



Bow Valley Resource Services Ltd.



1984 Annual Report

Corporate Profile

Thirty-five years ago a small seismic drilling business was incorporated in the province of Alberta. Fueled by the Leduc oil discovery, the company quickly expanded into contract oil and gas well drilling, and ultimately into hydrocarbon exploration on its own behalf.

Bow Valley Resource Services Ltd. (BVRS) was created in 1977 through an amalgamation of a number of associated companies and the purchase of the drilling divisions from its parent, Bow Valley Industries Ltd. (BVI). BVRS was formed to consolidate the drilling and manufacturing operations of BVI. The Company has since been organized into four areas of operation: Offshore Drilling and Marine Services, Land Drilling, Manufacturing and Distribution and Waste Management.

The Company completed a successful public stock and debenture offering in 1981 and had its shares listed on The Toronto Stock Exchange and the Montreal Exchange. 1981 also marked the Company's entry into offshore drilling in Canada. One semi-submersible drilling rig was acquired and BVRS entered into contracts for the construction of two others which were delivered in 1983 and 1984.

Today, BVRS is among the leading land and offshore drilling contractors in Canada. Its Manufacturing and Distribution segment provides products and services to the oil and gas, mining, forest, marine construction, and transportation industries. Recent acquisitions and investments in waste management have placed BVRS in a prime position to capture a significant share of that expanding market.

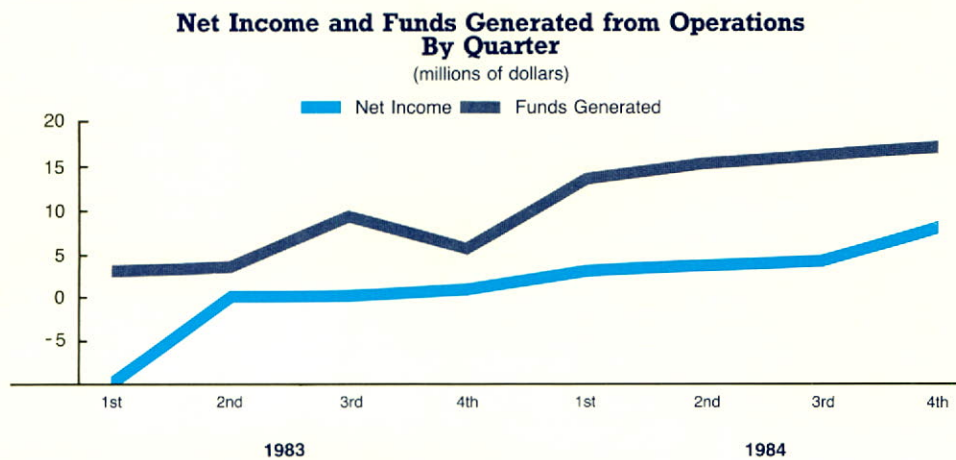
The entrepreneurial energy that promoted the development of western Canada continues to fuel the growth of BVRS. It remains a company poised to take advantage of new opportunities as they become available.

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Financial Highlights

(thousands of dollars except per share data)	1984	1983	% of Change
Revenue	\$379,640	\$235,742	+ 61%
Income before extraordinary item	16,865	698	+2,316%
Per common share	1.23	0.00	—
Net income	19,838	698	+2,742%
Per common share	1.46	0.00	—
Funds generated from operations	63,413	21,730	+ 192%
Per common share	4.79	1.62	+ 196%
Capital expenditures	40,592	140,898	- 71%
Long term debt	356,498	374,686	- 5%
Shareholders' equity	107,944	88,766	+ 22%



Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Bow Valley Resource Services Ltd. will be held in the Glenview Room of the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta, at 11:00 a.m. on Wednesday, May 29, 1985.



Executive Message To Shareholders



Byron J. Seaman

Fiscal 1984 was certainly one of the most exciting and rewarding in the history of the Company. While all sectors performed ahead of budget, the most outstanding financial performances were by Offshore Drilling and Marine Services and Western Star Trucks.

Reviewing the overall corporate picture, total revenue increased 61 percent to \$379.6 million; operating income more than doubled to \$90.4 million; net income showed a significant increase from \$0.7 million in 1983 to \$19.8 million in 1984; while funds generated from operations tripled to \$63.4 million. On a per share basis, net income was \$1.46 and funds generated from operations were \$4.79.

Analysis of individual segments of the Company show varying levels of financial contribution, which reflects the diversified operations of BVRS. Except for 1984, revenues from land drilling, the Company's traditional area of activity, have declined since 1980 as that industry experienced an oversupply of rigs, weakened demand and reduced rates. 1984 represented a year of gradual recovery for the drilling industry which we expect will continue and translate into a brighter profit picture through 1985. This previous decline in land drilling has been more than offset by revenue from Offshore Drilling and Marine Services.

A basic strength of BVRS has been its ability to react to change in business conditions. The Company began operations 35 years ago focusing its activities in the land drilling industry. As it grew with the demand of that cyclical yet dynamic business, another strength was the development of a reputation for fine service, excellent equipment and the highest calibre of expertise in its people. These basic strengths remain.

The Company that has therefore evolved is one that has expanded the services offered to the energy industry into new facets and businesses. BVRS is the only Canadian contractor of semi-submersible drilling equipment and the largest Canadian contractor of land drilling equipment. It has a division which has achieved worldwide recognition for energy industry emission instrumentation, and another that is pioneering a new downhole waste treatment system in a market that is potentially enormous.

In our view, the full effects of this diversification have yet to be felt. The VerTech waste treatment system represents a potential source of stable, utility-type revenue which will begin when the project is commercialized during 1986.

We believe Offshore Drilling and Marine Services will continue to perform at a satisfactory level in 1985. The recontracting of BOW DRILL ONE will employ the rig through the summer and into the fall of 1985. Part of the revenue lost from BOW DRILL ONE will be replaced by a full year of operation from BOW DRILL 3. In the longer term, a combination of factors including improving worldwide rig utilization rates, highest calibre equipment and personnel as well as many marketing advantages in the Canadian environment will make the contracting of BOW DRILL ONE highly probable.

With the level of land sales and seismic activity up significantly, it follows that the utilization rate for land rigs will increase and so will drilling rates in due course. BVRS has built a considerable presence in the drilling industry over the years, and is confident it will be among the first to see the effects of the coming turnaround in activity.

We were gratified to see the Federal and provincial governments of the energy producing western provinces conclude an agreement designed to revitalize the Canadian energy industry and thus ensure energy self-sufficiency. This will be achieved by replacing existing arrangements covering the pricing and fiscal treatment of oil and gas matters and establishing a regime of market-sensitive taxation. The new arrangement will cause a significant increase in the use of land drilling rigs.

On April 11, 1985, the Company finalized and received \$40 million from the public issue of 8.5 percent Cumulative Redeemable Convertible Class B Preferred Shares. The proceeds were applied to repay floating rate long term debt, thereby strengthening the balance sheet, a primary objective over the next few years. We were very pleased with the interest shown in the Company during the course of offering the issue.

We believe it is useful to express the corporate objectives of BVRS.

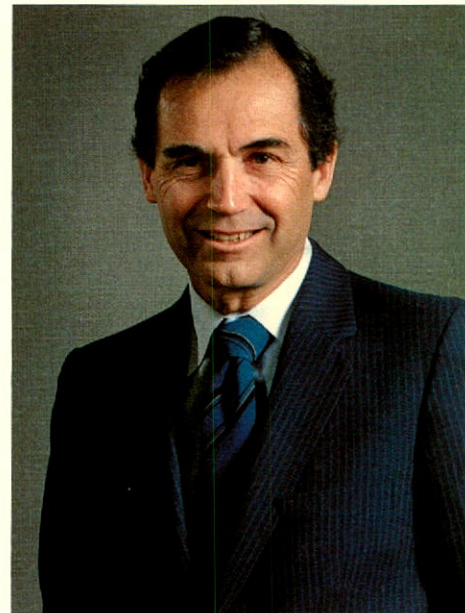
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- Emphasis will be placed on achieving a strong balance sheet with a maximum debt-to-equity ratio of 60 percent.
- Rationalization of underperforming assets and business components will be pursued.
- Investments will be directed primarily to North America.

- Dividend policy will be responsive to the cyclical and capital intensive nature of its businesses. Dividends will be paid at a level in line with financial performance and the business outlook.


In summary, 1984 was a year of achievement. We look forward to the opportunities and challenges of improving this record in years to come.

At the Annual General Meeting held on May 23, 1984, Mr. James S. Graham, a retired industrialist of Vancouver, British Columbia, was elected to the Board of Directors. We welcome Mr. Graham's counsel.


The Directors and Management of BVRS wish to express appreciation for the dedicated effort of all employees during the year. It is through their capability, energy and reliability that the Company will continue to be successful.



Donald R. Seaman



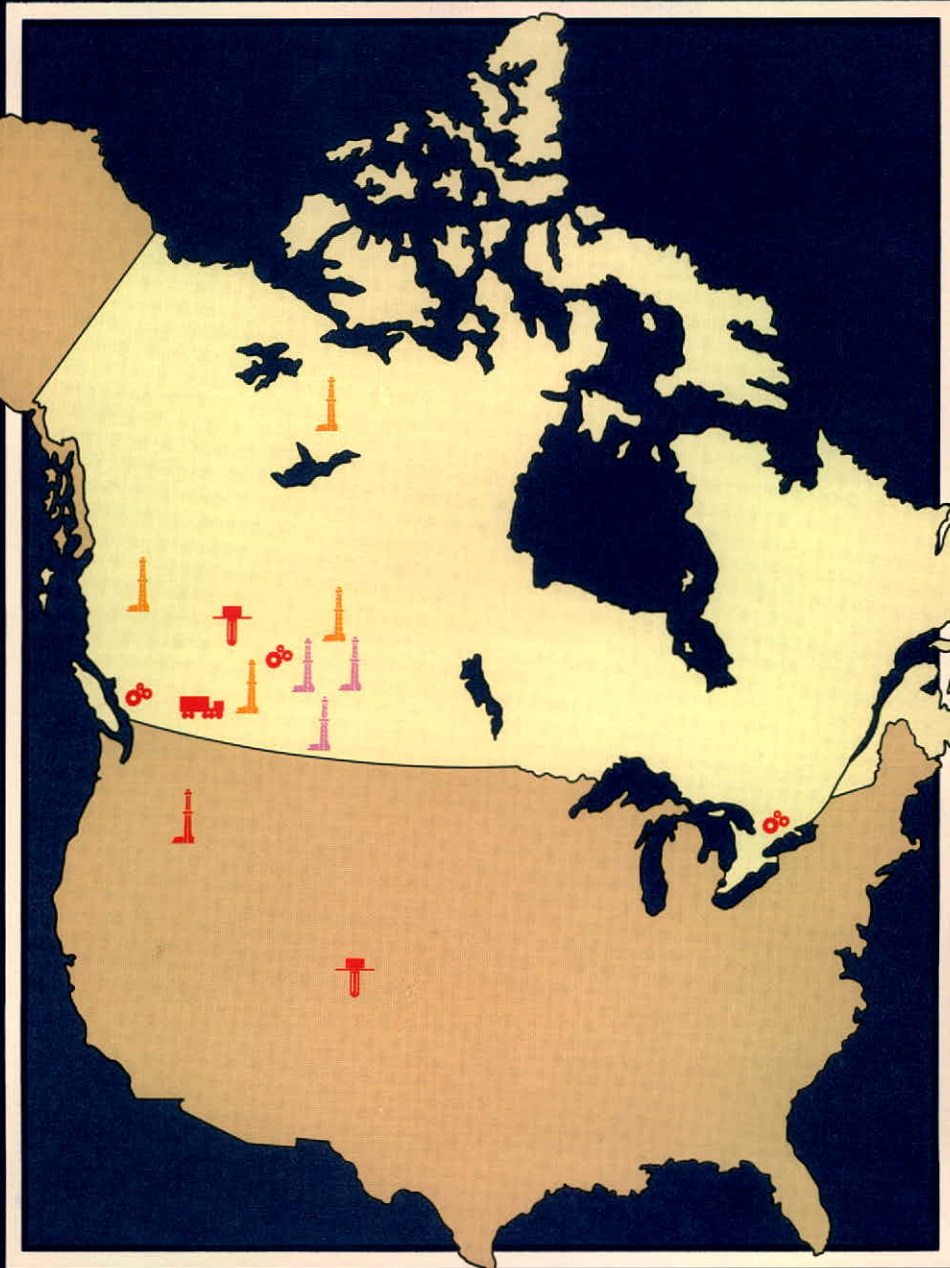
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Chairman and
Chief Executive Officer



