segment's total revenue in 1981.

Mainland is one of western Canada's leading custom manufacturers, specializing in large scale, heavy-duty jobbing metal shaping for resource-based industries including petroleum, mining, and forestry and aluminum reduction and construction. Mainland's management has diversified further into specialized opportunities in the oil and gas industry. Mainland reported higher sales and earnings in 1981 primarily the result of sales to the United States oil and gas sector.

Facilities in Richmond, British Columbia, include a ferrous foundry, steel fabrication, fitting and assembly shops, and an extensive machine shop. In 1981, Mainland doubled the size of the machine shop to 72,000 square feet and constructed a new office building, bringing plant capacity up to 200,000 square feet. In keeping with the program of planned plant expansion and modernization, a new 30,000 square foot fabrication shop is to be completed by mid 1982 to handle new fabrication business.

In particular, a total of 40 mobile oil-well service rigs were manufactured and delivered in 1981 compared to 21 rigs during 1980. Expansion of fabricating capacity and a new marketing and distribution system will support special production runs in the future for products such as oilwell service rigs, sawmill equipment and bulk handling equipment.

The foundry's electric arc furnace has a melt capacity of 12,000 pounds an hour of various grades of cast iron and low alloy steels as well as specialty metals such as heat and abrasion-resistant iron and chrome molybdenum steel.

In 1981 Mainland obtained a manufacturing and distribution license for an overland materials conveyor system for the mining industry. This system has wide acceptance in Europe and is being introduced to North American markets by Mainland.

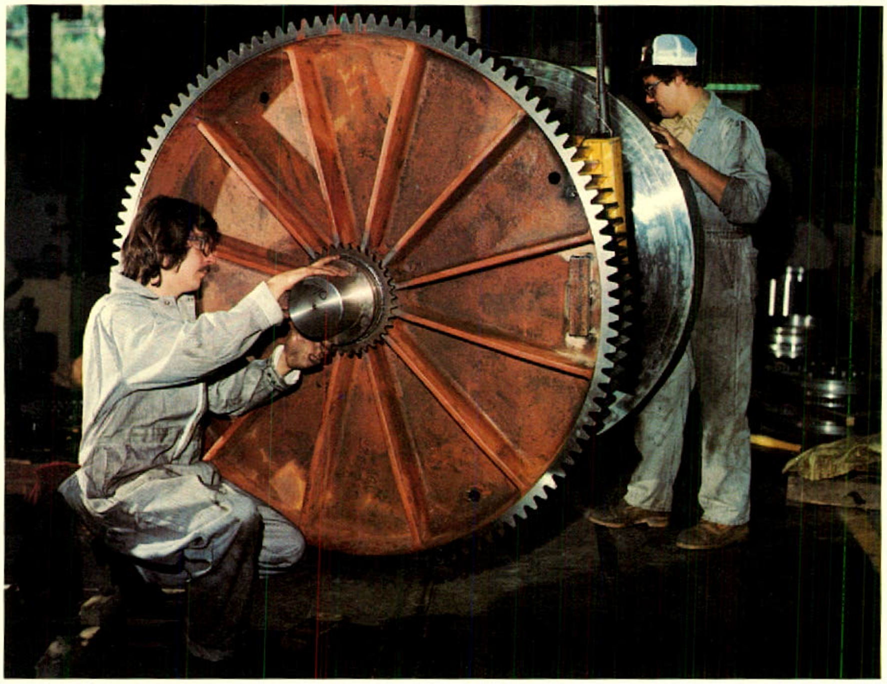
C.M. & E. and Elworthy

6.2% of this segment's revenue in 1981.

C.M. & E. in Portland, Oregon, designs and sells sawmill equipment for the forest products industry. Operations manufacture very high quality wood chipping equipment, edgers, scraggs and custom controls required for this equipment.

In 1981, the Elworthy division in Burnaby, British Columbia, provided the forest and manufacturing industries with electrical control systems, motor rewind repairs and field wiring services.

The lumber and plywood industries remained depressed throughout 1981 and the operating results of these Company divisions suffered accordingly. The year 1982 is expected to be another difficult year for Canadian wood producers and pulp and paper companies will be hard-pressed to match their 1981 sales which held up despite the global economic downturn. Organizational changes have been made in these divisions to maximize efficiency and reduce costs.



Fitting a mooring winch drum

Wesdrill Equipment

7.3% of this segment's revenue in 1981.

Wesdrill division engages in the manufacture of diamond drill bits, rods, casing and related supplies and equipment for diamond drilling contractors. Located in Richmond, British Columbia, 46 employees operate a 16,500 square foot manufacturing plant. Sales outlets are maintained in Canada, the United States and Mexico. Low metal prices kept the mining industry in a relatively depressed state throughout 1981 which could continue throughout most of 1982. Wesdrill's operating results consequently are expected to remain flat during 1982.

Heating, Ventilating and Air Conditioning

Climate-Master
Flame-Master

20.0% of this segment's revenue in 1981.

This group designs, manufactures and markets equipment for residential, commercial, institutional and industrial buildings. The principal market is western Canada with growing sales in eastern Canada.

Product lines include forced air furnaces and central air conditioning equipment for residential use, unit heaters, and large engineered ventilation, heating and airconditioning products for commercial and institutional application. All of the heating equipment is gas-fired.

This division has 138 employees operating two plants in Edmonton and one in Toronto, with combined manufacturing space of 100,000 square feet. Sales offices and warehouses are maintained in British Columbia, Alberta and Ontario.

Plant capacity has been increased as a result of product redesign and improved production systems to more than 20,000 units per year. Approximately 15,000 units were produced in 1981, an increase over 1980 and of a more favourable profit margin mix.

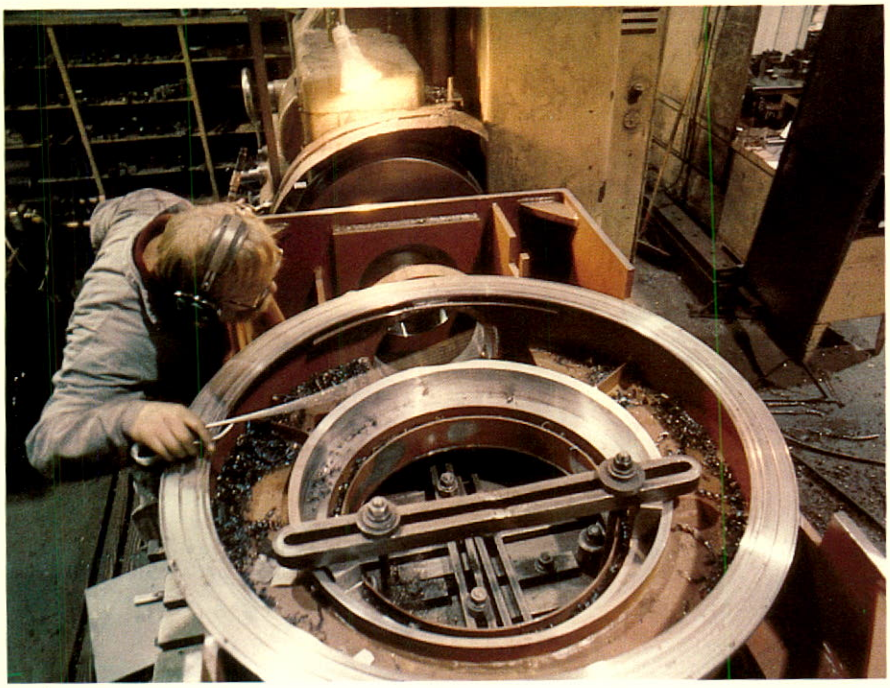
The market for this division's products is closely allied to the activity of the Canadian construction industry which was generally lower in 1981 than 1980. Despite generally reduced markets, particularly in western Canada, concentration on commercial products resulted in increased total sales and record earnings levels for 1981. Name brand products include Climate-Master, Flame-Master and Buffalo Package Equipment. Estimated market share for this group's unit heaters and furnaces increased in 1981 and was maintained for all other major products produced. Recent changes in energy costs and availability of supply should have a favourable influence on future conversions to gas-fired residential furnaces, particularly in eastern Canada.

