DOME PETROLEUM LIMITED

ANNUAL REPORT 1981

Head Office

The Dome Tower
333-7th Avenue S.W.
Calgary, Alberta, Canada

Mailing Address
P.O. Box 200,
Calgary, Alberta, Canada
T2P 2H8

Auditors

Clarkson Gordon
Calgary, Alberta

Stock Listings

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange (common shares only)
London Stock Exchange (common shares only)

Registrars and Transfer Agents

Common Shares:

Canada Permanent Trust Company
Calgary, Montreal, Toronto and Regina

The Bank of New York
New York, N.Y.

Preferred Shares Series A and B:

National Trust Company, Limited
Calgary, Montreal, Toronto and Vancouver

FRONT COVER: Drilling rig "makes hole" on an exploratory well in the Sundance area of west-central Alberta, 45 miles west of Edmonton.

Annual Meeting

The Annual General Meeting of the Shareholders will be held in Commerce Hall on the Concourse Level of Commerce Court West, Bay Street and King Street, Toronto, Ontario, on June 18, 1982 at 10:00 a.m. A formal notice of meeting and proxy form are enclosed with this report.

Please return your proxy if you are unable to attend the meeting. The proxy may be revoked if you subsequently decide to attend the meeting.

Contents

Comparative Highlights

(dollar amounts in millions except per share figures)

FINANCIAL (a)	**1981**	1980	1979
Revenue	**$2,238.8**	$1,143.6	$945.5
Cash Flow after cash preferred share dividends	**$ 369.7**	$ 430.7	$316.6
Per Share (b)	**$1.66**	$1.94	$1.42
Net Income	**$ 199.1**	$ 287.2	$181.7
Per Share (b)	**$0.80**	$1.20	$0.78
Capital Expenditures (c)	**$1,470.0**	$1,059.4	$859.7

OPERATING (d)	**1981**	1980	1979
Oil and Natural Gas Liquids Production (barrels per day)	**111,257**	71,812	51,802
Natural Gas Production (million cubic feet per day)	**476.2**	343.8	275.8
Natural Gas Liquids Sales (barrels per day)	**118,816**	101,384	101,200
Recoverable Reserves of Oil, Natural Gas Liquids and Oil Equivalent of Natural Gas (millions of barrels) (e)	**1,969.3**	1,010.4	665.9
Wells Drilled (incl. participation)	**1,536**	1,168	799
Land — Working Interest, Gross Acres (000)	**123,322**	70,514	66,938
— Working Interest, Net Acres (000)	**53,867**	31,557	35,906

(a) Includes all results of Hudson's Bay Oil and Gas Company Limited ("HBOG") since July 1, 1981 less minority interest (47.1%) with respect to net income.

(b) Based on average shares outstanding, excluding the Company's pro rata interest in its own shares held by Dome Mines and restated to reflect Dome's five for one split effective May 22, 1981.

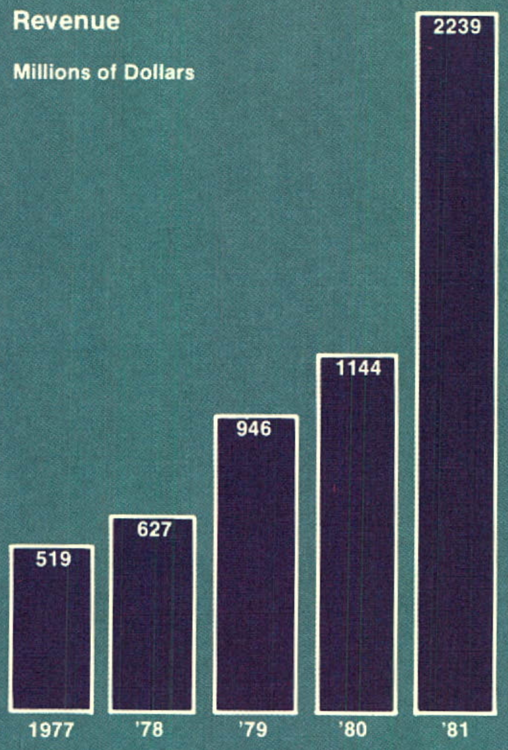
(c) Exclusive of corporate acquisitions, but inclusive of investment in Panarctic Oils Ltd.

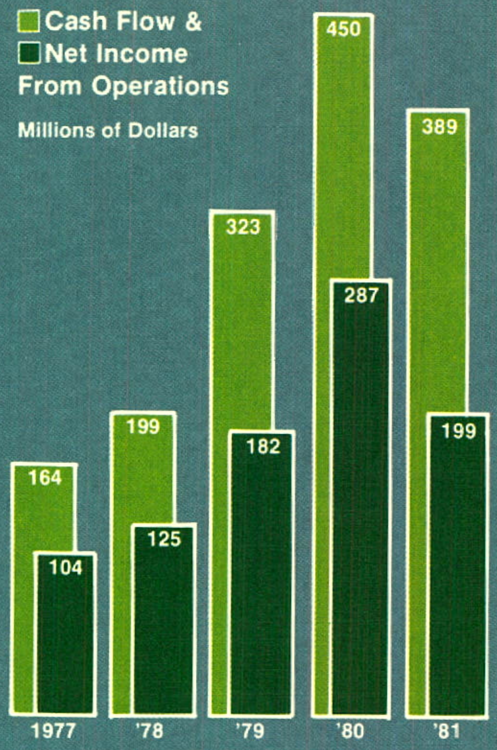
(d) Includes all of the operations of HBOG since July 1, 1981.