D. R. Seaman
President and
Chief Operating Officer

April 30, 1985
Calgary, Alberta

Principal Areas of Activity




Hi-Tower
Land
Drilling


Sedco
Land
Drilling


Apollo
Land
Drilling


Offshore
Drilling


Trucking

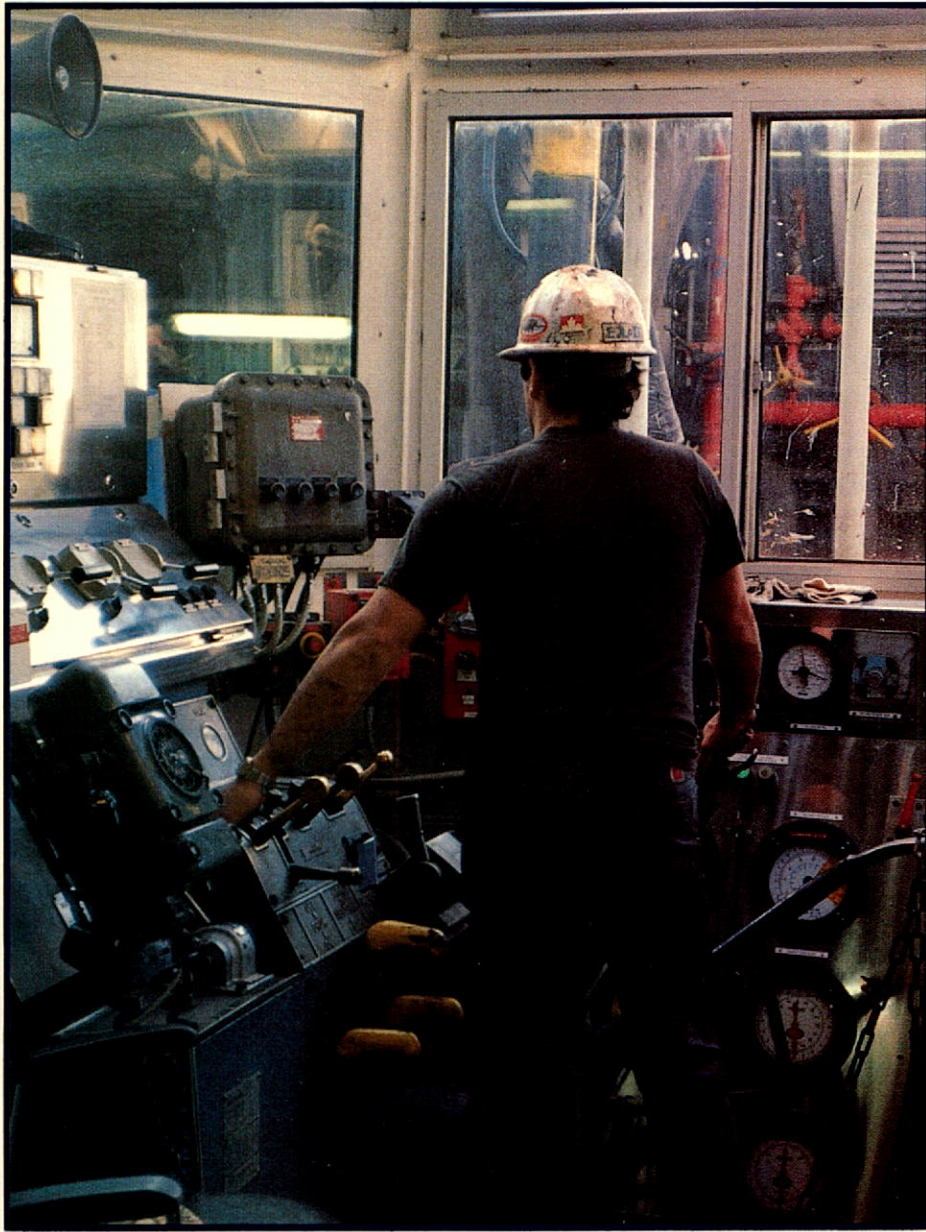

Shipping


Waste
Management

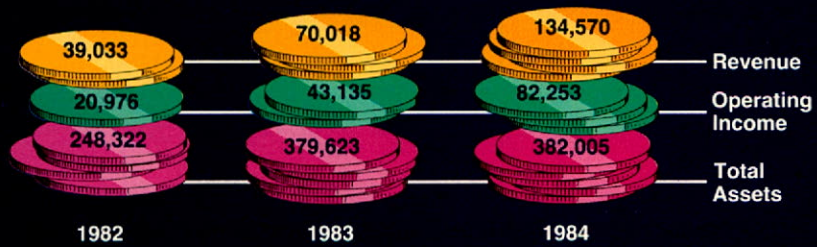

Manufacturing



Offshore Drilling and Marine Services

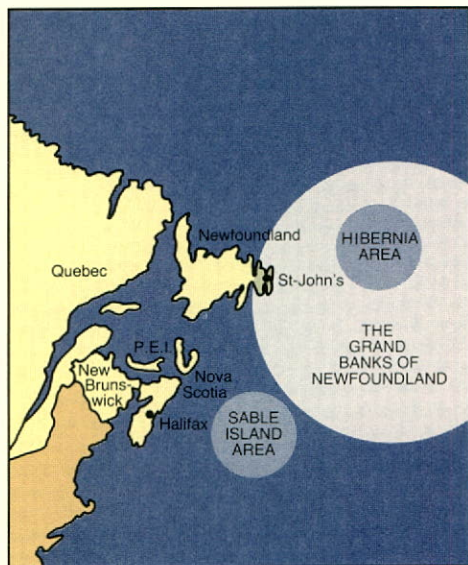


Offshore Drilling (thousands of dollars)



BVRS is the only Canadian-owned contractor of semi-submersible drilling rigs and 1984 was its most profitable year since entering the market four years ago.

The Company purchased its first semi-submersible drilling vessel BOW DRILL ONE, in March 1981. Also in 1981, BVRS, in partnership with a major Canadian oil company, entered into contracts for the construction of two harsh environment semi-submersible drilling rigs. BOW DRILL 2 was delivered in July 1983 and BOW DRILL 3 was delivered in March 1984. Both rigs are 65 percent owned by BVRS.



Since its entry into this market BVRS has become a major force in the Canadian offshore drilling industry. As of year end 13 wells had been drilled by the BOW DRILL fleet, representing 32 percent of all wells drilled by semi-submersibles off Canada's east coast since BVRS entered the offshore market. The Company also has a fleet of six supply boats which are 50 percent owned by BVRS.

For BVRS, the reasons for entering the offshore drilling market were to some degree related to industry conditions as affected by the National Energy Program. BVRS perceived that substantial opportunities would develop in Canada's offshore drilling industry as the need for finding new energy reserves to ensure domestic self-sufficiency

grew. BVRS was also able to draw on experience gained in the 1970's when BVI operated the Odin Drill semi-submersible drilling rig in the North Sea.

A typical offshore drilling contract is competitively bid on a daywork basis which results in the customer paying an agreed fixed amount per day for the drilling contractor's equipment and personnel. Such contracts may be on a well-to-well or other short term basis but at times of high demand can extend for periods as long as five years. Contracts are generally in effect and day rates are payable for every day during the term, regardless of whether the rig is drilling, moving, or on stand-by.

At an early stage BVRS established a fundamental policy to govern its presence in the offshore drilling market which still applies today. This policy is based on the historic cyclical nature of drilling day rates. At what BVRS perceives to be the top of the cycle, it attempts to enter into long term contracts. During periods believed to be in the mid to lower range of the cycle, BVRS prefers to bid on contracts to employ the rigs on a well-to-well or short term basis until long term contracts at satisfactory rates are available.

The present contract situation applicable to vessels in which BVRS has an interest are as follows. The long term contract under which BOW DRILL ONE was operating expired on April 9, 1985. The rig is now contracted to BP Resources Limited for a one-well drilling program off the east coast of Canada. BOW DRILL 2 and BOW DRILL 3 are operating under contracts with the Bow Valley Husky Joint Venture which were entered into in 1981 and expire in July 1987 and March 1988, respectively. These contracts may be extended at the option of the Joint Venture.

As BOW DRILL 2 and BOW DRILL 3 are contracted through to mid-1987 or later, the near term focus is now being concentrated on the continued employment of BOW DRILL ONE. BVRS believes that dayrates are currently at a low point in the cycle and is seeking short term contracts for BOW DRILL ONE. Management believes BOW DRILL

ONE is appropriately positioned to continue being contracted to drill off the east coast.

While the primary market focus is offshore Canada's east coast the secondary market is the North Sea. These prospective areas are subject to sea and weather conditions as harsh as anywhere in the world. To operate safely and efficiently in these areas requires the most stringent performance characteristics currently available for semi-submersible rigs and, as a result, a variety of technical specifications and operating guidelines are prescribed by various regulatory authorities. For this reason, rigs like those of BVRS which meet the required standards enjoy limited competition in the area. While published industry data indicates that there are approximately 168 semi-submersible drilling rigs presently in existence world-wide, BVRS estimates that only about 25 of these presently meet the specifications required to operate offshore Canada's east coast. Historically, few of them have been uncontracted and available at any given point in time.