Environmental

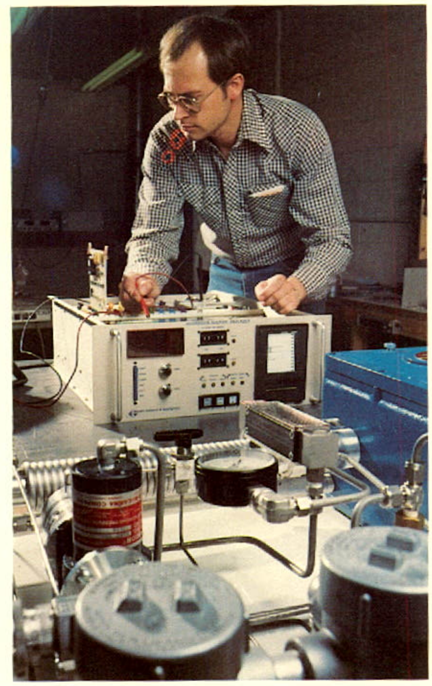
Western Research

14.3% of this segment's revenue in 1981.

Incorporated in 1965, and now a division of BVRS, Western Research provides specialized engineering consulting and instrumentation to environmental and process problems for industry and government. Offices, laboratory and manufacturing facilities are in Calgary with sales and service offices in Edmonton and Aurora, Colorado. This division employs 116 people including professionals and technical support staff.



A rotary table housing



A Western Research pipeline gas H_2S analyzer

The Environmental Consulting and Technical Services section is highly qualified in sulphur-based pollution control. This section conducts environmental studies during the design, construction and operational phases of a plant's development. Examples include plant site selection, environmental impact assessment, gas plant noise and health risk problems.

Meteorological services provide unique consultation to industry on such matters as plume dispersion problems of special concern due to the proximity of Alberta's foothills and mountains to existing and proposed sour gas processing plants. The division has performed over two-thirds of the ambient air quality monitoring in Alberta during the last decade.

With over a decade of technical involvement in gas processing and sulphur recovery, the Process Instrumentation group pioneered the development of a continuous stack emission monitoring system which became an industry standard. This section produces a number of sulphur gas analyzers and sulphur process control systems. These are high quality products, designed after extensive research and manufactured in Calgary. In 1981 approximately 40% of the section's sales were international including the United States, Venezuela, Europe and the middle East.

Technological expertise, revenues and earnings from the Environmental group continued to improve appreciably in 1981.

Industry and government are placing a greater emphasis on source monitoring of sulphur compounds due to the increasing concern for harmful effects of pollution, such as acid rain. Stricter environmental regulations with respect to the multiplicity of new petrochemical and sulphur recovery plants should provide many new opportunities for products and services of the group.

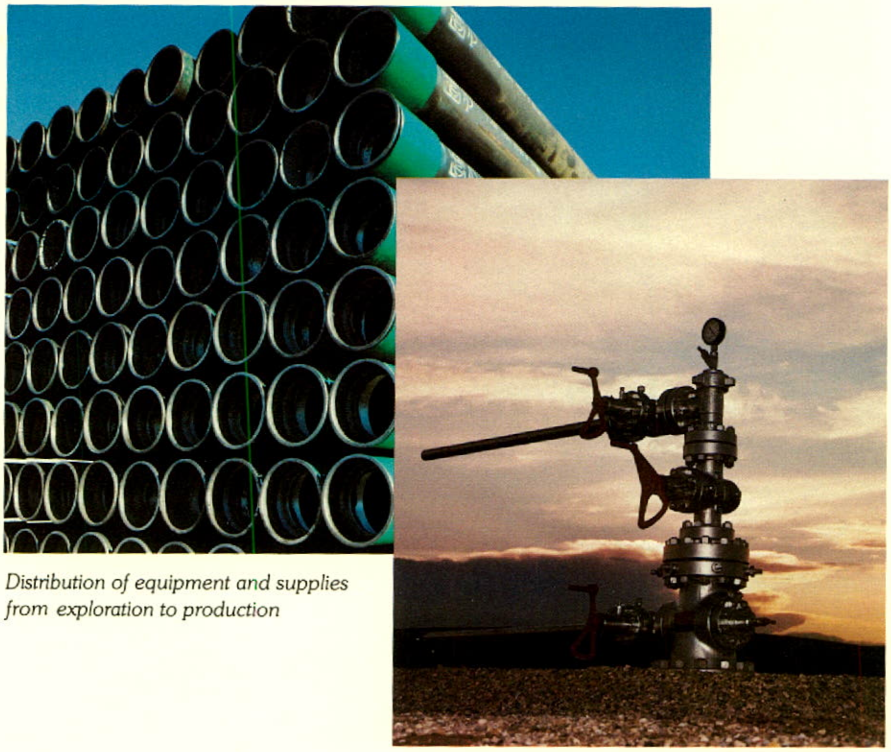
Industrial supplies

Distribution

Overview

thousands of dollars	1981	1980
Revenue	**$48,198**	$47,812
Operating Income	**1,512**	3,063
Total Assets at year end	**16,235**	18,195

This group employs 173 people. In 1981 revenues increased marginally, primarily due to successful marketing programs and an increase in market share. Operating income, however, decreased due to a sales mix change and the depressed forest products market.



Distribution of equipment and supplies from exploration to production

Mainland Oilfield Supply

72.1% of total Distribution revenue in 1981.

In 1962, Bow Valley Industries Ltd. purchased Cardwell Manufacturing Company Ltd., which today operates as Mainland Oilfield Supply. This division distributes oilfield equipment and supplies consisting of most of the items required in the drilling, servicing, plants and refineries, and production phase of the oil and gas industry. Top-quality products are distributed through nine stores in western Canada. The division employs 88 people and has its head office in Calgary.

The addition of two new stores in 1981 helped to increase total sales. A change in the sales mix, however, resulted in lower operating income. Sales of production related items and casing supplies increased while drilling supply and equipment sales decreased.

Mainland Industrial Products

26.9% of total Distribution revenue in 1981.

Mainland distributes products from national and international suppliers to provide customers in the forestry, petroleum, mining, agricultural, and bulk-handling industries with a wide variety of general industrial mechanical drive and materials-handling components.

This division also manufactures and distributes a wide variety of saw blades and cutting implements for many different applications.