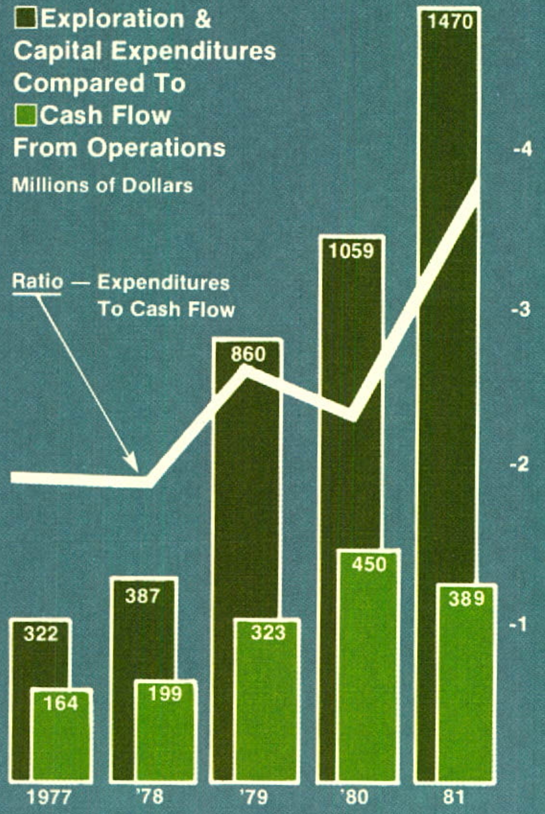
(e) Excludes the Company's interest in substantial gas reserves in the Canadian Arctic Islands and major oil and gas discoveries in the Beaufort Sea.

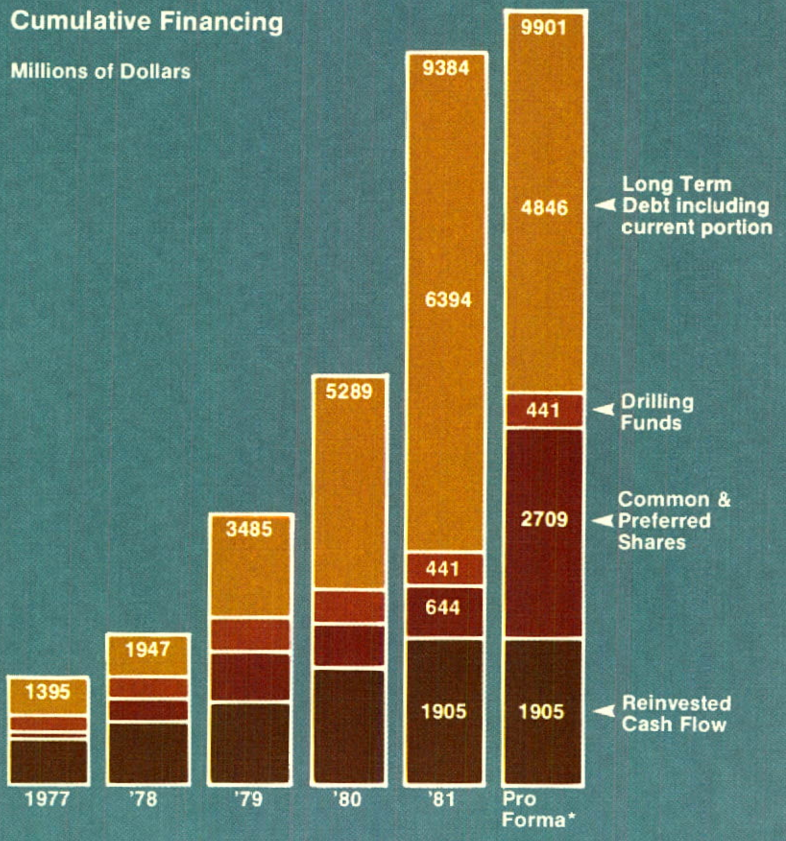
Incorporated in 1950, Dome Petroleum Limited has grown rapidly to become one of the largest oil and gas companies in Canada with extensive interests in virtually all segments of the petroleum industry. At year-end 1981, operations included exploration and development of crude oil and natural gas, primarily in Canada, a fleet of drillships in the western Arctic; a large natural gas liquids extraction, transportation, processing and wholesale marketing system in Canada and the United States; and a major shipyard in Canada. Through its interests in Dome Canada Limited, Hudson's Bay Oil and Gas Company Limited and TransCanada PipeLines Limited, the Company has expanded its oil and gas activities within Canada and to other countries, and has an interest in Canada's largest natural gas transmission system.

For more current financial information regarding the Company, see appendix "A" to the Company's Information Circular, dated May 28, 1982.