In addition to meeting the highest level of technical, mechanical and operating specifications, BVRS' fleet has sev-



The BVRS offshore drilling fleet is equipped with very sophisticated technical and mechanical equipment such as the blowout prevention system above.



The Company's fleet of six supply boats provide supplies and services to offshore rigs on Canada's east coast.

eral advantages in the Canadian marketplace resulting from its Canadian status. For example, mobilization costs are not applicable. As well, BVRS was able to obtain exemption for its offshore rigs and supply boats from customs duty and excise tax to be imposed on foreign equipment by the Government of Canada as a result of the extension of its offshore jurisdiction over the continental shelf. This exemption will place BVRS in a very competitive position when bidding on future contracts in the Canadian offshore areas.

BVRS is firmly committed to and holds a positive long term outlook for the off-

shore drilling industry, particularly for semi-submersible rigs in the Canadian and international offshore markets. The near term drilling plans of the major oil companies in Canada are believed to have been adversely affected by the uncertainty surrounding the Canadian government's energy policies. However, this appears to be only a short term situation. In the long term, the demand for semi-submersibles must be viewed from the perspective of anticipated world requirement for offshore drilling equipment. Worldwide utilization for semi-submersible drilling rigs in 1984 rose from 82 percent at the beginning of the year to 90 percent at year end, a steady

upward climb from the October 1983 low of 79 percent. Furthermore, the time frame required to bring offshore drilling projects to the development and production phase is very long. The northern North Sea was 11 years in the exploration phase and has been in the development stage for 15 years, with 103 rigs still drilling in various areas.

Profile of a Multi-Million Dollar Drilling Fleet



A rare occasion, BOW DRILL 3 (left) and BOW DRILL ONE (right) are seen here in harbour with a supply boat in the foreground.

After being acquired, BOW DRILL ONE was fitted with a 15,000 p.s.i. blowout prevention system, the highest capacity currently available for offshore drilling rigs, to permit drilling into high pressure zones commonly encountered off Canada's east coast. Except for a two-well program in European waters, BOW DRILL ONE has been operating in harsh environment conditions ever since its acquisition. It is capable of drilling to depths of 25,000 feet in 1,200 feet of water, and can withstand 100 foot waves and 100 knot winds.

BOW DRILL 2 and BOW DRILL 3 each have the capability to drill in 1,500 feet of water to depths of 25,000 feet. Both rigs are fitted with 15,000 p.s.i. blowout

prevention systems and can operate in sea conditions equivalent to those specified for BOW DRILL ONE. All rigs are self-propelled and can move at a speed of seven knots.

BVRS owns 50 per cent of the six supply boats which were delivered between July and November 1983. Two were built in Canada and four in South Korea. All are large, technically-sophisticated anchor handling, material supply and safety boats for use in offshore exploration and production operations. The supply boats have been designed and constructed to withstand harsh ocean conditions and are capable of towing and positioning semi-submersible drilling rigs.

Some pertinent features are:

- four engine reliability
- economic fuel consumption
- 125 metric ton bollard pull
- three side thrusters
- enclosed anchor handling winch and reels for protection from icing
- wheel house control of cargo handling
- coast guard approval as standby craft

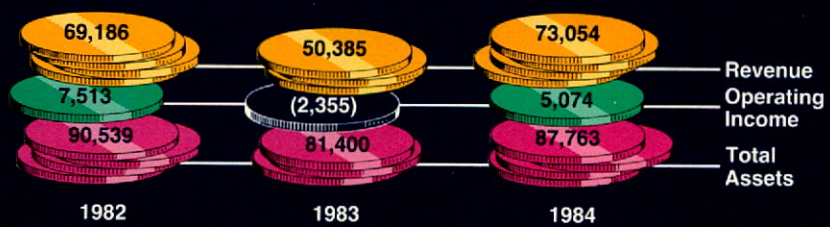
At the present time the supply boats are contracted to the Bow Valley Husky Joint Venture until various dates in 1987.

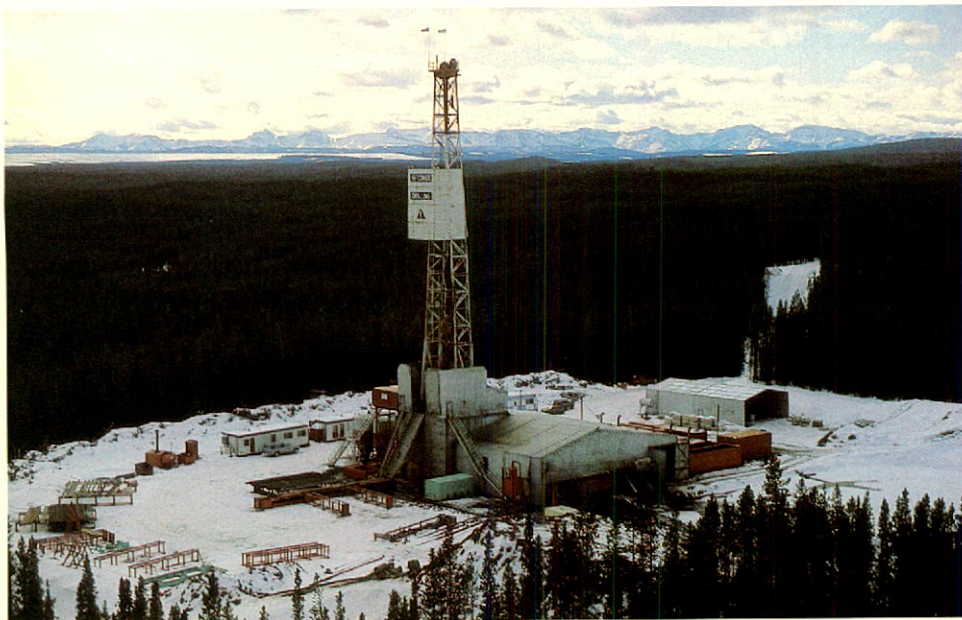


Land Drilling



Land Drilling (thousands of dollars)





Hi-Tower medium depth drilling activity improved during 1984 with further improvement expected during 1985.

BVRS is Canada's largest land drilling contractor. Divisions within Land Drilling include Hi-Tower Drilling and Sedco Drilling in Canada, Apollo Drilling in the United States, International Drilling, and the Engineering and Special Projects Division.

Following two depressing years for the Canadian drilling industry, a brighter picture emerged in 1984. Land Drilling was responsible for over ten percent of all wells drilled in western Canada during the past year. Based on the increased level of expenditures at Crown land sales, higher levels of seismic activity, and the recently announced Western Accord between Ottawa and the producing provinces, BVRS is anticipating a continuation of the current upward trend in utilization rates. With a combination of a broad range of depth capacity equipment and an excellent reputation, BVRS is positioned to take advantage of the improving economic climate.

Intense competition for available work during 1984 prevented profit margins from improving. Another year of recovery will be required before profit margins return to more normal levels. Nevertheless, the long standing reputation of BVRS for quality equipment and reliable service, combined with a high cali-

bre of in-house technical expertise, will ensure relatively high rig utilization and improved earnings.

Hi-Tower Drilling

Hi-Tower is involved in medium and deep drilling in western Canada, primarily in Alberta, British Columbia, and the Northwest Territories. At December 31, 1984, Hi-Tower operated 16 rigs with depth capabilities ranging from 6,500 feet to 25,000 feet. The utilization of Hi-Tower's deep rigs is closely linked to the level of natural gas exploration and development activity in the region, which has been very slow in recent years. However, natural gas exports are expected to continue to increase during 1985 which will impact favourably on the utilization of these rigs. A modest improvement in utilization rates for the medium depth rigs in 1984 resulted from an increase in drilling for conventional oil exploration and development. Hi-Tower's overall rig utilization improved from 34 percent in 1983 to 43 percent in 1984.

In addition to this improvement in activity, Hi-Tower also successfully drilled the world's longest horizontal well. This unique project supported by the tech-

nical expertise of the BVRS Engineering and Special Projects Division was undertaken for Esso Resources Canada Limited at its heavy oil project at Cold Lake in northeastern Alberta. By drilling in a horizontal direction, the well exposed a much longer portion of the oil bearing formation than conventional vertical drilling would allow.

Sedco Drilling

Sedco is active in shallow oil and gas exploration and development drilling in Canada, the majority of which is concentrated in eastern Alberta and western Saskatchewan extending from the United States border in the south to the Cold Lake area in the north. The Sedco fleet includes 23 rigs with depth capabilities to 7,000 feet.

Sedco achieved a rig utilization rate of 49 percent surpassing an industry average of 48 percent and was responsible for the drilling of 855 wells during the year. Sedco is recognized as the leader in the shallow drilling industry, a role it has enjoyed for many years. This position was maintained during 1984 despite narrow profit margins and intense competition. As a result of its high profile, Sedco will be among the first to see any results from a predicted upswing expected in industry activity in 1985 and beyond.

In many ways Sedco's reputation is built on the combination of service and innovation it has brought to the industry. For example, during 1984, Sedco developed and constructed its first specialized drilling rig capable of drilling multiple directionally drilled wells from a single location, described as a pad, by moving the rig around a central support complex. Environmental and economic considerations lead to the development of pad drilling which results in more efficient land use and is particularly applicable to the close well spacing patterns of heavy oil drilling. The pad rig constructed by Sedco has proven to be functionally successful and as a result another rig of the same design was constructed for a project in northern Alberta.