This division employs 85 people. All products are available from warehouses in Vancouver, Prince George, Calgary, Edmonton and Mississauga.

The depressed forestry and mining industries continue to affect earnings.

Harvey Oilfield Supplies

1.0% of total Distribution revenue in 1981.

On June 1, 1980, BVRS (49%) and Harvey Offshore Services Ltd. (51%), a Newfoundland corporation, formed a partnership, Harvey Oilfield Supplies. This partnership, with offices and warehouses in St. John's, Newfoundland, and in Dartmouth, Nova Scotia, supplies drilling and marine equipment, parts and essential marine services to the growing oilwell drilling industry off Canada's east coast.

Cab trim line

Special Projects

Peter E. Sherburn Senior Vice-President, Administration and Planning

Overview

thousands of dollars	1981	1980
Revenue	**$63,239**	—
Operating Income	**1,828**	—
Total Assets at year end	**31,998**	—

Western Star Trucks Inc.

On April 1, 1981, BVRS in equal partnership with NOVA, AN ALBERTA CORPORATION acquired the truck manufacturing, parts, marketing and distribution business which was previously part of White Motor Corporation of Canada Ltd. The new company, Western Star Trucks Inc., produces custom-built Class 8 diesel trucks for heavy-duty operations in heavy long distance hauling of goods and equipment, logging, construction, and, potentially, the oil and gas industry.

The Kelowna, British Columbia, assembly plant is a modern 150,000 square foot complex, housed on a 19-acre site, capable of producing at peak volumes of 14 trucks per day. The Company's test track is adjacent to the plant.

The Company's design and engineering staff is centred at the assembly plant while the main executive, administration, and financial staff are located in Mississauga, Ontario.

All models of heavy-duty trucks assembled in the Company's Kelowna plant are marketed under the registered name "Western Star Conventional".

Western Star Conventionals are available in heavy-duty or tractor models 106″ or 120″ BBC, single, tandem, or all-wheel drive. Rear axle capacities range from 34,000 to 58,000 pounds while front axle capacities range from 12,000 to 20,000 pounds. Western Star specializes in custom truck design and build and offers literally several thousand variations with options such as: set-back front axles, fibreglass tilt hoods, steel butterfly hoods, sleeper cabs, custom paint jobs from over 300 brilliant acrylic paints, plus many functional and styling options.

A cross-marketing agreement with Volvo White Truck Corporation enables Kelowna-assembled trucks to be marketed throughout the United States while the total range of Volvo White U.S.-produced trucks can be marketed throughout Canada by the team of Western Star independent dealers and company-owned branches.

Currently the North American market for heavy-duty trucks is depressed. However, as the economy, and more particularly western-based energy, petrochemical and pipeline business sectors experience more vigorous activity levels, Western Star can be expected to benefit to a substantial degree.

Assembly craftsman

Bow Valley Resource Services Ltd.
Historical Financial Summary

(thousands of dollars unless otherwise indicated)

	1981	1980	1979	1978
Revenue	**$283,653**	$186,325	$152,913	$133,885
Direct Costs	**198,323**	130,181	108,076	100,727
General and Administration	**28,674**	17,269	13,616	13,856
Depreciation	**15,498**	7,675	5,187	6,132
Interest	**23,384**	7,022	6,772	4,894
Income Before Income Taxes	**17,774**	24,178	19,262	8,276
Income Taxes:				
Current	**(1,021)**	2,510	6,418	3,641
Deferred	**3,777**	6,789	2,322	146
Net Income	**15,018**	14,879	10,522	4,489
Cash Flow From Operations	**29,161**	27,344	14,383	10,376
Per Common Share:				
Net Income — Basic	**$1.16**	$1.47	$1.04	$0.44
— Diluted	**$1.12**	$1.47	$1.04	$0.44
Cash Flow From Operations	**$2.28**	$2.70	$1.42	$1.03
Dividends	**$0.125**	—	—	—
Working Capital	**52,786**	29,394	24,514	12,443
Total Assets	**334,987**	149,710	96,172	92,839
Long Term Debt	**161,706**	19,734	14,840	17,141
Advance from BVI	**—**	35,740	18,654	20,432
Deferred Income Taxes	**17,076**	13,299	6,510	4,188
Total Shareholders' Equity	**95,931**	37,880	23,001	12,479
Total Preferred Dividends Paid	**480**	—	—	—
Ratio of Total Funded Debt to Shareholders' Equity	**1.8:1**	.7:1	.8:1	1.8:1
Capital Expenditures	**168,112**	49,227	12,064	22,796
Total Number of Employees	**1,895***	1,889	1,780	1,742

* Excludes any portion of 728 Western Star Trucks Inc. employees.

Financial Review

	Relationship to Total Revenue Year Ended December 31			Period to Period Increase (Decrease) Years Ended	
	1981	1980	1979	1981-1980	1980-1979
Revenue:					
Land Drilling	34.8%	57.3%	53.3%	(7.7)%	33.8%
Offshore Drilling	10.3	—	—	—	—
Manufacturing	19.3	24.6	21.2	19.1	25.4
Distribution	17.0	25.7	21.1	.8	25.4
Truck Products	22.2	—	—	—	—
Other	.1	1.0	8.4	(84.7)	(71.2)
Subtotal	103.7	108.6	104.0	45.4	22.1
Less Inter-Segment elimination	3.7	8.6	4.0	(33.7)	27.6
	100.0	100.0	100.0	52.2	21.9
Expenses:					
Direct Costs	69.9	69.9	70.7	52.3	20.5
General and Administrative	10.1	9.2	8.9	66.0	26.8
Depreciation	5.5	4.1	3.4	101.9	48.0
Interest	8.2	3.8	4.4	233.0	3.7
Income Before Income Taxes	6.3	13.0	12.6	(26.5)	25.5
Income Taxes	1.0	5.0	5.7	(70.4)	6.4
Net Income	5.3%	8.0%	6.9%	.9%	41.4%

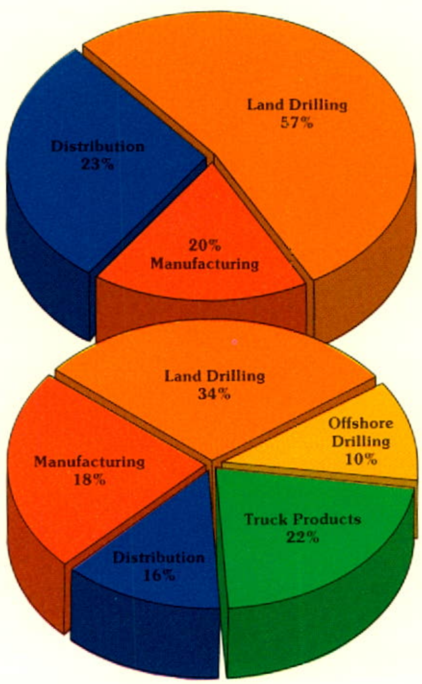
The above table sets forth for the periods indicated (a) percentages which certain items in the financial statistics bear to total revenue of the Company and (b) the percentage change of such items when compared to the indicated prior period.