*Incorporates the acquisition of the remaining 47.1% of HBOG and the subsequent disposition of 37.5% of certain HBOG assets.

REPORT OF THE DIRECTORS

The year 1981 was one of the most eventful ones in the history of Dome Petroleum Limited. In March, the Company launched Dome Canada Limited, a major new Canadian oil and gas exploration entity having an initial capitalization of more than $0.8 billion. The Canadian public subscribed for 52% of the initial equity, and Dome Petroleum purchased the remainder.

In July, Dome acquired 52.9% of the shares of Hudson's Bay Oil and Gas Company Limited. The remaining 47.1% was acquired in March, 1982 through an exchange of preferred shares.

In August, 1981, the Company purchased Davie Shipbuilding Ltd. of Quebec, the largest shipbuilding facility in Canada, to partially meet Dome's major future marine requirements in the Beaufort Sea.

In addition to these major corporate developments, ongoing exploration and development activities resulted in a number of significant oil and gas discoveries. The Company was, once again, the most active operator in Canada.

Financial Results

Financial results for 1981 declined from the prior year levels. Cash flow after deducting preferred share dividends was 14% lower at $370 million, or $1.66 per share, and net earnings declined by 31% to $199 million or $0.80 per share.

These declines were primarily due to high interest rates associated with bank financing for the HBOG acquisition, further aggravated by new taxes introduced by the federal government's National Energy Program (NEP) and Alberta crude oil production cutbacks introduced in response to the NEP.

The acquisition of the remaining 47.1% of HBOG in 1982, combined with the continuation of high interest rates will place a further strain on the Company's financial resources in the near term. To alleviate that effect, certain portions of HBOG's assets were sold in March to affiliated companies, providing proceeds of $1.5 billion. Further selective divestitures of assets during 1982 and 1983 are planned, to ease the financial burden and streamline the overall operations.

Capital expenditures (excluding corporate acquisitions) increased to $1.47 billion in 1981 from $1.06 billion in 1980.

Operating Results

The following summarizes the results of the Company's 1981 operations, which include all of the operations of HBOG subsequent to July 1, 1981.

Production of oil and natural gas liquids averaged 111,257 barrels per day (bpd) and natural gas production averaged 476 million cubic feet per day.

Natural Gas Liquids sales for 1981 were 118,816 bpd, substantially higher than the 1980 level of 101,384 bpd. This sustained Dome's position as the largest natural gas liquids producer and marketer in Canada.

Reserves of oil, natural gas liquids and oil equivalent of natural gas of the combined companies amounted to 1.97 billion barrels at December 31, 1981 after producing 49.7 million barrels in 1981. Excluded from these reserves totals are substantial gas reserves in the Arctic Islands and major oil and gas discoveries in the Beaufort Sea.

Proven reserves are only attributable to the area immediately surrounding a discovery well. As markets for gas and heavy oil have been limited in recent years, delineation drilling, which adds appreciably to reserves, has been restricted.

Recently announced reductions in provincial royalties are a positive step toward encouraging increased exploration and development drilling.

Oil and Gas Rights held by the combined companies amounted to 123.3 million gross acres (53.9 million net acres) at December 31, 1981.

Exploration and Development Drilling programs by Dome during 1981 in Canada and the United States included 410 gross exploratory wells (156 net wells) and 857 gross development wells (406 net wells). Exploratory drilling resulted in the completion of 73 oil wells and 159 gas wells. In addition, throughout 1981 HBOG drilled or participated in 128 gross exploratory wells (66 net wells) and 293 gross development wells (137 net wells) in Canada. Exploratory drilling by HBOG resulted in the completion of 27 oil wells and 46 gas discoveries.

Arctic Islands exploratory work in which Dome was a participant resulted in an offshore oil and gas discovery at Skate, north of Lougheed Island and another at Maclean 10 miles east of that island. Direct acreage holdings of the combined companies in the Arctic Islands at year-end amounted to 8.7 million net acres. In addition, an 8.3% direct and indirect interest in Panarctic Oils Ltd. provides representation in 35.6 million gross acres.

Beaufort Sea exploratory drilling in 1981 was highlighted by a successful step-out well at Kopanoar and indications of major oil reserves at Koakoak. In addition, a step-out well commenced drilling on an artificial island 3½ miles east of the 1980 Tarsiut discovery. A thick section of oil bearing sand was cored and is now being tested.