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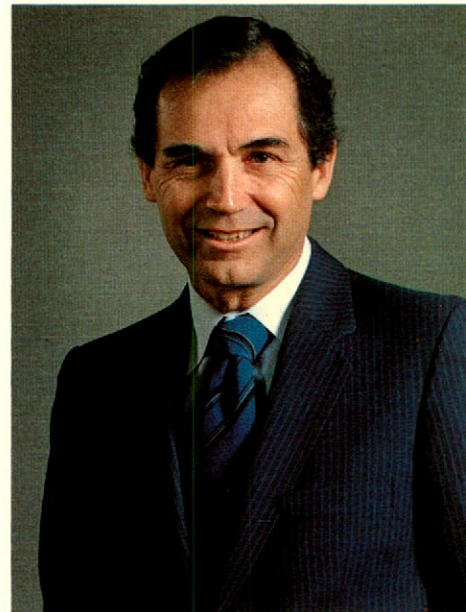
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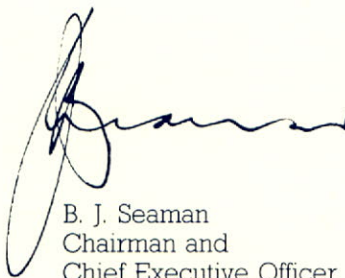
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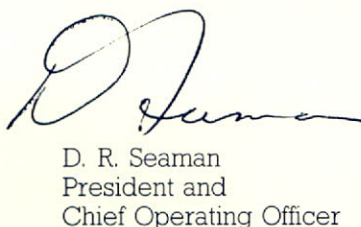
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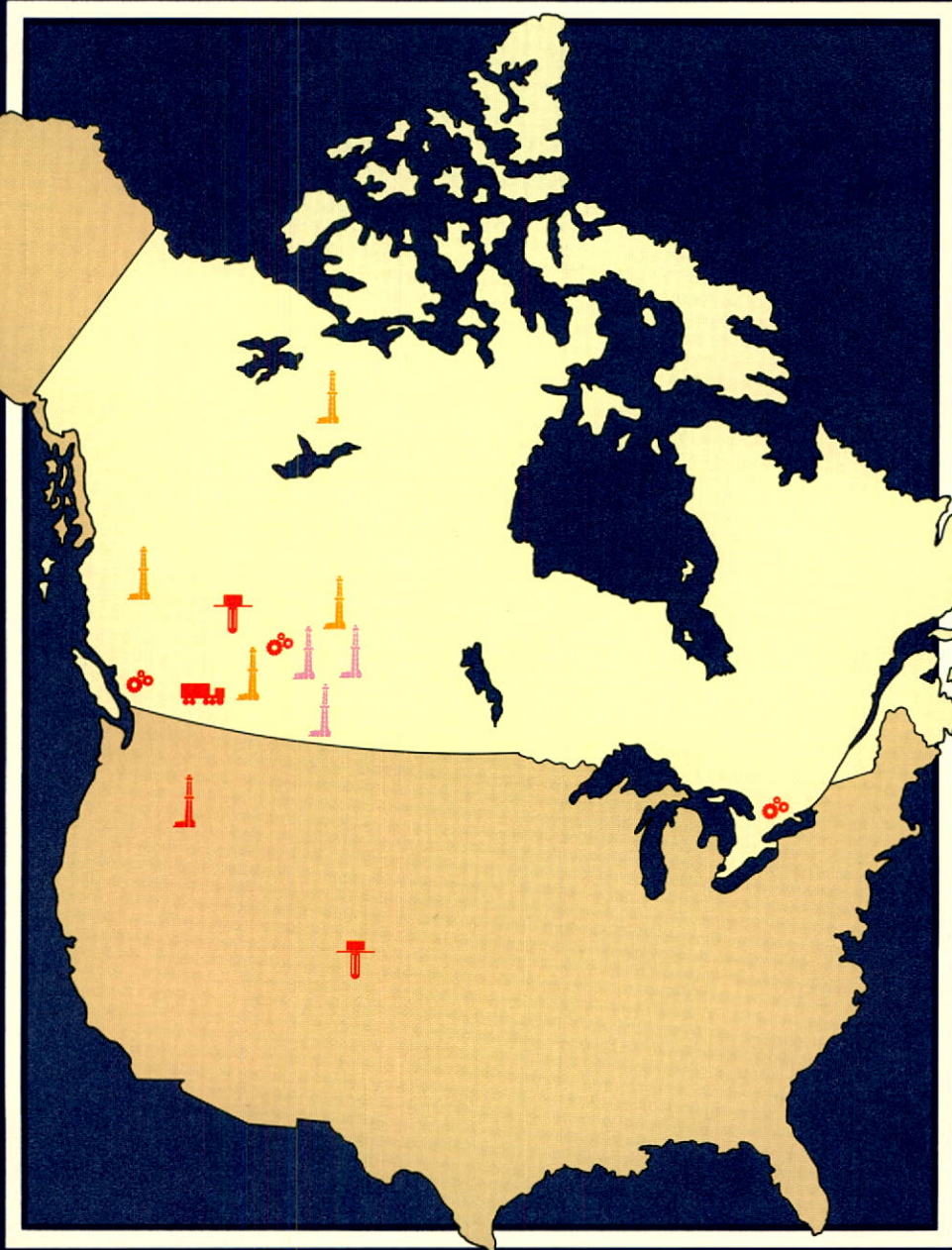
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Land
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Apollo
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Offshore
Drilling



Trucking



Shipping



Waste
Management



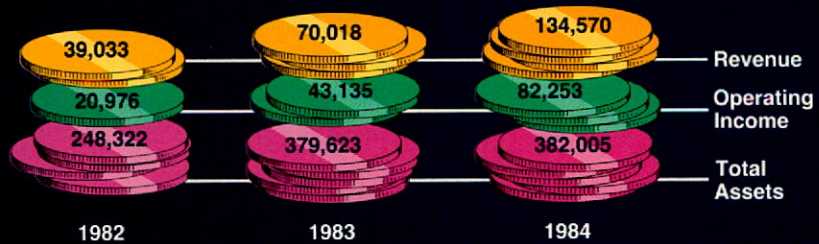
Manufacturing



Offshore Drilling and Marine Services

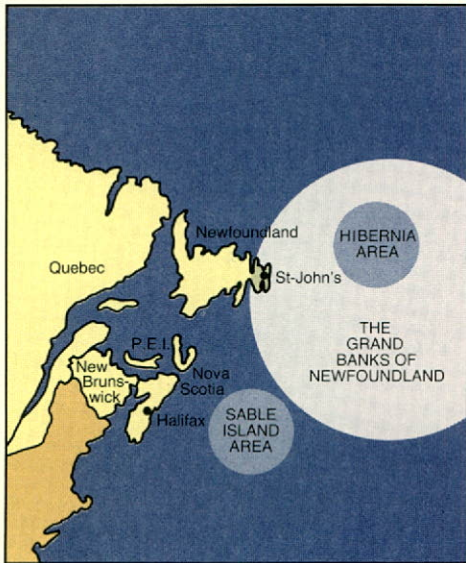


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prevention systems and can operate in sea conditions equivalent to those specified for BOW DRILL ONE. All rigs are self-propelled and can move at a speed of seven knots.

BVRS owns 50 per cent of the six supply boats which were delivered between July and November 1983. Two were built in Canada and four in South Korea. All are large, technically-sophisticated anchor handling, material supply and safety boats for use in offshore exploration and production operations. The supply boats have been designed and constructed to withstand harsh ocean conditions and are capable of towing and positioning semi-submersible drilling rigs.

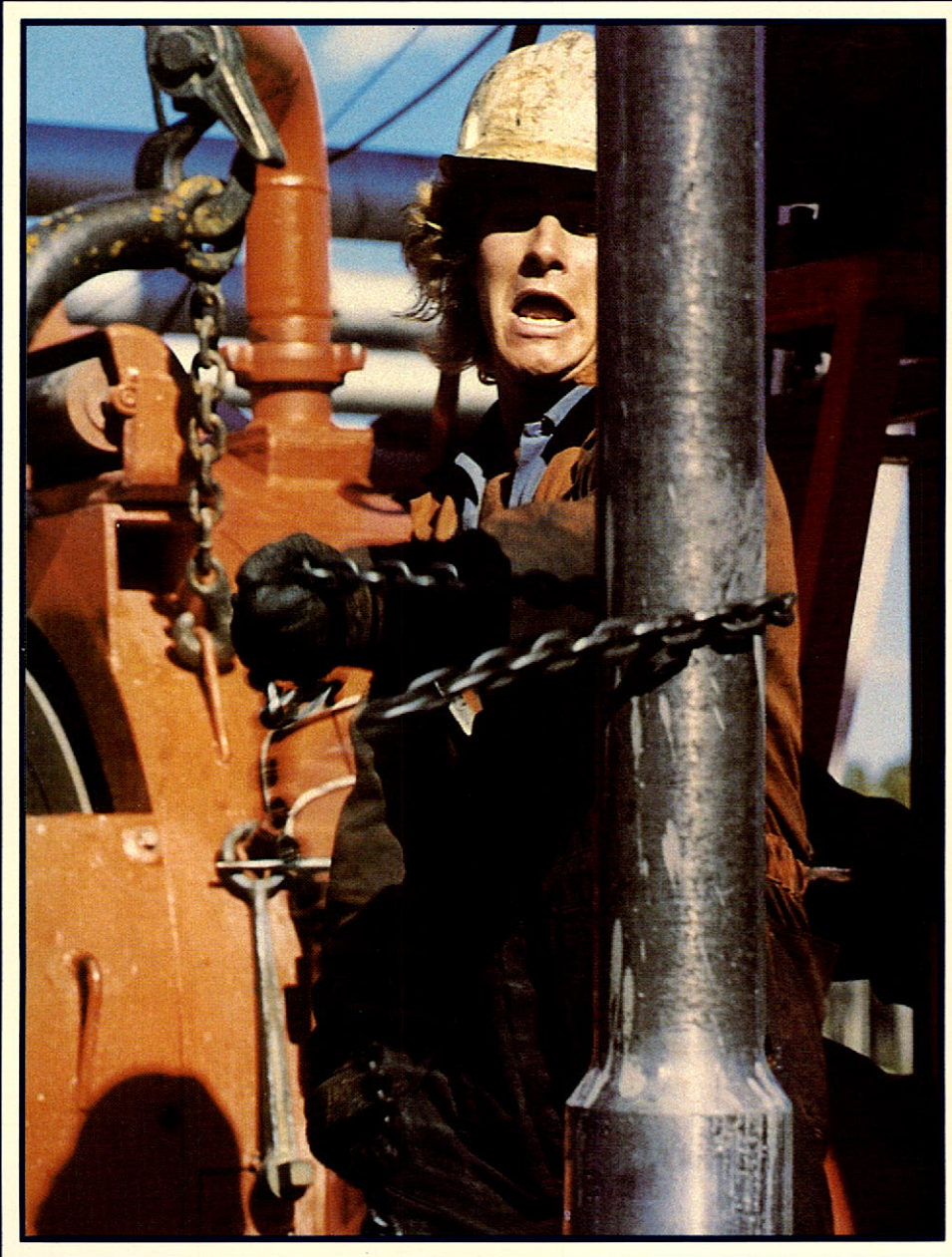
Some pertinent features are:

- four engine reliability
- economic fuel consumption
- 125 metric ton bollard pull
- three side thrusters
- enclosed anchor handling winch and reels for protection from icing
- wheel house control of cargo handling
- coast guard approval as standby craft

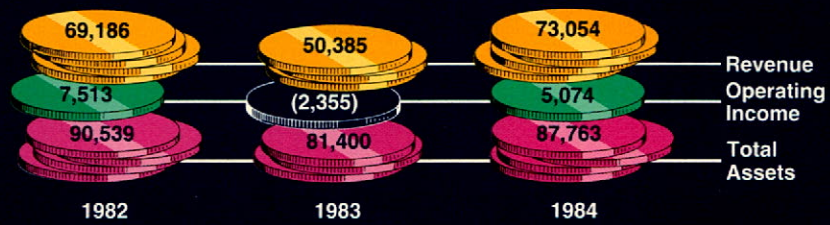
At the present time the supply boats are contracted to the Bow Valley Husky Joint Venture until various dates in 1987.