Revenue

The large increase in revenues reflects primarily the acquisition of the Bow Drill 1 offshore drilling vessel and the proportionately consolidated 50% interest in Western Star Trucks Inc. Manufacturing revenues have continued to increase despite the economic downturn in 1981. The recent decrease in land drilling revenues reflects the significant cutback in Canadian oil and gas exploration and development as a result of the NEP although the increase in oilwell drilling activity in the United States has partially offset the reduced Canadian results. Prior

Revenue

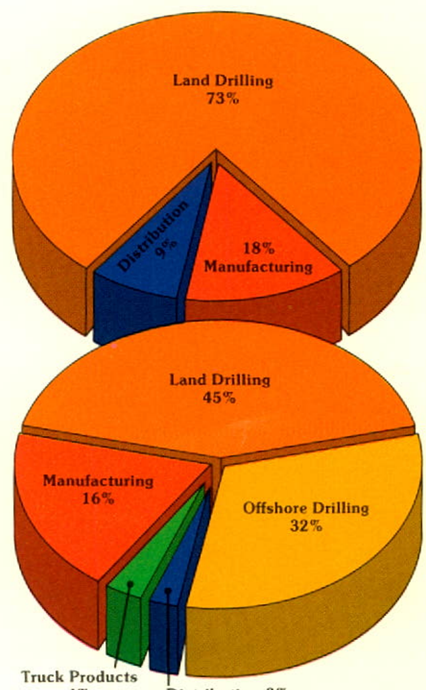
1980



1981

Operating Income

1980



1981

Trevor A. Legge, Senior Vice-President, Finance and Chief Financial Officer

to the NEP, the oilwell drilling industry in Canada enjoyed very favourable market conditions and BVRS enjoyed impressive utilization rates and higher gross margins. During 1981, reduced industry activity resulted in lower utilization rates and very competitive bidding resulting in lower profit margins.

The decontrol philosophy with respect to oil and gas prices in the United States has heightened drilling activity in that country and BVRS has directly benefitted from maximum utilization rates and high margins on its rigs. The 1980 figures reflect only nine months of oilwell drilling activity in the United States, subsequent to the acquisition of Apollo Drilling.

The Bow Drill 1 semi-submersible vessel is contracted to Petro-Canada Exploration Inc. until March 1985, and is currently drilling off Canada's east coast. The Company currently has two new semi-submersible vessels under construction for delivery in June and November 1983. Both vessels are under four-year contracts to Bow Valley Industries Ltd. and Husky Oil Operations Ltd. commencing with delivery in June and November 1983.

Direct Costs

Direct costs have remained a constant percentage of total revenue, with the large increase from 1980 to 1981 paralleling the new acquisitions and increase in operating divisions.

Asset Growth

The Company's total assets have grown from $96 million in 1979 to $335 million as at December 31, 1981. The Company maintains a high standard of maintenance and upgrading of its land drilling rigs. The rapid expansion of the Company's activities has been due to recent acquisitions and consequently a significant portion of the total asset cost as stated in the financial statements accurately reflects replacement cost or current value.

In 1981 capital expenditures totalled $168 million in a profile as follows:

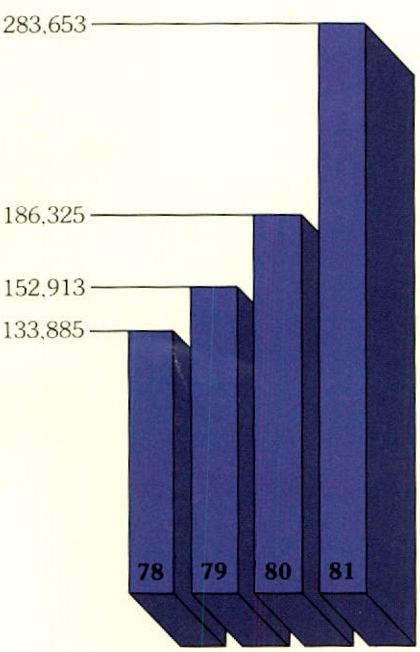
$143.3 million on offshore drilling
$16.7 million on land drilling
$4.6 million on manufacturing
$.3 millon on distribution
$3 million on truck products
$.1 million on general corporate

Investment during 1981 — $1.2 million.

The Company invested $1.2 million for an option for newly-patented environmental technology. A demonstra-

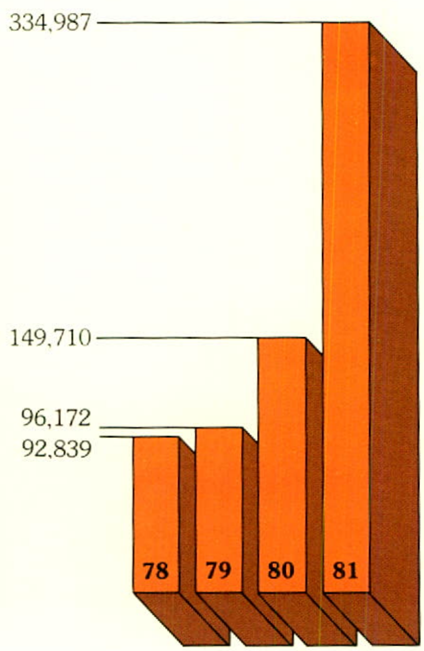
Revenue

(thousands of dollars)



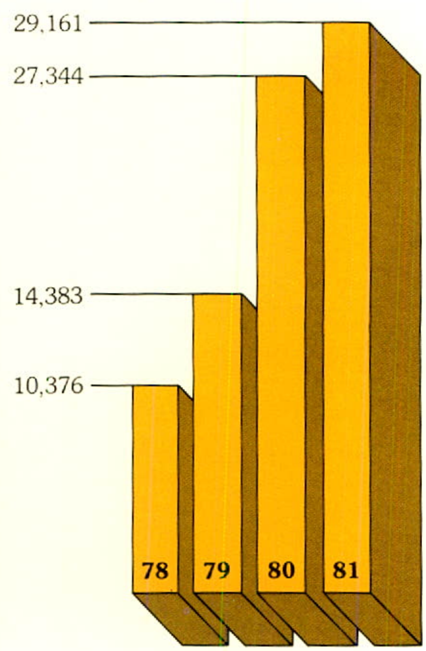
Total Assets

(thousands of dollars)



Cash Flow From Operations

(thousands of dollars)



tion plant is in the early stages of construction.

Capital Resources

An active capital expenditure program has required substantial increases in long term debt and equity capital. During the period 1979 to 1981 the Company spent $230 million on acquisitions, expansion and investments. In February 1981, BVRS realized approximately $61.7 million after issuing expenses from the first issue of common shares to the public and 11% Convertible Subordinated Debentures. In addition, $10 million of variable rate, redeemable, preferred shares were placed with a Canadian bank. A total of U.S. $124 million bank loans were outstanding as of December 31, 1981.

Financial arrangements have been completed for export finance assistance including approximately U.S. $85 million for eight and one-half years commencing in mid-1983 at 9½% (including guarantee fees) and approximately U.S. $105 million for ten and one-half years commencing early in 1982 at 12½%. In addition, a long term credit facility is being negotiated with a consortium of international banks for U.S. $37 million. BVRS has a 65% participation in these three financings. Offshore drilling commitments are referred to in Note #11 to the 1981 Consolidated Financial Statements.