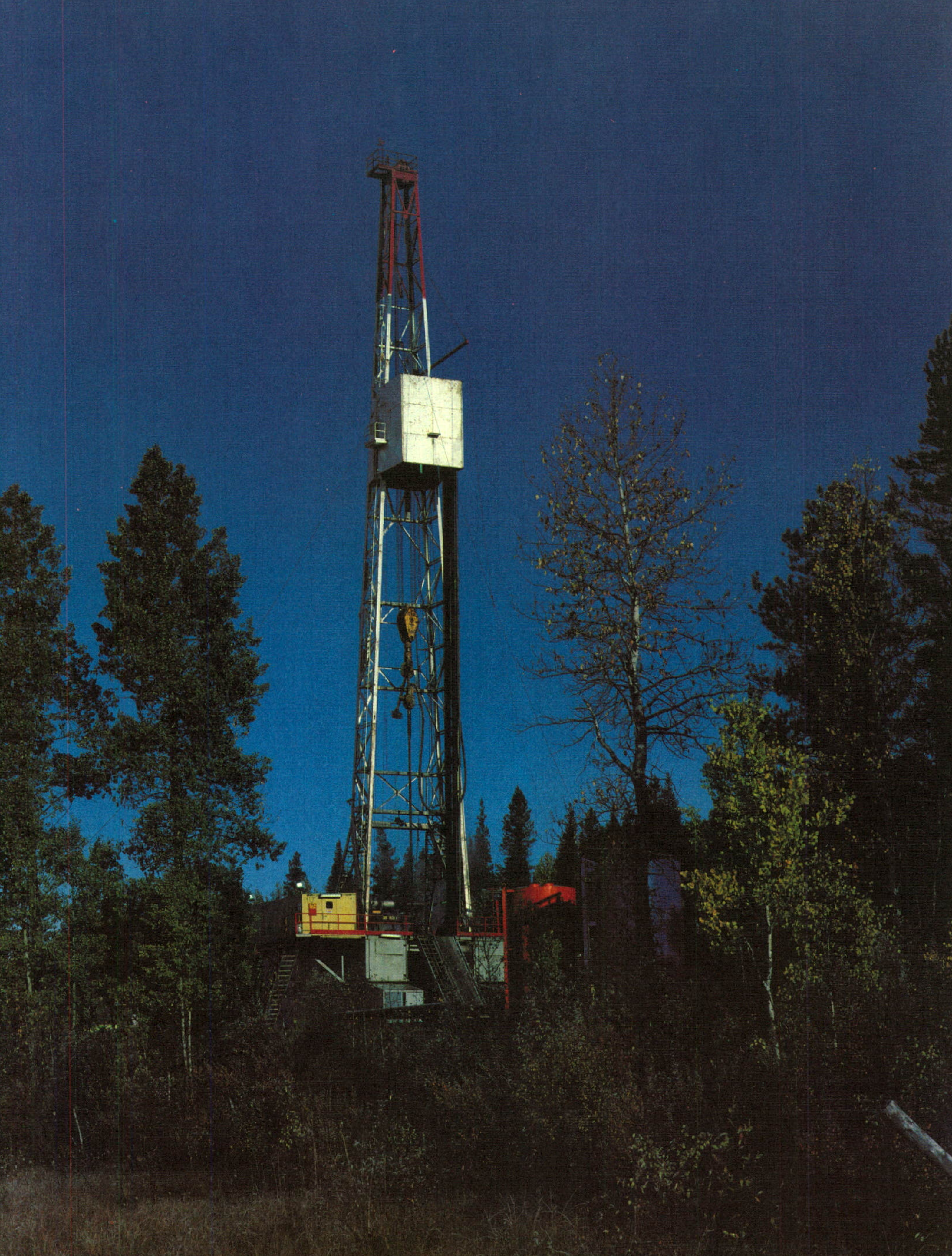
On behalf of the Board we wish to thank our dedicated and resourceful staff for their continued outstanding service to the Company. The staffs at both Dome and HBOG have made substantial contributions during the past year, and are working diligently toward the efficient merging of our operations.

J. P. Gallagher
Chairman

W. E. Richards
President

May 7, 1982

Ferrier, in south-central Alberta, is an oil-prone area in which the Company is actively exploring.



EXPLORATION AND DEVELOPMENT REVIEW

(Exclusive of HBOG results. See pages 21-23)