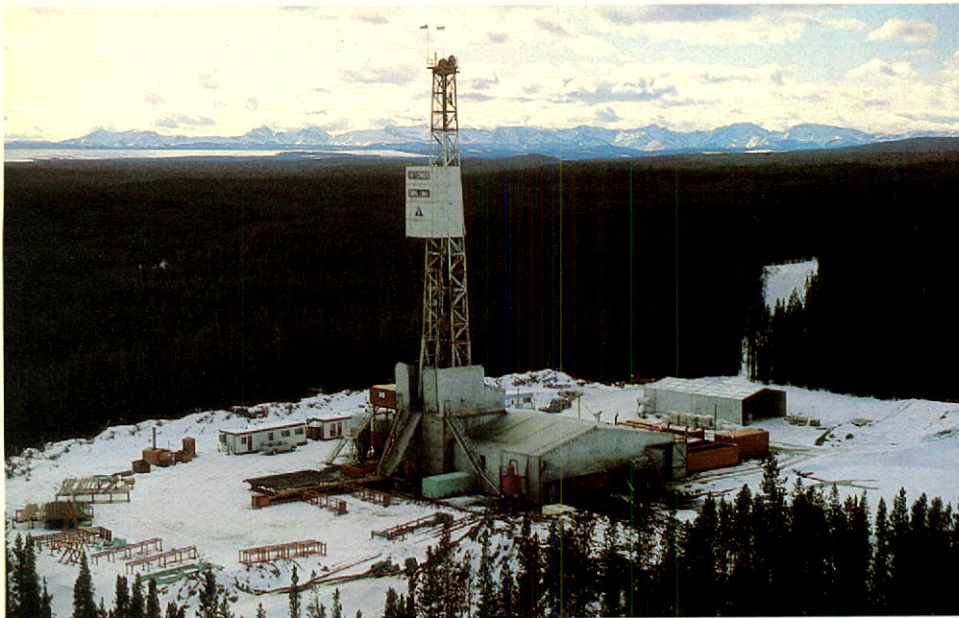


Land Drilling



Land Drilling (thousands of dollars)





Hi-Tower medium depth drilling activity improved during 1984 with further improvement expected during 1985.

BVRS is Canada's largest land drilling contractor. Divisions within Land Drilling include Hi-Tower Drilling and Sedco Drilling in Canada, Apollo Drilling in the United States, International Drilling, and the Engineering and Special Projects Division.

Following two depressing years for the Canadian drilling industry, a brighter picture emerged in 1984. Land Drilling was responsible for over ten percent of all wells drilled in western Canada during the past year. Based on the increased level of expenditures at Crown land sales, higher levels of seismic activity, and the recently announced Western Accord between Ottawa and the producing provinces, BVRS is anticipating a continuation of the current upward trend in utilization rates. With a combination of a broad range of depth capacity equipment and an excellent reputation, BVRS is positioned to take advantage of the improving economic climate.

Intense competition for available work during 1984 prevented profit margins from improving. Another year of recovery will be required before profit margins return to more normal levels. Nevertheless, the long standing reputation of BVRS for quality equipment and reliable service, combined with a high cali-

bre of in-house technical expertise, will ensure relatively high rig utilization and improved earnings.

Hi-Tower Drilling

Hi-Tower is involved in medium and deep drilling in western Canada, primarily in Alberta, British Columbia, and the Northwest Territories. At December 31, 1984, Hi-Tower operated 16 rigs with depth capabilities ranging from 6,500 feet to 25,000 feet. The utilization of Hi-Tower's deep rigs is closely linked to the level of natural gas exploration and development activity in the region, which has been very slow in recent years. However, natural gas exports are expected to continue to increase during 1985 which will impact favourably on the utilization of these rigs. A modest improvement in utilization rates for the medium depth rigs in 1984 resulted from an increase in drilling for conventional oil exploration and development. Hi-Tower's overall rig utilization improved from 34 percent in 1983 to 43 percent in 1984.

In addition to this improvement in activity, Hi-Tower also successfully drilled the world's longest horizontal well. This unique project supported by the tech-

nical expertise of the BVRS Engineering and Special Projects Division was undertaken for Esso Resources Canada Limited at its heavy oil project at Cold Lake in northeastern Alberta. By drilling in a horizontal direction, the well exposed a much longer portion of the oil bearing formation than conventional vertical drilling would allow.

Sedco Drilling

Sedco is active in shallow oil and gas exploration and development drilling in Canada, the majority of which is concentrated in eastern Alberta and western Saskatchewan extending from the United States border in the south to the Cold Lake area in the north. The Sedco fleet includes 23 rigs with depth capabilities to 7,000 feet.

Sedco achieved a rig utilization rate of 49 percent surpassing an industry average of 48 percent and was responsible for the drilling of 855 wells during the year. Sedco is recognized as the leader in the shallow drilling industry, a role it has enjoyed for many years. This position was maintained during 1984 despite narrow profit margins and intense competition. As a result of its high profile, Sedco will be among the first to see any results from a predicted upswing expected in industry activity in 1985 and beyond.

In many ways Sedco's reputation is built on the combination of service and innovation it has brought to the industry. For example, during 1984, Sedco developed and constructed its first specialized drilling rig capable of drilling multiple directionally drilled wells from a single location, described as a pad, by moving the rig around a central support complex. Environmental and economic considerations lead to the development of pad drilling which results in more efficient land use and is particularly applicable to the close well spacing patterns of heavy oil drilling. The pad rig constructed by Sedco has proven to be functionally successful and as a result another rig of the same design was constructed for a project in northern Alberta.



Consolidated Statement of Income

Year Ended December 31

	1984	1983
	(thousands of dollars, except per share data)	
REVENUE		
Service and manufacturing	\$375,937	\$231,928
Other	3,703	3,814
	379,640	235,742
EXPENSES		
Operating costs	233,312	152,186
General and administrative	39,977	32,652
Depreciation	28,851	19,698
Interest (Note 5)	44,243	26,791
	346,383	231,327
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	33,257	4,415
INCOME TAXES (Note 6)		
Current	(927)	(1,511)
Deferred	17,319	5,228
	16,392	3,717
INCOME BEFORE EXTRAORDINARY ITEM	16,865	698
EXTRAORDINARY ITEM		
Benefit of utilizing prior years' tax losses	2,973	—
NET INCOME	\$ 19,838	\$ 698
NET INCOME PER COMMON SHARE, based on the weighted average number of shares outstanding of (thousands):	13,056	12,975
Before extraordinary item		
Basic	\$1.23	\$0.00
Fully diluted	\$1.18	\$0.00
After extraordinary item		
Basic	\$1.46	\$0.00
Fully diluted	\$1.38	\$0.00



Consolidated Balance Sheet

As At December 31

	1984	1983
	(thousands of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and term deposits	\$ 14,522	\$ 15,405
Accounts receivable	59,876	52,105
Inventories (Note 1)	31,297	25,527
	105,695	93,037
CAPITAL ASSETS, at cost (Note 2)	577,968	540,231
Less accumulated depreciation	104,782	76,957
	473,186	463,274
UNAMORTIZED FOREIGN EXCHANGE	24,330	5,973
OTHER ASSETS, at cost less amounts amortized	8,627	9,835
	\$611,838	\$572,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank indebtedness, unsecured	\$ 1,652	\$ 3,394
Accounts payable and accrued	60,602	43,679
Long term debt due within one year	48,941	39,739
	111,195	86,812
LONG TERM DEBT (Note 3)	356,498	374,686
DEFERRED INCOME TAXES	36,201	21,855
	503,894	483,353
SHAREHOLDERS' EQUITY (Note 4)		
Preferred shares	10,382	10,000
Common shares	38,628	37,923
Foreign exchange adjustment	2,644	960
Retained earnings	56,290	39,883
	107,944	88,766
CONTINGENT LIABILITIES (Note 8)	\$611,838	\$572,119

Approved by the Board

Director

Director



Consolidated Statement of Changes in Financial Position

Year Ended December 31

	1984	1983
	(thousands of dollars)	
CASH PROVIDED FROM OPERATIONS		
Income before extraordinary item	\$ 16,865	\$ 698
Add non-cash items, principally depreciation and deferred income taxes	46,548	21,032
Funds generated from operations	63,413	21,730
Cash provided by non-cash working capital	3,382	3,876
	66,795	25,606
CASH USED		
Repayment of long term debt	49,604	20,729
Dividends — preferred	816	761
— common	2,615	—
Capital expenditures	40,592	140,898
Proceeds on sale of capital assets	(4,051)	(2,019)
Other	(4,705)	524
	84,871	160,893
CASH REQUIRED	(18,076)	(135,287)
CASH PROVIDED FROM FINANCING ACTIVITIES		
Issue of long term debt	17,848	135,339
Issue of common shares	705	284
Issue of preferred shares	382	—
	18,935	135,623
NET CASH PROVIDED	859	336
CASH AT BEGINNING OF YEAR	12,011	11,675
CASH AT END OF YEAR	\$ 12,870	\$ 12,011

- Cash includes 'cash and term deposits' net of 'bank indebtedness, unsecured'.
- Non-cash working capital includes 'accounts receivable', 'inventories', less 'accounts payable and accrued'.

Consolidated Statement of Retained Earnings

Year Ended December 31

	1984	1983
	(thousands of dollars)	
RETAINED EARNINGS AT BEGINNING OF YEAR	\$39,883	\$39,946
NET INCOME	19,838	698
	59,721	40,644
DIVIDENDS PAID		
Preferred shares (Note 4)	816	761
Common shares — \$0.20 (1983 - nil)	2,615	—
	3,431	761
RETAINED EARNINGS AT END OF YEAR	\$56,290	\$39,883



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 classified as follows:

	1984	1983
Finished goods	\$ 9,695	\$ 7,782
Truck components and parts	15,205	11,154
Work in progress	2,211	2,014
Raw materials	4,186	4,577
	\$31,297	\$25,527

2. Capital Assets

	1984		1983	
	Cost	Net Book Value	Cost	Net Book Value
Offshore drilling equipment	\$354,410	\$318,105	\$334,375	\$314,040
Land drilling equipment	118,282	66,422	110,234	65,582
Marine equipment	52,099	47,572	52,161	50,902
Manufacturing equipment	8,390	3,799	7,884	3,830
Waste management equipment	23,150	23,150	12,944	12,944
Land, buildings and other equipment	21,637	14,138	22,633	15,976
	\$577,968	\$473,186	\$540,231	\$463,274

Included in capital assets are costs of \$23.1 million (1983 — \$12.9 million) related to the construction by the Company's subsidiary, VerTech Treatment Systems Inc., of a prototype facility for the processing of organic waste. These costs have been capitalized in accordance with BVRS' accounting policy for capitalization of development costs. During 1985, BVRS anticipates capitalizing a further \$6 million to bring the related technology to the commercialization stage.