The Company has increased its operating and term credit facilities with its principal Canadian banker to facilitate the acquisition of the Bow Drill 1, and the increased investment in working capital required for rapid business growth and inflation. The Company maintains unused bank credit facilities amounting to $48 million at December 31, 1981. Western Star Trucks Inc. has arranged a $15 million credit facility, with its banker of which $13.3 million ($6.6 million included in BVRS' unused capacity) was unused as of December 31, 1981.

The Company's working capital position remained strong and increased from $29.4 million at the end of 1980 to $52.8 million as of December 31, 1981. The ratio of total funded debt to total equity at December 31, 1981, was 1.8 to 1, as compared to 0.7 to 1 at the end of 1980. This ratio is expected to increase during 1982 and 1983 as the new offshore drilling commitments are financed. The Company has sufficient working capital, available bank borrowings and debt capacity, and unused share capital to permit flexibility and planned expenditures and current commitments.

Interest

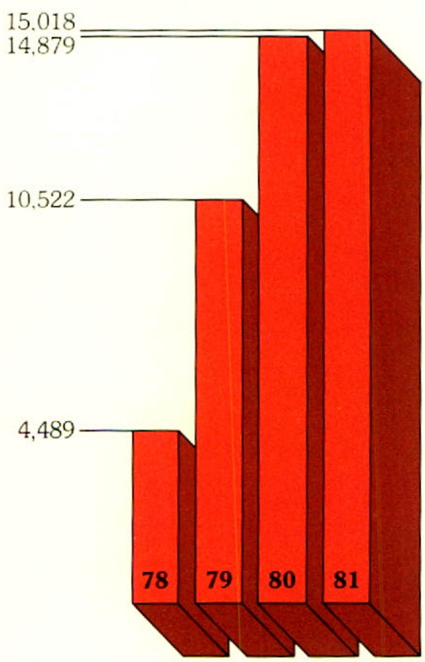
The substantial increase in interest costs reflects additional debt in 1981 and the very high commercial lending rates. A high proportion of the Company's debt is on a floating basis and Management is attempting to reduce the Company's exposure to floating interest rates. Total interest of $643,000 was capitalized in 1981.

General and Administrative Costs

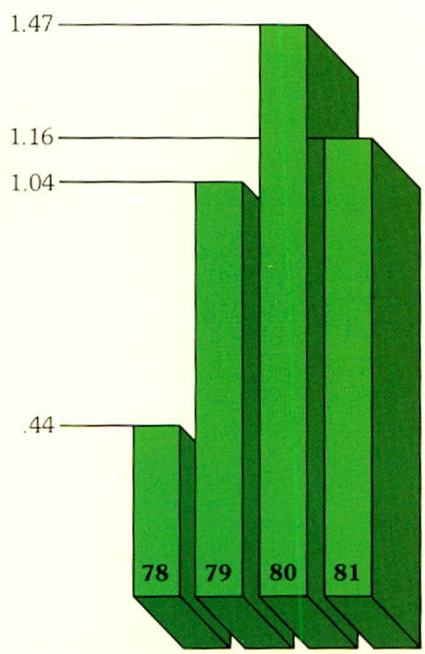
The increase in 1981 reflects the cost of creating the new BVRS organization, related increases in management, operating and administrative personnel, and the inclusion of the Company's share of Western Star Truck's administration costs.

Net Income

(thousands of dollars)

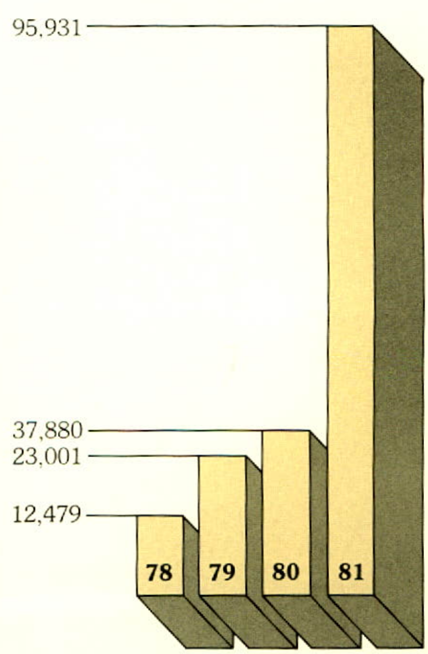


Net Income Per Common Share



Shareholders' Equity

(thousands of dollars)



Income Before Income Taxes

The decrease in 1981 reflects the lower profit margins in Canadian land drilling and increased interest costs.

Tax Position of BVRS

The Company's tax provision amounted to $2,756,000 of which $1,021,000 was a rebate of taxes previously paid while the provision for deferred taxes was $3,777,000 to bring the Company's liability for deferred taxes to $17,076,000.

The effective rate of income tax for 1981 has decreased substantially from prior year levels to 15.5% in 1981. This percentage varied from more standard corporate tax rates due to the recognition of investment tax credits in 1981.

BVRS took into income, through a reduction in its income tax expense charged against earnings, a portion of the benefit resulting from investment tax credits available in 1981. A large part of these investment tax credits related to the purchase of the semi-submersible drilling rig, the Bow Drill 1, which also generated sufficient tax depreciation to not only eliminate cash taxes payable in 1981 but also to allow the Company to recover taxes paid in 1980. Because the Company did not pay cash taxes in 1981, the benefit of its investment tax credits amounting to approximately $5,900,000 will be carried forward to reduce taxes actually payable in future years.

Stock Market Information

In February 1981, Bow Valley Resource Services Ltd. successfully completed a $64.8 million public offering. The offering included the Company's Initial Public Common Share Offering of 2,850,000 shares and $28.5 million 11% Convertible Subordinated Debentures.

The conversion feature of the debentures represents a total of 1,900,000 shares or possible dilution of BVI's holding from 78% to 68%.

The Company declared two common dividends in 1981: $0.05 per share to shareholders of record June 12, 1981, and $0.075 per share to shareholders of record December 4, 1981. It is the Company's policy to continue to declare regular dividend payments, although this will be dependent upon the Company's financial requirements.

On September 10, 1981, a Special General Meeting of BVRS shareholders authorized creation of 50,000,000 preferred shares having a par value of $10 each which may be issued from time to time. During 1981, 1,000,000 variable rate Series A cumulative redeemable preferred shares were issued at $10 per share to a Canadian chartered bank. The dividend rate for any quarterly period is 50% of the weighted average prime rate for the period, plus 2%. BVRS may redeem these preferred shares at par any time after June 1, 1983. The first preferred dividend totalling $480,000 was paid on November 20, 1981. The preferred shares are not publicly traded. Under terms and conditions of issuance of the preferred shares the declaration and payment of dividends on common shares is subject to full payment of all dividends on all the preferred shares.

At December 31, 1981, there were 1,991 holders of record of Bow Valley Resource Services Ltd.'s common shares. The Toronto Stock Exchange is the principal market for the Company's common shares. The high and low prices for each quarter in 1981 are shown in the following table.

Trading Information — The Toronto Stock Exchange

Stock		1st Quarter 1981	2nd Quarter 1981	3rd Quarter 1981	4th Quarter 1981
BOW	Hi	12½	12⅛	12⅛	8
	Low	10	11	5	5

Summary of Significant Accounting Policies

These consolidated financial statements have been prepared by Management in accordance with the accounting policies described below. Where necessary, Management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of Management, these statements have been prepared within acceptable limits of materiality and are in accordance with generally accepted accounting principles appropriate in the circumstances.