Exploration

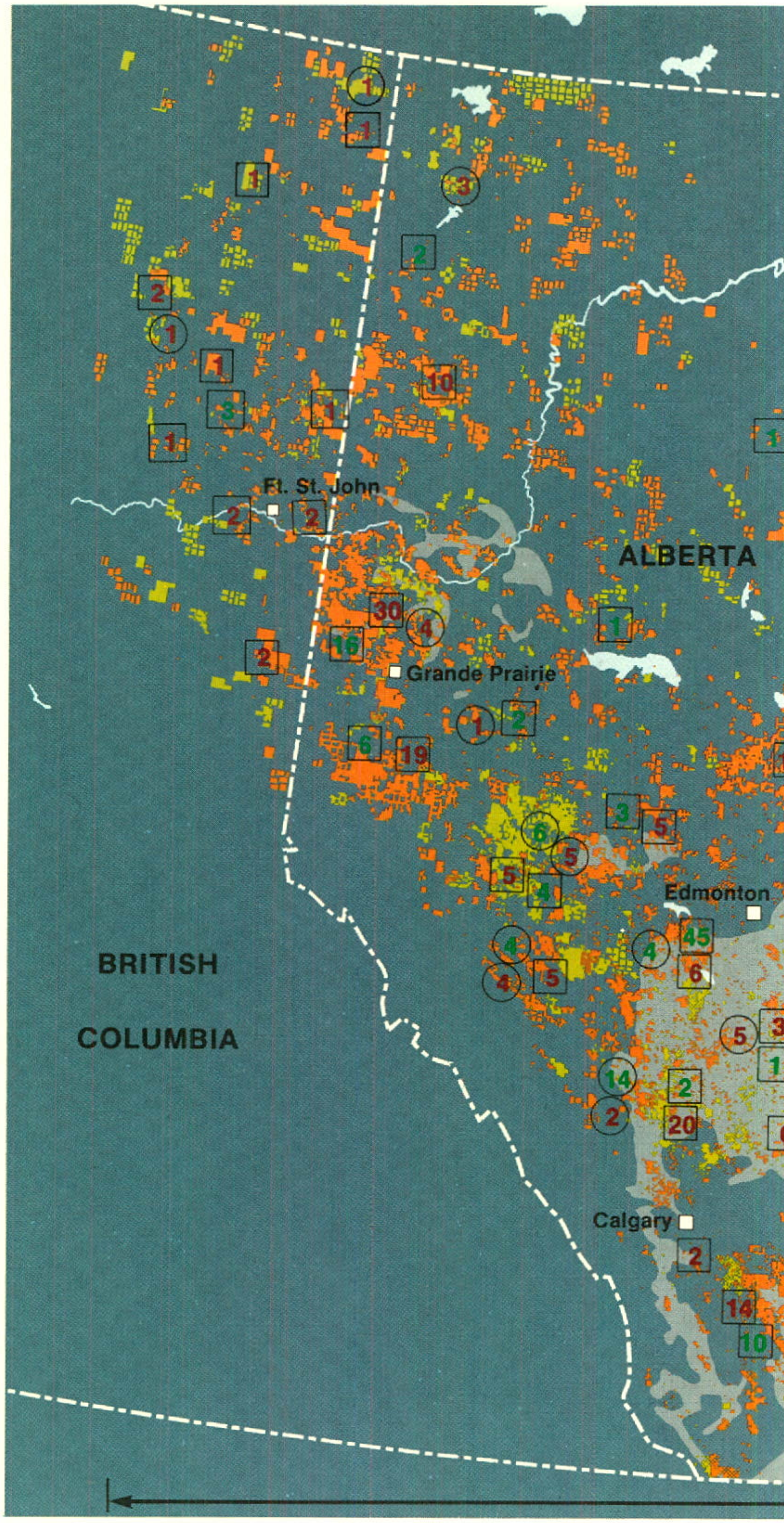
During 1981, Dome, together with its associated companies, participated in drilling a total of 2,108,000 feet of exploratory hole in Dome interest wells in Canada compared to 1,995,000 feet in 1980. The 1981 footage is believed to rank first in the Canadian industry, and constituted 14% of the total industry exploratory footage drilled in Canada during the year.

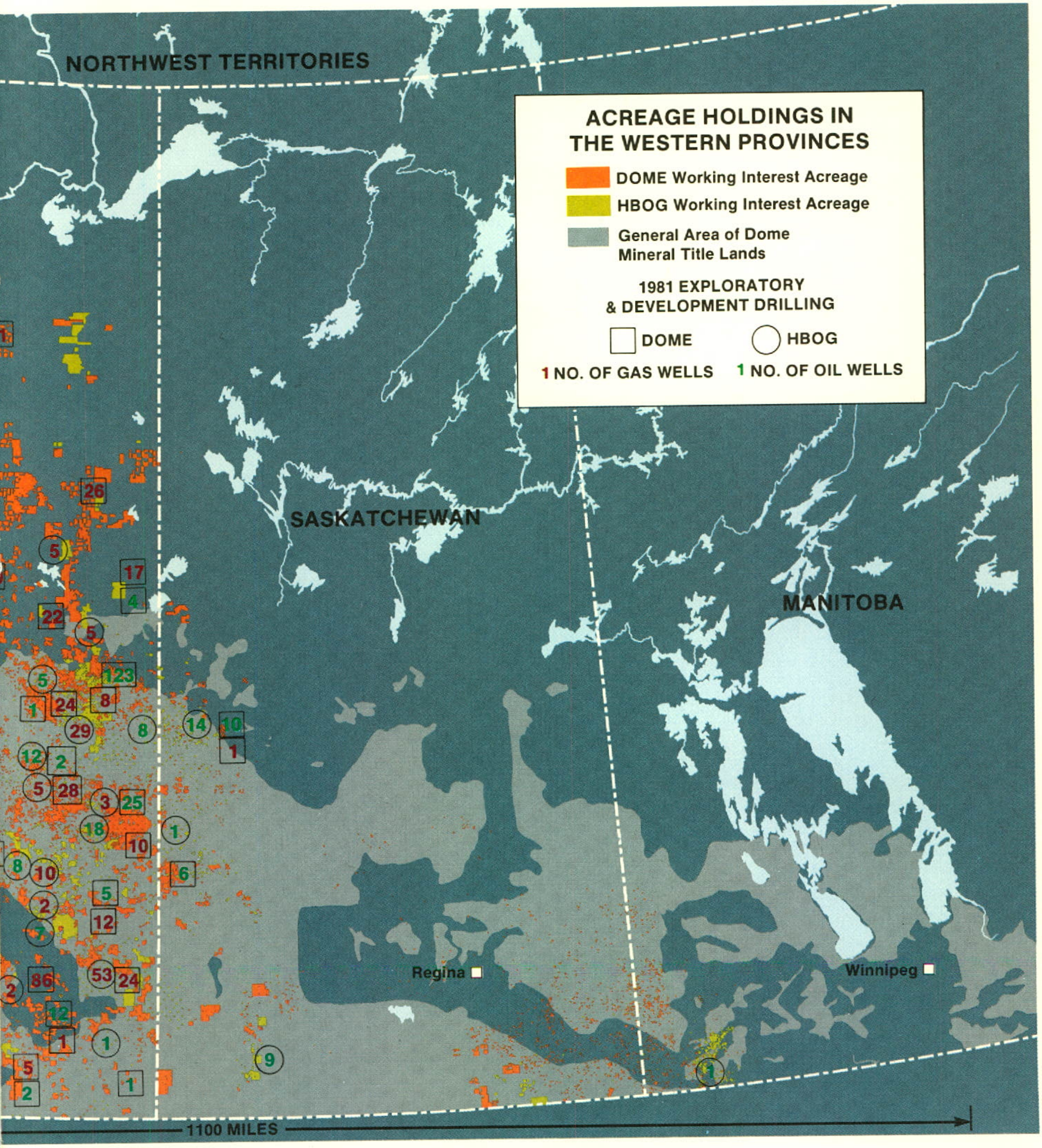
The Company participated in the drilling of 946 gross (413 net wells) exploration and development wells in Canada during 1981, compared with 947 gross wells (484 net wells) in 1980.