In addition, the 1983 capital assets include \$94.1 million of costs relating to the BOW DRILL 3 which commenced operations in March, 1984.

3. Long Term Debt

	December 31 Weighted Average Interest Rate		Maturity	1984	1983
	1984	1983			
Equipment loans — including U.S. \$204.2 million (1983 — U.S. \$225.5 million) (a)	11.2%	11.4%	1985 - 1992	\$272,242	\$280,205
Term bank loans — including U.S. \$72.4 million (1983 — U.S. \$79.0 million) (b)	10.8%	10.8%	1987 - 1991	104,716	105,738
Convertible unsecured subordinated debentures (c)	11.0%	11.0%	2001	28,481	28,482
				405,439	414,425
Less portion due within one year				48,941	39,739
				\$356,498	\$374,686

- (a) Of the total equipment loans, \$247.9 million is secured by a first mortgage on the related semi-submersible drilling rig and assignment of the related drilling contract. The remaining loans are to be secured by a first mortgage on the related supply vessel and assignment of the related charter party agreement. The rates of interest under the equipment loans include fixed and variable rates. Fixed rates vary from an effective rate of 9.65% to 12.5%; variable rates are based on the London Interbank Offered Rate (LIBOR). The weighted average interest rate for the year was 11.6% (1983 — 12.7%). Of these loans, \$105.5 million is subject to variable rates.
- (b) The loans are secured by a floating charge on the Company's assets and undertakings. The rates of interest under these facilities are variable based on LIBOR and/or bank rates prevailing in the United States and Canada. The weighted average interest rate for the year was 11.4% (1983 — 10.7%).
- (c) The debentures are convertible into common shares at any time prior to March 2, 1991 at a conversion price of \$15 per share. The debentures are subject to anti-dilutive provisions under certain circumstances.
Redemption is permitted in full or in part by BVRS at any time subject to certain restrictions. 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 under long term debt are: 1985 — \$48,941,000; 1986 — \$48,941,000; 1987 — \$59,013,000; 1988 — \$55,382,000; 1989 — \$55,122,000; thereafter — \$138,040,000.

BVRS had unused short and long term lines of credit approximating \$58.0 million as at December 31, 1984.

4. Shareholders' Equity

The Company was continued under the Business Corporations Act (Alberta) on July 6, 1984, and in accordance with the Act, all share capital is without par value.

(a) Preferred Shares:

Authorized:

- (i) 50,000,000 preferred shares without par value issuable in series.
- (ii) 10,000,000 Class Z preferred shares without par value issuable in series.

Issued:

- (i) 1,000,000 Series A preferred shares. The shares have attached thereto variable rate cumulative dividends. 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%. These shares are redeemable for \$10 each on September 16, 1991, but may be redeemed at any time by BVRS.
- (ii) At December 31, 1984, the Company had received payment for 54,600 Class Z preferred shares, Series 1. Each share may be converted into one common share for up to ten years, subject to certain limitations and anti-dilutive provisions. These preferred shares are redeemable at the option of the Company or the shareholder at any time and will be redeemed by the Company after ten years from issuance at a redemption price of 100% of cost. The Series 1 shares bear such dividends as may from time to time be determined by the Board of Directors.

As at December 31, 1984, 42,600 options to purchase Series 1 shares were outstanding, exercisable over a ten-year period. The issue and option price of the Series 1 shares is \$6.99 per share. Loans were provided to participants under the "Equity Incentive Plan for Key Employees" in amounts not exceeding the purchase price of these shares. These interest-free loans are repayable in annual installments of 5% of the original loan amount, commencing in 1989. Series 1 shares purchased are pledged as security for the loans.

(b) Common Shares:

Authorized:

30,000,000 common shares without par value.

Issued:

	1984		1983	
	Shares	Dollars	Shares	Dollars
Balance at beginning of year	13,002,810	\$37,923	12,970,000	\$37,639
Issued for cash under:				
Employee Thrift Plan	80,968	632	31,613	266
Other	10,300	72	—	—
Conversion of debentures	66	1	1,197	18
Balance at end of year	13,094,144	\$38,628	13,002,810	\$37,923

As at December 31, 1984, 1,898,828 common shares were reserved for conversion of the debentures, 387,419 common shares were reserved for issue under the "Employee Thrift Plan" and 97,200 common shares were reserved for issue on conversion of Class Z shares under the "Equity Incentive Plan for Key Employees".

5. Interest Expensed and Capitalized

	1984	1983
Interest incurred on:		
Long term debt	\$48,594	\$36,462
Other	393	2,275
	48,987	38,737
Less interest capitalized	4,744	11,946
Interest expensed	\$44,243	\$26,791

In 1984, the assets under construction on which interest was capitalized were the BOW DRILL 3 semi-submersible drilling rig and a prototype facility for the processing of organic waste. As at December 31, 1984, the prototype facility was still under development.

6. Income Taxes

The BVRS income tax provision has varied from the Canadian corporate tax rate for the following reasons:

	1984		1983	
	Amount	%	Amount	%
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate	\$15,631	47.0	\$2,075	47.0
Add (deduct) effect of:				
Non-taxable capital losses	767	2.3	62	1.4
Losses not recognized	2,185	6.6	1,459	33.0
Other	(558)	(1.7)	121	2.7
Investment tax credits	(1,633)	(4.9)	—	—
Actual income tax provision	\$16,392	49.3	\$3,717	84.1

Certain subsidiaries and a corporate joint venture have accumulated losses of which the Company's share is \$13.6 million. A future tax benefit has not been recorded in the financial statements due to a lack of virtual certainty of realization of such benefit within the allowable carry forward periods.

7. Related Party Transactions

BVRS has entered into contracts, which expire in 1987 and 1988, to provide offshore drilling and marine services to its parent company, Bow Valley Industries Ltd. ("BVI"). During the year, BVRS provided these services, land drilling services and sold oilfield supplies and equipment at commercial rates to BVI in an aggregate amount of \$45.8 million (1983 — \$14.4 million). BVI has also been charged certain administrative and overhead costs, such as office rentals and data processing, on the basis of actual costs incurred by BVRS and generally allocated based on usage.

BVI provided legal and internal audit services to BVRS in 1984 on the basis of allocated actual costs.

8. Contingent Liabilities

(a) In December, 1983, a lawsuit was instituted against the Company in the Supreme Court of British Columbia relating to the design, engineering and supply of a raw coal conveyor system. Certain claims have been alleged which, if substantiated, could have a material effect on the Company. The Company has denied the claims in its pleadings and has counterclaimed for damages incurred and for the balance of the monies owing under the contract. Pleadings have been closed and the discovery procedures will be commenced early in 1985. Management and counsel for the Company cannot make a meaningful assessment of the loss, if any, that may result from this lawsuit until pre-trial procedures have been completed and the details of the plaintiff's claims are determined.

(b) BVRS is jointly and severally liable for \$2.1 million in connection with a lease agreement entered into by a partnership in which BVRS is involved. BVRS also provided bank loan guarantees to a maximum of \$1.3 million in connection with the 1982 sale of certain divisions to former employees.

9. Segmented Information

(a) Industry segments

	1984				
	Revenue	Depreciation	Income Before Extra-ordinary Item	Assets at Year End	Capital Expenditures
Offshore drilling and marine services	\$134,570	\$19,287	\$82,253	\$382,005	\$20,763
Land drilling	73,054	7,639	5,074	87,763	7,556
Manufacturing and distribution	174,749	1,737	2,735	72,039	1,520
Waste management	—	—	—	26,057	10,436
	382,373	28,663	90,062	567,864	40,275
General corporate	820	188	(12,562)	44,552	317
Interest	—	—	(44,243)	—	—
Income taxes	—	—	(16,392)	—	—
Inter-segment eliminations	(3,553)	—	—	(578)	—
	\$379,640	\$28,851	\$16,865	\$611,838	\$40,592

	1983				
	Revenue	Depreciation	Income (Loss) Before Extra-ordinary Item	Assets at Year End	Capital Expenditures
Offshore drilling and marine services	\$ 70,018	\$10,439	\$43,135	\$379,623	\$130,353
Land drilling	50,385	7,189	(2,355)	81,400	2,754
Manufacturing and distribution	116,876	1,909	229	63,084	1,761
Waste management	—	—	—	16,121	5,844
	237,279	19,537	41,009	540,228	140,712
General corporate	605	161	(9,756)	32,221	186
Interest	—	—	(26,838)	—	—
Income taxes	—	—	(3,717)	—	—
Inter-segment eliminations	(2,142)	—	—	(330)	—
	\$235,742	\$19,698	\$ 698	\$572,119	\$140,898

(b) Geographic areas

	1984				
	Revenue	Depreciation	Income (Loss) Before Extra- ordinary Item	Assets at Year End	Capital Expenditures
Canada	\$356,676	\$25,408	\$92,510	\$513,618	\$28,333
U.S.	67,056	2,958	(2,963)	64,886	11,942
Other	2,540	297	834	3,063	—
	426,272	28,663	90,381	581,567	40,275
General corporate	820	188	(12,562)	44,552	317
Interest	—	—	(44,243)	—	—
Income taxes	—	—	(16,392)	—	—
Inter-area eliminations	(47,452)	—	(319)	(14,281)	—
	\$379,640	\$28,851	\$16,865	\$611,838	\$40,592

	1983				
	Revenue	Depreciation	Income (Loss) Before Extra- ordinary Item	Assets at Year End	Capital Expenditures
Canada	\$220,981	\$17,123	\$46,139	\$488,211	\$134,506
U.S.	21,430	2,220	(3,135)	49,068	6,206
Other	835	194	(1,995)	2,641	—
	243,246	19,537	41,009	539,920	140,712
General corporate	605	161	(9,756)	32,221	186
Interest	—	—	(26,838)	—	—
Income taxes	—	—	(3,717)	—	—
Inter-area eliminations	(8,109)	—	—	(22)	—
	\$235,742	\$19,698	\$ 698	\$572,119	\$140,898

10. Joint Ventures and Partnerships

The following amounts included in these consolidated financial statements represent BVRS' proportionate interest in joint ventures and partnerships with third parties. BVRS has funded some of its interest in these assets with direct long term borrowings (Note 3).