Reclassifications have been made to information previously provided for the prior year to conform to the presentation adopted in 1981.

Principles of Consolidation

These consolidated financial statements include Bow Valley Resource Services Ltd. ("BVRS") and all its subsidiaries. Interests in joint ventures and partnerships are proportionately consolidated.

Foreign Currency Translation

BVRS translates foreign currency transactions and accounts of foreign subsidiaries to Canadian dollars as follows:

- Monetary assets and liabilities (accounts receivable, current liabilities and long term debt) are translated at year-end rates.
- Non-monetary assets and liabilities (inventories, capital assets and deferred income taxes) are translated at rates in effect on the dates of the transactions (historical rates).
- Most revenues and expenses are translated at average rates in effect during the year. Certain expenses relating to non-monetary assets are translated at historical rates.
- The resulting gains and losses are reflected immediately in the statement of income, except for unrealized translation gains and losses relating to long term debt which are amortized over their remaining terms.

Capital Assets and Depreciation

- Offshore drilling equipment is depreciated by the straight-line method at the rate of 4.67% annually, based on an estimated 15-year life and a residual value of 30%.
- Land drilling equipment is depreciated by the declining balance method at the rate of 8% annually, based on an estimated 15-year life and a residual value of 30%.
- Other capital assets are depreciated by various methods and at various rates designed to amortize the cost of the assets over their estimated useful lives.

Capitalization of Interest

Interest is capitalized on expenditures relating to the construction of major capital assets until the asset is ready for use.

Investment Tax Credits

BVRS records investment tax credits following the flow-through method whereby the benefit of investment tax credits is recorded as a reduction of income tax expense. In applying this method, BVRS recognizes investment tax credits to the extent existing deferred tax credits will reverse during the five-year carry-forward period.

Industry Segments

BVRS has divided its operations into the following business segments for segmented financial reporting:

- Offshore drilling — The provision on a contract basis of offshore oilwell drilling services;
- Land drilling — The provision on a contract basis of oilwell and diamond drilling services;
- Manufacturing — Various manufacturing operations, primarily related to the natural resource industries;
- Distribution — The supply of goods and materials to the natural resource industries; and
- Truck products — The assembly and distribution of heavy-duty trucks and parts through a 50%-owned incorporated joint venture.

Consolidated Statement of Income

Year Ended December 31

	1981	1980
	(thousands of dollars, except per share data)	
REVENUE		
Service and manufacturing	**$279,348**	$182,674
Other	**4,305**	3,651
	283,653	186,325
EXPENSES		
Direct costs	**198,323**	130,181
General and administrative	**28,674**	17,269
Depreciation	**15,498**	7,675
Interest (Note 6)	**23,384**	7,022
	265,879	162,147
INCOME BEFORE INCOME TAXES	**17,774**	24,178
INCOME TAXES (Note 7)		
Current	**(1,021)**	2,510
Deferred	**3,777**	6,789
	2,756	9,299
NET INCOME	**$ 15,018**	$ 14,879
NET INCOME PER COMMON SHARE, based on the weighted average number of shares outstanding of (thousands)	**12,556**	10,120
Basic	**$1.16**	$1.47
Fully diluted	**$1.12**	$1.47

Auditors' Report

TO THE SHAREHOLDERS OF
BOW VALLEY RESOURCE SERVICES LTD.

We have examined the consolidated balance sheet of Bow Valley Resource Services Ltd. as at December 31, 1981 and the consolidated statements of income, changes in financial position, changes in components of working capital and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its 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.

Calgary, Alberta, Canada
February 19, 1982

Price Waterhouse
Chartered Accountants

Consolidated Balance Sheet

As At December 31

	1981	1980
	(thousands of dollars)	
Assets		
CURRENT ASSETS		
Cash	**$ 1,460**	$ 2,009
Accounts receivable	**55,870**	48,775
Income taxes recoverable	**2,960**	—
Inventories (Note 1)	**44,423**	20,732
Prepaid expenses	**1,675**	935
	106,388	72,451
CAPITAL ASSETS, at cost (Note 2)	**269,942**	107,630
Less accumulated depreciation	**46,378**	32,690
	223,564	74,940
OTHER ASSETS, at cost less amounts amortized	**5,035**	2,319
	$334,987	$149,710
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Bank indebtedness	**$ 1,668**	$ 1,571
Operating advances from Bow Valley Industries Ltd.	**—**	6,185
Accounts payable and accrued	**38,145**	26,974
Long term debt due within one year	**13,789**	8,327
	53,602	43,057
LONG TERM DEBT (Note 3)	**161,706**	19,734
ADVANCE FROM BOW VALLEY INDUSTRIES LTD.	**—**	35,740
OTHER LIABILITIES	**6,672**	—
DEFERRED INCOME TAXES	**17,076**	13,299
	239,056	111,830
SHAREHOLDERS' EQUITY (Note 5)		
Variable rate term preferred shares	**10,000**	—
Common shares — 12,970,000 shares issued and outstanding (1980 — 10,120,000)	**37,639**	2,505
Retained earnings	**48,292**	35,375
	95,931	37,880
COMMITMENTS (Note 11)		
	$334,987	$149,710

Approved by the Board

Director

Director F. Dobson

Consolidated Statement of Changes in Financial Position

Year Ended December 31

	1981	1980
	(thousands of dollars)	
SOURCE OF WORKING CAPITAL		
From operations		
Net income	**$ 15,018**	$14,879
Add non-cash items, principally depreciation and deferred income taxes, net of gains on sale of capital assets	**14,143**	12,465
Cash flow from operations	**29,161**	27,344
Long term debt issued	**194,118**	14,825
Advances from Bow Valley Industries Ltd.	**—**	17,086
Common shares issued, less costs	**35,134**	—
Preferred shares issued	**10,000**	—
Other	**8,118**	202
	276,531	59,457
APPLICATION OF WORKING CAPITAL		
Additions to capital assets		
Offshore drilling equipment	**143,252**	—
Land drilling equipment	**15,051**	44,808
Manufacturing equipment	**2,490**	1,174
Land, buildings, and other equipment	**7,319**	3,245
	168,112	49,227
Less proceeds of disposals	**7,791**	5,137
	160,321	44,090
Repayment of long term debt	**53,091**	9,834
Repayment of advances from Bow Valley Industries Ltd.	**35,740**	—
Dividends paid	**2,101**	—
Other	**1,886**	653
	253,139	54,577
INCREASE IN WORKING CAPITAL	**23,392**	4,880
WORKING CAPITAL AT BEGINNING OF YEAR	**29,394**	24,514
WORKING CAPITAL AT END OF YEAR	**$ 52,786**	$29,394