Western Canada

The drilling of 298 gross exploratory wells (115 net wells) in western Canada by Dome resulted in 48 oil and 149 gas discoveries in 1981. In addition, 133 exploratory wells were drilled at no cost to Dome as a result of farmout agreements with other companies. These resulted in 19 oil and 73 gas discoveries. (Note — a discovery is commonly defined as a successful well which encounters a new producing zone or is more than 1½ miles from a known producing well.)

The more significant areas of activity included the Deep Basin area of west central Alberta where a total of 54 wells were drilled, resulting in 10 oil and 38 gas discoveries. Also in west central Alberta, at Caroline and in the Wolf Creek-Rosevear area, the Company participated in a total of 12 successful gas wells. At Henderson Creek-Pouce Coupe South, on the British Columbia border the Company made three oil and five gas discoveries.




NORTHWEST TERRITORIES
ACREAGE HOLDINGS IN THE WESTERN PROVINCES
DOME Working Interest Acreage
HBOG Working Interest Acreage
General Area of Dome Mineral Title Lands
1981 EXPLORATORY & DEVELOPMENT DRILLING
DOME
HBOG
1 NO. OF GAS WELLS
1 NO. OF OIL WELLS
SASKATCHEWAN
MANITOBA
Regina
Winnipeg
1100 MILES

Arctic Islands

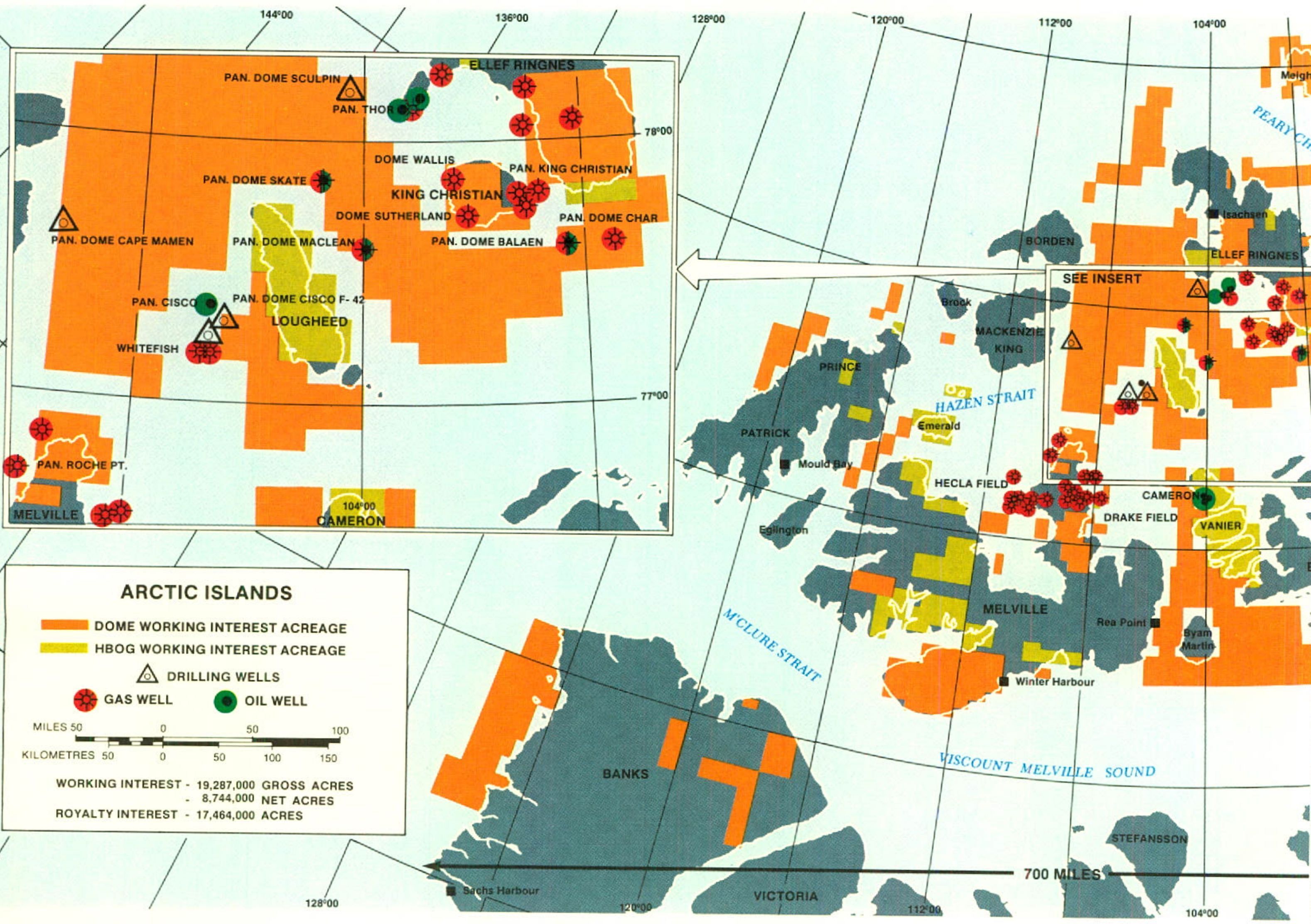
Dome's acreage holdings in this area at year-end amounted to 8.2 million net acres, in addition to the Company's approximate 8.3% direct and indirect interest in Panarctic Oils Ltd.'s 35.6 million gross acres.