	1984	1983
Assets	\$283,041	\$258,385
Liabilities	119,354	83,815
Revenue	194,182	63,948
Expenses	150,125	53,759

The principal joint ventures and partnerships in which BVRS is involved are:

- Offshore drilling and marine services —

Two semi-submersible drilling rigs owned 65% by BVRS and six anchor-handling supply boats owned 50% by BVRS.

- Manufacturing and distribution —

BVRS has a 50% participation in Western Star Trucks which produces and markets custom built Class 8 (33,000 lb.) diesel trucks for heavy duty operations in long distance hauling.



Consolidated Statement of Income

Year Ended December 31

	1984	1983
	(thousands of dollars, except per share data)	
REVENUE		
Service and manufacturing	\$375,937	\$231,928
Other	3,703	3,814
	379,640	235,742
EXPENSES		
Operating costs	233,312	152,186
General and administrative	39,977	32,652
Depreciation	28,851	19,698
Interest (Note 5)	44,243	26,791
	346,383	231,327
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	33,257	4,415
INCOME TAXES (Note 6)		
Current	(927)	(1,511)
Deferred	17,319	5,228
	16,392	3,717
INCOME BEFORE EXTRAORDINARY ITEM	16,865	698
EXTRAORDINARY ITEM		
Benefit of utilizing prior years' tax losses	2,973	—
NET INCOME	\$ 19,838	\$ 698
NET INCOME PER COMMON SHARE, based on the weighted average number of shares outstanding of (thousands):	13,056	12,975
Before extraordinary item		
Basic	\$1.23	\$0.00
Fully diluted	\$1.18	\$0.00
After extraordinary item		
Basic	\$1.46	\$0.00
Fully diluted	\$1.38	\$0.00



Consolidated Balance Sheet

As At December 31

	1984	1983
	(thousands of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and term deposits	\$ 14,522	\$ 15,406
Accounts receivable	59,876	52,105
Inventories (Note 1)	31,297	25,527
	105,695	93,037
CAPITAL ASSETS, at cost (Note 2)		
Less accumulated depreciation	577,968	540,231
	104,782	76,957
	473,186	463,274
UNAMORTIZED FOREIGN EXCHANGE	24,330	5,973
OTHER ASSETS, at cost less amounts amortized	8,627	9,835
	\$611,838	\$572,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank indebtedness, unsecured	\$ 1,652	\$ 3,394
Accounts payable and accrued	60,602	43,679
Long term debt due within one year	48,941	39,739
	111,195	86,812
LONG TERM DEBT (Note 3)	356,498	374,686
DEFERRED INCOME TAXES	36,201	21,855
	503,894	483,353
SHAREHOLDERS' EQUITY (Note 4)		
Preferred shares	10,382	10,000
Common shares	38,628	37,923
Foreign exchange adjustment	2,644	960
Retained earnings	56,290	39,883
	107,944	88,766
CONTINGENT LIABILITIES (Note 8)	\$611,838	\$572,119

Approved by the Board

Director

Director



Consolidated Statement of Changes in Financial Position

Year Ended December 31

	1984	1983
	(thousands of dollars)	
CASH PROVIDED FROM OPERATIONS		
Income before extraordinary item	\$ 16,865	\$ 698
Add non-cash items, principally depreciation and deferred income taxes	46,548	21,032
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Cash provided by non-cash working capital	3,382	3,876
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Repayment of long term debt	49,604	20,729
Dividends — preferred	816	761
— common	2,615	—
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Other	(4,705)	524
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NET CASH PROVIDED	859	336
CASH AT BEGINNING OF YEAR	12,011	11,675
CASH AT END OF YEAR	\$ 12,870	\$ 12,011

- Cash includes 'cash and term deposits' net of 'bank indebtedness, unsecured'.
- Non-cash working capital includes 'accounts receivable', 'inventories', less 'accounts payable and accrued'.

Consolidated Statement of Retained Earnings

Year Ended December 31

	1984	1983
	(thousands of dollars)	
RETAINED EARNINGS AT BEGINNING OF YEAR	\$39,883	\$39,946
NET INCOME	19,838	698
	59,721	40,644
DIVIDENDS PAID		
Preferred shares (Note 4)	816	761
Common shares — \$0.20 (1983 - nil)	2,615	—
	3,431	761
RETAINED EARNINGS AT END OF YEAR	\$56,290	\$39,883



Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)

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Work in progress	2,211	2,014
Raw materials	4,186	4,577
	\$31,297	\$25,527

2. Capital Assets

	1984		1983	
	Cost	Net Book Value	Cost	Net Book Value
Offshore drilling equipment	\$354,410	\$318,105	\$334,375	\$314,040
Land drilling equipment	118,282	66,422	110,234	65,582
Marine equipment	52,099	47,572	52,161	50,902
Manufacturing equipment	8,390	3,799	7,884	3,830
Waste management equipment	23,150	23,150	12,944	12,944
Land, buildings and other equipment	21,637	14,138	22,633	15,976
	\$577,968	\$473,186	\$540,231	\$463,274

Included in capital assets are costs of \$23.1 million (1983 — \$12.9 million) related to the construction by the Company's subsidiary, VerTech Treatment Systems Inc., of a prototype facility for the processing of organic waste. These costs have been capitalized in accordance with BVRs' accounting policy for capitalization of development costs. During 1985, BVRs anticipates capitalizing a further \$6 million to bring the related technology to the commercialization stage.

In addition, the 1983 capital assets include \$94.1 million of costs relating to the BOW DRILL 3 which commenced operations in March, 1984.

3. Long Term Debt

	December 31 Weighted Average Interest Rate		Maturity	1984	1983
	1984	1983		1984	1983
Equipment loans — including U.S. \$204.2 million (1983 — U.S. \$225.5 million) (a)	11.2%	11.4%	1985 - 1992	\$272,242	\$280,205
Term bank loans — including U.S. \$72.4 million (1983 — U.S. \$79.0 million) (b)	10.8%	10.8%	1987 - 1991	104,716	105,738
Convertible unsecured subordinated debentures (c)	11.0%	11.0%	2001	28,481	28,482
				405,439	414,425
Less portion due within one year				48,941	39,739
				\$356,498	\$374,686

- (a) Of the total equipment loans, \$247.9 million is secured by a first mortgage on the related semi-submersible drilling rig and assignment of the related drilling contract. The remaining loans are to be secured by a first mortgage on the related supply vessel and assignment of the related charter party agreement. The rates of interest under the equipment loans include fixed and variable rates. Fixed rates vary from an effective rate of 9.65% to 12.5%; variable rates are based on the London Interbank Offered Rate (LIBOR). The weighted average interest rate for the year was 11.6% (1983 — 12.7%). Of these loans, \$105.5 million is subject to variable rates.
- (b) The loans are secured by a floating charge on the Company's assets and undertakings. The rates of interest under these facilities are variable based on LIBOR and/or bank rates prevailing in the United States and Canada. The weighted average interest rate for the year was 11.4% (1983 — 10.7%).
- (c) The debentures are convertible into common shares at any time prior to March 2, 1991 at a conversion price of \$15 per share. The debentures are subject to anti-dilutive provisions under certain circumstances.
Redemption is permitted in full or in part by BVRS at any time subject to certain restrictions. 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 under long term debt are: 1985 — \$48,941,000; 1986 — \$48,941,000; 1987 — \$59,013,000; 1988 — \$55,382,000; 1989 — \$55,122,000; thereafter — \$138,040,000.

BVRS had unused short and long term lines of credit approximating \$58.0 million as at December 31, 1984.

4. Shareholders' Equity

The Company was continued under the Business Corporations Act (Alberta) on July 6, 1984, and in accordance with the Act, all share capital is without par value.

(a) Preferred Shares:

Authorized:

- (i) 50,000,000 preferred shares without par value issuable in series.
- (ii) 10,000,000 Class Z preferred shares without par value issuable in series.

Issued:

- (i) 1,000,000 Series A preferred shares. The shares have attached thereto variable rate cumulative dividends. 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%. These shares are redeemable for \$10 each on September 16, 1991, but may be redeemed at any time by BVRS.
- (ii) At December 31, 1984, the Company had received payment for 54,600 Class Z preferred shares, Series 1. Each share may be converted into one common share for up to ten years, subject to certain limitations and anti-dilutive provisions. These preferred shares are redeemable at the option of the Company or the shareholder at any time and will be redeemed by the Company after ten years from issuance at a redemption price of 100% of cost. The Series 1 shares bear such dividends as may from time to time be determined by the Board of Directors.

As at December 31, 1984, 42,600 options to purchase Series 1 shares were outstanding, exercisable over a ten-year period. The issue and option price of the Series 1 shares is \$6.99 per share. Loans were provided to participants under the "Equity Incentive Plan for Key Employees" in amounts not exceeding the purchase price of these shares. These interest-free loans are repayable in annual installments of 5% of the original loan amount, commencing in 1989. Series 1 shares purchased are pledged as security for the loans.

(b) Common Shares:

Authorized:

30,000,000 common shares without par value.

Issued:

	1984		1983	
	Shares	Dollars	Shares	Dollars
Balance at beginning of year	13,002,810	\$37,923	12,970,000	\$37,639
Issued for cash under:				
Employee Thrift Plan	80,968	632	31,613	266
Other	10,300	72	—	—
Conversion of debentures	66	1	1,197	18
Balance at end of year	13,094,144	\$38,628	13,002,810	\$37,923

As at December 31, 1984, 1,898,828 common shares were reserved for conversion of the debentures, 387,419 common shares were reserved for issue under the "Employee Thrift Plan" and 97,200 common shares were reserved for issue on conversion of Class Z shares under the "Equity Incentive Plan for Key Employees".

5. Interest Expensed and Capitalized

	1984	1983
Interest incurred on:		
Long term debt	\$48,594	\$36,462
Other	393	2,275
	48,987	38,737
Less interest capitalized	4,744	11,946
Interest expensed	\$44,243	\$26,791

In 1984, the assets under construction on which interest was capitalized were the BOW DRILL 3 semi-submersible drilling rig and a prototype facility for the processing of organic waste. As at December 31, 1984, the prototype facility was still under development.

6. Income Taxes

The BVRS income tax provision has varied from the Canadian corporate tax rate for the following reasons:

	1984		1983	
	Amount	%	Amount	%
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate	\$15,631	47.0	\$2,075	47.0
Add (deduct) effect of:				
Non-taxable capital losses	767	2.3	62	1.4
Losses not recognized	2,185	6.6	1,459	33.0
Other	(558)	(1.7)	121	2.7
Investment tax credits	(1,633)	(4.9)	—	—
Actual income tax provision	\$16,392	49.3	\$3,717	84.1

Certain subsidiaries and a corporate joint venture have accumulated losses of which the Company's share is \$13.6 million. A future tax benefit has not been recorded in the financial statements due to a lack of virtual certainty of realization of such benefit within the allowable carry forward periods.