Consolidated Statement of Changes in Components in Working Capital

Year Ended December 31

	1981	1980
	(thousands of dollars)	
Increase (Decrease) in Current Assets		
Cash	**$ (549)**	$ 537
Accounts receivable	**7,095**	9,810
Income taxes recoverable	**2,960**	—
Inventories	**23,691**	4,096
Prepaid expenses	**740**	358
Net increase in current assets	**33,937**	14,801
Increase (Decrease) in Current Liabilities		
Bank indebtedness	**97**	(722)
Operating advances from Bow Valley Industries Ltd.	**(6,185)**	1,625
Accounts payable and accrued	**11,171**	4,927
Long term debt due within one year	**5,462**	4,091
Net increase in current liabilities	**10,545**	9,921
Increase in Working Capital	**$23,392**	$ 4,880

Consolidated Statement of Retained Earnings

Year Ended December 31

	1981	1980
	(thousands of dollars)	
RETAINED EARNINGS AT BEGINNING OF YEAR	**$35,375**	$20,496
NET INCOME	**15,018**	14,879
	50,393	35,375
DIVIDENDS PAID		
Preferred shares at 12.56%	**480**	—
Common shares at $0.125 per share	**1,621**	—
	2,101	—
RETAINED EARNINGS AT END OF YEAR	**$48,292**	$35,375

Notes to Consolidated Financial Statements

(tabular amounts in thousands of dollars)

1. INVENTORIES

Inventories are valued at the lower of cost or net realizable value and are analyzed by business segment as follows:

	1981	1980
Offshore and land drilling	**$ 1,902**	$ 1,775
Manufacturing	**12,258**	9,681
Distribution	**9,660**	9,276
Truck products	**20,603**	—
	$44,423	$20,732

2. CAPITAL ASSETS

	1981		1980	
	Cost	Net Book Value	Cost	Net Book Value
Offshore drilling equipment	**$143,252**	**$138,482**	$ —	$ —
Land drilling equipment	**98,819**	**66,336**	87,622	62,320
Manufacturing equipment	**7,935**	**4,452**	5,480	2,576
Land, buildings and other equipment	**19,936**	**14,294**	14,528	10,044
	$269,942	**$223,564**	$107,630	$74,940

3. LONG TERM DEBT

	1981	1980
Term bank loan — secured (a)	**$123,333**	$ —
Other bank loans — secured (b)	**23,660**	26,758
11% convertible subordinated debentures — unsecured (c)	**28,500**	—
Other	**2**	1,303
	175,495	28,061
Less portion due within one year	**13,789**	8,327
	$161,706	$19,734

a) An eight-year term bank loan of U.S. $104 million is secured by a first mortgage on the Bow Drill 1 semi-submersible drilling rig. Interest rates range from ⅝ to ⅞ of 1% over the London Interbank Offered Rate ("LIBOR") or, at the option of BVRS, from ¼ to ½ of 1% over the lender's U.S. base rate. The average interest rate during 1981 was 18.5%. Under the LIBOR option, the year end rate was 17.3%. LIBOR rates are redetermined at various times during the life of the loan. Monthly repayments approximating U.S. $1.1 million commence on February 1, 1982, increasing to U.S. $1.5 million on February 1, 1983, and decreasing to U.S. $0.6 million on February 1, 1987. Partial or complete prepayments may be made at any time with a nominal penalty.

b) BVRS has a ten-year revolving term credit facility with a Canadian bank for up to U.S. $35 million or its equivalent in other currencies. A loan of U.S. $20 million was outstanding at year end, bearing interest at 14¾%, subject to periodic redetermination under a LIBOR option. This loan is repayable monthly at U.S. $0.2 million over eight years commencing January 1, 1984, and is secured by a floating charge on assets and undertakings.

c) The 11% convertible unsecured subordinated debentures were issued in February 1981 and mature on March 1st, 2001. Interest is payable semi-annually on March 1st and September 1st. The debentures are convertible into common shares at any time prior to March 2, 1991, at a conversion price of $15 per share, subject to anti-dilutive provisions.

Redemption is permitted in full or in part by BVRS at any time after August 31, 1983; however, during the period September 1, 1983, to February 28, 1986, redemption is permitted only if the market value of BVRS common shares is at least 125% of the conversion price then in effect for a specified period of time. A premium of 9.6% during the six months prior to March 1, 1984, declining annually by 0.6%, is payable upon early redemption. Open market purchases for redemption are permitted at prices not to exceed specified amounts.

Mandatory 4% sinking fund payments are required annually from March 1, 1992, until maturity. BVRS has a non-cumulative right to make an additional sinking fund payment of 2% in each of these years.

d) The aggregate repayments required on long term debt are:

1982	$ 13,789
1983	20,556
1984	24,022
1985	24,022
1986	24,022
Thereafter	69,084
	$175,495

4. UNUSED LINES OF CREDIT

In addition to the credit lines arranged for the construction of the Bow Drill 2 and 3 semi-submersible drilling rigs (Note 11), BVRS had unused short and long term lines of credit approximating $48 million as at December 31, 1981.

5. SHAREHOLDERS' EQUITY

a) Preferred shares

On September 10, 1981, the shareholders authorized creation of 50,000,000 preferred shares having a par value of $10 each, which may be issued at any time and from time to time in one or more series, each series to consist of such number of shares with such designation, rights, restrictions, conditions and limitations as the Board of Directors may so determine.

During 1981, 1,000,000 variable rate Series A cumulative redeemable term preferred shares were issued at $10 per share, repayable at par on June 16, 1991. The dividend rate for any quarterly period is 50% of the weighted average prime rate of a specified Canadian chartered bank for the period, plus 2%. BVRS may redeem these preferred shares at par any time after June 1, 1983.

b) Common shares

BVRS is authorized to issue up to 30,000,000 common shares without nominal or par value.

During February 1981, BVRS issued 2,850,000 common shares for net proceeds of $35.1 million. Prior to this, BVRS was a wholly-owned subsidiary of Bow Valley Industries Ltd. ("BVI"). As a result, BVI's ownership interest in BVRS has declined to 78% and will further decline to 68% upon conversion of the 11% convertible debentures. At December 31, 1981, 1,900,000 shares were reserved for conversion of these debentures (Note 3).

6. INTEREST EXPENSED AND CAPITALIZED

	1981	1980
Interest incurred on		
Long term debt	**$21,543**	$4,253
Advance from Bow Valley Industries Ltd.	**611**	1,640
Other	**1,873**	1,547
	24,027	7,440
Less interest capitalized	**643**	418
Interest expensed	**$23,384**	$7,022

7. INCOME TAXES

The BVRS income tax provisions have varied from the Canadian corporate tax rate for the following reasons:

	1981		1980	
	Amount	%	Amount	%
Income taxes at the Canadian corporate tax rate	**$8,354**	**47.0**	$11,363	47.0
Add (deduct) effect of				
Investment tax credits	**(5,077)**	**(28.5)**	(1,159)	(4.8)
Non-taxable capital gains	**(529)**	**(3.0)**	(142)	(0.5)
Other	**8**	**—**	(763)	(3.2)
Actual income tax provision	**$2,756**	**15.5**	$ 9,299	38.5

The tax benefit of investment tax credits recorded in 1981 and 1980 resulted in a reduction of deferred income tax expense. To the extent that the related benefits of investment tax credits are not realized on a tax basis during the five year carry-forward period, there will be a charge to deferred income tax expense at the end of that period.

At December 31, 1981, BVRS had $429,000 of future tax benefits relating to available investment tax credits that were not reflected in the income tax provision.