To date a total of 18.2 trillion cubic feet of gas has been discovered in the Arctic Islands, essentially by Panarctic Oils Ltd. in the Sabine peninsula and Lougheed and King Christian Island areas. In addition, oil has been discovered east and west of Lougheed Island. Your Company is a participant in all of these discoveries.

In the 1980-81 winter drilling season Dome participated in two offshore ice island wells, Skate B-80 about 12 miles north of Lougheed Island and Maclean Strait I-72, 10 miles east of Lougheed Island. Both wells resulted in confirmed oil and gas discoveries.

In the 1981-82 winter drilling season Dome is continuing as one of 10 participants in a drilling program operated by Panarctic.

In January, 1982, Panarctic spudded three wells in the high Arctic: a delineation well at Whitefish

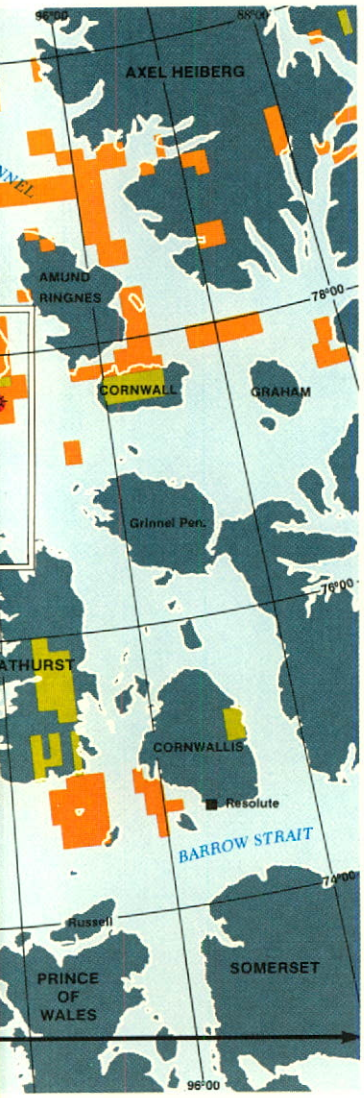


A-26, 18 miles west of Lougheed Island, and wildcat wells at Cape Mamen F-24, 15 miles east of Mackenzie King Island, and Sculpin K-08, in the Prince Gustaf Adolf sea 11 miles southwest of Ellef Ringnes Island, as indicated on the map below.

In addition, Panarctic began drilling a delineation well at Cisco to test the main oil producing zones found last year. Dome has extensive land holdings immediately offsetting Cisco, and a number of comparable geological structures on adjoining permit blocks totalling more than five million acres.

Arctic Pilot Project

Dome is a 20% participant in the Arctic Pilot Project. This project, operated by Petro Canada, is designed to gather and liquefy 225 million cubic feet per day of natural gas from the Drake Point and Hecla gas fields on Melville Island and to deliver the liquefied natural gas to Eastern Canada in icebreaker tankers on a year-round basis. National Energy Board hearings on the $1.9 billion project began February 2, 1982.