7. Related Party Transactions

BVRS has entered into contracts, which expire in 1987 and 1988, to provide offshore drilling and marine services to its parent company, Bow Valley Industries Ltd. ("BVI"). During the year, BVRS provided these services, land drilling services and sold oilfield supplies and equipment at commercial rates to BVI in an aggregate amount of \$45.8 million (1983 — \$14.4 million). BVI has also been charged certain administrative and overhead costs, such as office rentals and data processing, on the basis of actual costs incurred by BVRS and generally allocated based on usage.

BVRS provided legal and internal audit services to BVRS in 1984 on the basis of allocated actual costs.

8. Contingent Liabilities

(a) In December, 1983, a lawsuit was instituted against the Company in the Supreme Court of British Columbia relating to the design, engineering and supply of a raw coal conveyor system. Certain claims have been alleged which, if substantiated, could have a material effect on the Company. The Company has denied the claims in its pleadings and has counterclaimed for damages incurred and for the balance of the monies owing under the contract. Pleadings have been closed and the discovery procedures will be commenced early in 1985. Management and counsel for the Company cannot make a meaningful assessment of the loss, if any, that may result from this lawsuit until pre-trial procedures have been completed and the details of the plaintiff's claims are determined.

(b) BVRS is jointly and severally liable for \$2.1 million in connection with a lease agreement entered into by a partnership in which BVRS is involved. BVRS also provided bank loan guarantees to a maximum of \$1.3 million in connection with the 1982 sale of certain divisions to former employees.

9. Segmented Information

(a) Industry segments

	1984				
	Revenue	Depreciation	Income Before Extra-ordinary Item	Assets at Year End	Capital Expenditures
Offshore drilling and marine services	\$134,570	\$19,287	\$82,253	\$382,005	\$20,763
Land drilling	73,054	7,639	5,074	87,763	7,556
Manufacturing and distribution	174,749	1,737	2,735	72,039	1,520
Waste management	—	—	—	26,057	10,436
	382,373	28,663	90,062	567,864	40,275
General corporate	820	188	(12,562)	44,552	317
Interest	—	—	(44,243)	—	—
Income taxes	—	—	(16,392)	—	—
Inter-segment eliminations	(3,553)	—	—	(578)	—
	\$379,640	\$28,851	\$16,865	\$611,838	\$40,592

	1983				
	Revenue	Depreciation	Income (Loss) Before Extra-ordinary Item	Assets at Year End	Capital Expenditures
Offshore drilling and marine services	\$ 70,018	\$10,439	\$43,135	\$379,623	\$130,353
Land drilling	50,385	7,189	(2,355)	81,400	2,754
Manufacturing and distribution	116,876	1,909	229	63,084	1,761
Waste management	—	—	—	16,121	5,844
	237,279	19,537	41,009	540,228	140,712
General corporate	605	161	(9,756)	32,221	186
Interest	—	—	(26,838)	—	—
Income taxes	—	—	(3,717)	—	—
Inter-segment eliminations	(2,142)	—	—	(330)	—
	\$235,742	\$19,698	\$ 698	\$572,119	\$140,898

(b) Geographic areas

	1984				
	Revenue	Depreciation	Income (Loss) Before Extra- ordinary Item	Assets at Year End	Capital Expenditures
Canada	\$356,676	\$25,408	\$92,510	\$513,618	\$28,333
U.S.	67,056	2,958	(2,963)	64,886	11,942
Other	2,540	297	834	3,063	—
	426,272	28,663	90,381	581,567	40,275
General corporate	820	188	(12,562)	44,552	317
Interest	—	—	(44,243)	—	—
Income taxes	—	—	(16,392)	—	—
Inter-area eliminations	(47,452)	—	(319)	(14,281)	—
	\$379,640	\$28,851	\$16,865	\$611,838	\$40,592

	1983				
	Revenue	Depreciation	Income (Loss) Before Extra- ordinary Item	Assets at Year End	Capital Expenditures
Canada	\$220,981	\$17,123	\$46,139	\$488,211	\$134,506
U.S.	21,430	2,220	(3,135)	49,068	6,206
Other	835	194	(1,995)	2,641	—
	243,246	19,537	41,009	539,920	140,712
General corporate	605	161	(9,756)	32,221	186
Interest	—	—	(26,838)	—	—
Income taxes	—	—	(3,717)	—	—
Inter-area eliminations	(8,109)	—	—	(22)	—
	\$235,742	\$19,698	\$ 698	\$572,119	\$140,898

10. Joint Ventures and Partnerships

The following amounts included in these consolidated financial statements represent BVRS' proportionate interest in joint ventures and partnerships with third parties. BVRS has funded some of its interest in these assets with direct long term borrowings (Note 3).

	1984	1983
Assets	\$283,041	\$258,385
Liabilities	119,354	83,815
Revenue	194,182	63,948
Expenses	150,125	53,759

The principal joint ventures and partnerships in which BVRS is involved are:

- Offshore drilling and marine services —

Two semi-submersible drilling rigs owned 65% by BVRS and six anchor-handling supply boats owned 50% by BVRS.

- Manufacturing and distribution —

BVRS has a 50% participation in Western Star Trucks which produces and markets custom built Class 8 (33,000 lb.) diesel trucks for heavy duty operations in long distance hauling.

11. Selected Quarterly Financial Information (Unaudited)

	Quarter Ended				Total Year
	March 31	June 30	Sept. 30	Dec. 31	
YEAR ENDED DECEMBER 31, 1984					
Revenue	\$84,957	\$86,434	\$94,148	\$114,101	\$379,640
Gross margin	31,338	36,213	37,002	41,775	146,328
Income before extraordinary item	3,019	3,365	3,544	6,937	16,865
Net income	3,436	3,987	4,092	8,323	19,838
Funds generated from operations	14,217	15,485	16,502	17,209	63,413
Net income per common share:					
Before extraordinary item	\$0.22	\$0.24	\$0.25	\$0.52	\$1.23
After extraordinary item	\$0.25	\$0.29	\$0.30	\$0.62	\$1.46
	Quarter Ended				Total Year
	March 31	June 30	Sept. 30	Dec. 31	
YEAR ENDED DECEMBER 31, 1983					
Revenue	\$52,656	\$56,485	\$58,791	\$ 67,810	\$235,742
Gross margin	15,832	17,388	22,724	27,612	83,556
Income (loss) before extraordinary item	(1,058)	189	269	1,298	698
Net income (loss)	(1,058)	189	269	1,298	698
Funds generated from operations	3,238	3,592	9,238	5,662	21,730
Net income (loss) per common share:					
Before extraordinary item	\$(0.10)	\$0.00	\$0.01	\$0.09	\$0.00
After extraordinary item	\$(0.10)	\$0.00	\$0.01	\$0.09	\$0.00

The previously reported information for the first three quarters of 1984 has been restated to reflect the impact of the extraordinary item.

12. Subsequent Events

- (a) At a Special General Meeting of the common shareholders on March 26, 1985, the authorized share capital was amended by:
- (i) Changing the number of authorized common shares from 30 million to an unlimited number;
 - (ii) Redesignating and increasing the 50,000,000 preferred shares to an unlimited number of Class A preferred shares;
 - (iii) Redesignating the Series A preferred shares as the Class A preferred shares, Series 1;
 - (iv) Creating an unlimited number of Class B preferred shares; and
 - (v) Creating an unlimited number of Class C preferred shares.
- (b) Pursuant to an Underwriting Agreement dated March 27, 1985, the Company agreed to issue and sell 1,600,000 \$2.125 Cumulative Redeemable Convertible Class B Preferred Shares, Series 1 at a price of \$25.00, for estimated proceeds to the Company of \$40 million before reflecting underwriters' fees and costs of issue. The net proceeds from the issue will be used to reduce floating rate long term bank loans.



Corporate Directory

Directors

Thomas S. Dobson*

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

George W. Govier*

President, Govier Consulting
Services Ltd.
Calgary, Alberta

James S. Graham*

Industrialist,
Vancouver, B.C.

Arnold M. Ludwick*

Vice President,
Financial Analysis
The Seagram Company Ltd.
Deputy Chairman
Joseph E. Seagram & Sons,
Limited
Director, Bow Valley
Industries Ltd.
Montreal, Quebec

Gerald J. Maier +
President and Chief
Executive Officer
Bow Valley Industries Ltd.
Director, Bow Valley
Industries Ltd.
Calgary, Alberta

Byron J. Seaman +

Chairman of the Board and
Chief Executive Officer
Bow Valley Resource
Services Ltd.
Director, Bow Valley
Industries Ltd.
Calgary, Alberta

Daryl K. Seaman +

Chairman of the Board
Bow Valley Industries Ltd.
Director, Bow Valley
Industries Ltd.
Calgary, Alberta

Donald R. Seaman +

President and Chief
Operating Officer
Bow Valley Resource
Services Ltd.
Director, Bow Valley
Industries Ltd.
Calgary, Alberta

Bruce W. Watson + *

President, Wrangler
Resources Ltd.
Calgary, Alberta

* Member of the
Audit Committee
+ Member of the
Executive 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

Peter E. Sherburn

Senior Vice-President,
Administration and Planning

Arnold F. Bygate

Senior Vice-President

Russell V. Bills

Vice-President,
Land Drilling

Nenad M. Kljucic

Vice-President,
International Drilling

Joseph Lukacs

Vice-President,
Environmental Group

Henry W. Popoff

Vice-President,
Offshore Drilling

Selby W. Porter

Vice-President,
Engineering and
Special Projects

Henry A. Smith

Vice-President,
General Counsel and
Secretary

Clarence S. Soderling

Vice-President,
Manufacturing

Allan J. Solie

Vice-President,
Heating, Ventilation and
Air Conditioning Group

George R. Fraser

Treasurer

Kenneth E. Myers

Corporate Controller

Elizabeth J. Adair

Assistant Secretary

Doreen P. Richards

Assistant Secretary

Corporate Information

Stock Exchange Listings

The Toronto Stock Exchange
Montreal Exchange

Transfer Agent and Registrar

Common Shares
Cumulative Redeemable Convertible
Class B Preferred Shares — Series 1
Guaranty Trust Company of Canada
Calgary, Vancouver, Regina,
Winnipeg, Toronto, Montreal

Auditor

Price Waterhouse
Calgary, Alberta

Legal Counsel

Howard, Mackie
Calgary, Alberta

Bankers

The Royal Bank of Canada
Calgary, Alberta
The Toronto Dominion Bank
Calgary, Alberta

Offices and Locations

HEAD OFFICE

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HI-TOWER DRILLING

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T2P 2V8

SEDCO DRILLING

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Copies of the Company's 1984 ANNUAL REPORT may be obtained by contacting the Treasury Department, Bow Valley Resource Services Ltd., 1200, 321 Sixth Avenue S.W., Calgary, Alberta T2P 3R3.





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