8. RELATED PARTY TRANSACTIONS

BVI charged interest on the long term advance at prevailing market rates. The interest charged on operating advances from BVI was at cost. These advances were repaid in full out of the proceeds of the issue of common shares and debentures during February 1981. In addition, BVI charged certain administrative and overhead costs, such as management services, office rentals and data processing, on the basis of estimated actual costs which have been incurred and generally allocated based on usage.

BVRS provided land drilling services and sold oilfield supplies and equipment at commercial rates to BVI in an aggregate amount of $2,691,000 (1980 — $1,237,000) during the year.

9. SEGMENTED INFORMATION

a) Industry segments

	1981				
	Revenue	Depreciation	Operating Income	Assets at Year end	Capital Expenditures
Offshore drilling	$ 29,343	$ 4,780	$14,984	$148,202	$143,321
Land drilling	98,610	8,976	20,832	96,389	16,715
Manufacturing	54,603	1,290	7,619	35,487	4,582
Distribution	48,198	170	1,512	16,235	286
Truck products	63,239	202	1,828	31,998	3,051
	293,993	15,418	46,775	328,311	167,955
General corporate	286	80	(5,617)	6,676	157
Interest	—	—	(23,384)	—	—
Income taxes	—	—	(2,756)	—	—
Inter-segment eliminations	(10,626)	—	—	—	—
	$283,653	$15,498	$15,018	$334,987	$168,112

	1980				
	Revenue	Depreciation	Operating Income	Assets at Year end	Capital Expenditures
Offshore drilling	$ —	$ —	$ —	$ —	$ —
Land drilling	106,815	6,629	23,856	97,444	45,319
Manufacturing	45,856	836	5,714	26,448	2,993
Distribution	47,812	133	3,063	18,195	848
Truck products	—	—	—	—	—
	200,483	7,598	32,633	142,087	49,160
General corporate	1,867	77	(1,433)	7,623	67
Interest	—	—	(7,022)	—	—
Income taxes	—	—	(9,299)	—	—
Inter-segment eliminations	(16,025)	—	—	—	—
	$186,325	$7,675	$14,879	$149,710	$49,227

b) Geographic areas

The majority of the operations of BVRS are conducted in Canada, which accounted for approximately 90% (1980 — 91%) of revenues, 84% (1980 — 82%) of operating income, and 89% (1980 — 83%) of assets, with the balance in the United States.

The semi-submersible drilling rig, Bow Drill 1, whilst under contract to Petro-Canada Exploration Inc., was subcontracted to another company for whom it drilled in European waters. This revenue has been reported as Canadian revenue.

10. SELECTED QUARTERLY FINANCIAL INFORMATION (Unaudited)

	Quarter Ended				Full
	March 31	June 30	Sept. 30	Dec. 31	Year
YEAR ENDED DECEMBER 31, 1981					
Revenue	$51,560	$74,583	$77,911	$79,599	$283,653
Gross margin	15,658	22,710	24,567	22,395	85,330
Net income	4,658	3,443	5,125	1,792	15,018
Cash flow from operations	8,556	6,099	7,687	6,819	29,161
Net income per common share	$0.41	$0.26	$0.36	$0.13	$1.16
YEAR ENDED DECEMBER 31, 1980					
Revenue	$45,162	$40,597	$47,825	$52,741	$186,325
Gross margin	13,386	12,523	14,073	16,162	56,144
Net income	3,759	3,040	3,247	4,833	14,879
Cash flow from operations	8,487	5,649	6,964	6,244	27,344
Net income per common share	$0.37	$0.30	$0.32	$0.48	$1.47

11. COMMITMENTS

BVRS has made major commitments directed at securing a preferred position in the Canadian offshore drilling industry. These commitments will have a significant impact on the Company's future earnings and cash flow.

BVRS has signed contracts for the construction of two semi-submersible drilling rigs, Bow Drills 2 and 3, which will be owned 65% by BVRS and 35% by Husky Oil Operations Ltd. ("Husky"). Both rigs are contracted to BVI and Husky for a four-year period following delivery. BVRS will be the operator and manager of the rigs and expects them to be used off the east coast of Canada.

Bow Drill 2 is being constructed in Norway at a total cost of U.S. $122 million and is scheduled for delivery in June 1983. Financing has been arranged during construction at commercial bank rates. Upon delivery, financing of approximately U.S. $85 million at an effective rate of 9½% will be provided by Eksportfinans, repayable over a term of eight and one-half years. The remaining cost of approximately U.S. $37 million will be financed at U.S. commercial bank rates with repayments over eight and one-half years commencing after delivery.

Bow Drill 3 is being constructed in Saint John, New Brunswick, at a total cost of U.S. $127 million and is scheduled for delivery in November 1983. The Canadian Export Development Corporation will provide financing of approximately U.S. $105 million for a ten and one-half year term at a rate of 12½%. The remaining cost of approximately U.S. $22 million will be financed at commercial bank rates.

These financings are secured by a first mortgage on the applicable rig and assignment of the related drilling contracts. These financings are expected to be repayable by instalments during the period 1984 through 1992.

Corporate Directory

Directors

Byron J. Seaman
Chairman of the Board and Chief Executive Officer, BVRS
Vice-Chairman, BVI — Director, BVI
Calgary, Alberta

Daryl K. Seaman
Chairman of the Board, President and Chief Executive Officer, BVI
Director, BVI
Calgary, Alberta

Donald R. Seaman
President and Chief Operating Officer, BVRS
Senior Vice-President, BVI — Director, BVI
Calgary, Alberta

Thomas S. Dobson
Chairman of the Board, Easton United Securities Ltd.
Calgary, Alberta

George W. Govier
President, Govier Consulting Services Ltd.
Calgary, Alberta

Bruce W. Watson
President, Wrangler Resources Ltd.
Calgary, Alberta

T. S. Dobson, G. W. Govier and B. W. Watson are members of the Audit Committee.

Officers

Byron J. Seaman
Chairman of the Board and Chief Executive Officer

Donald R. Seaman
President and Chief Operating Officer

Trevor A. Legge
Senior Vice-President, Finance and Chief Financial Officer

William C. Hay
Senior Vice-President, Drilling

A. Michael Parent
Senior Vice-President, Manufacturing

Peter E. Sherburn
Senior Vice-President, Administration and Planning

Richard J. Chase
Vice-President, Supplies Group

Joseph Lukacs
Vice-President, Environmental Group

Richard M. McGhee
Vice-President, Shallow Drilling

Henry W. Popoff
Vice-President, Offshore Drilling

Selby W. Porter
Vice-President, Deep Drilling

Henry A. Smith
Vice-President, General Counsel and Secretary

Clarence S. Soderling
Vice-President, Manufacturing Group

Allan J. Solie
Vice-President, HVAC Group

Walter C. Yeates
Treasurer

Peter W. J. Butler
Corporate Controller

E. J. Adair
Assistant Secretary

Corporate Information

Stock Exchange Listings

The Toronto Stock Exchange
Montreal Stock Exchange

Transfer Agent and Registrar

National Trust Company, Limited

Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal

Auditor

Price Waterhouse, Chartered Accountants — Calgary, Alberta

Legal Counsel

Howard, Mackie — Calgary, Alberta

Banker

The Royal Bank of Canada — Calgary, Alberta

Offices and Locations

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