LAND HOLDINGS SUMMARY at December 31, 1981
(THOUSANDS OF ACRES)

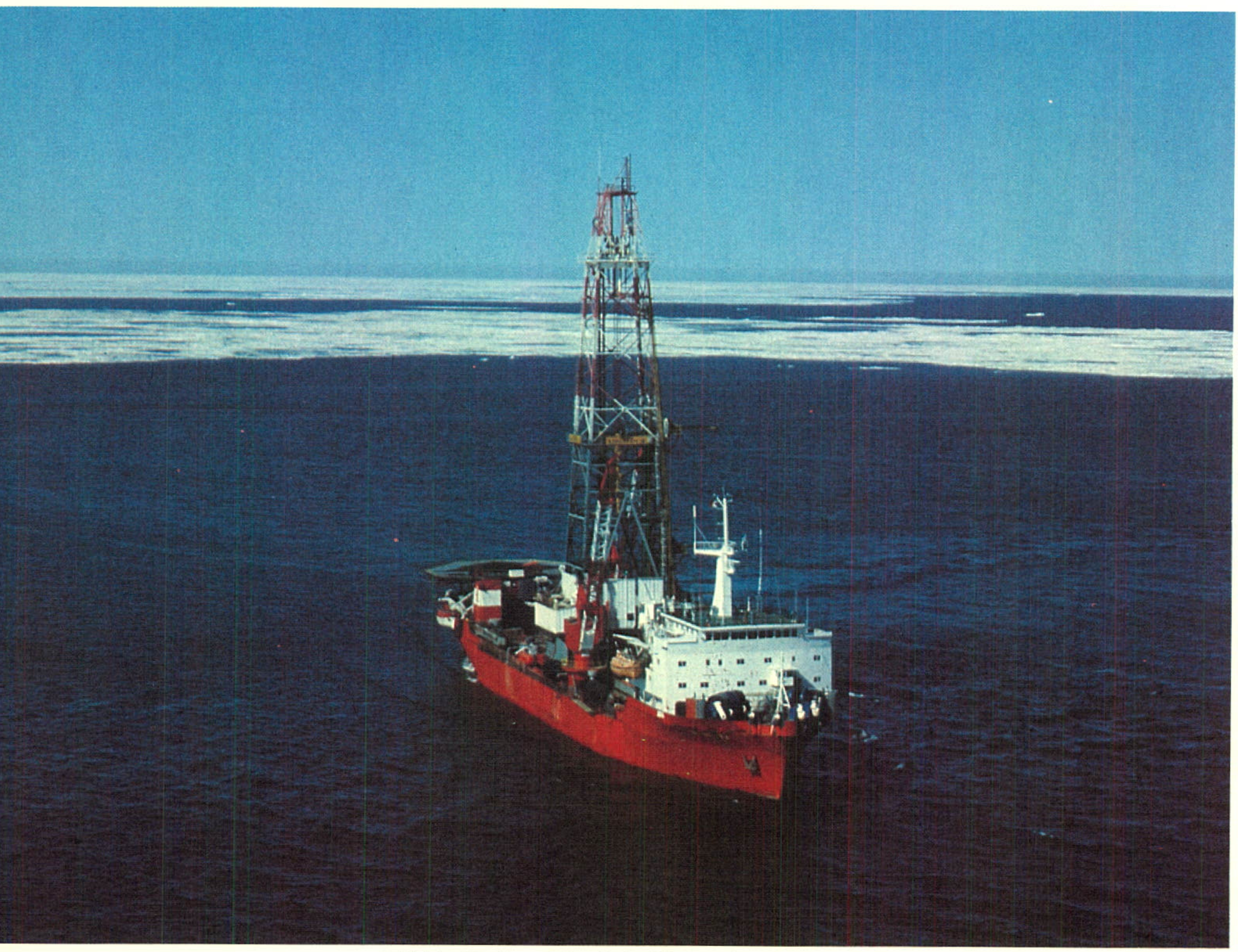
	Dome Petroleum Limited			HBOG		
	Working Interest		Royalty	Working Interest		Royalty
Canada	**Gross**	**Net**	**Interest**	**Gross**	**Net**	**Interest**
Alberta	15,372	7,205	1,024	6,982	4,198	464
British Columbia	2,023	772	51	1,973	751	153
Saskatchewan	2,920	2,124	142	985	910	57
Manitoba	1,123	889	1	241	241	6
Ontario	78	21	1	—	—	—
Hudson Bay	—	—	15	—	—	—
Arctic Islands	15,794	8,219	17,464	3,493	525	—
Beaufort Sea	10,680	4,585	6,404	436	264	—
Mackenzie Valley	1,469	440	1,007	—	—	—
Canadian East Coast	8,801	1,886	1,300	15,623	5,460	281
North West Territories	—	—	—	159	135	194
Total Canada	58,260	26,141	27,409	29,892	12,484	1,155
Foreign						
United States - Alaska	4	—	—	—	—	—
Other	3,518	1,495	—	6	1	—
Indonesia	—	—	—	11,609	2,959	—
North Sea	828	212	25	816	109	—
Other	5,608	3,109	—	21,584	7,357	—
Total Foreign	9,958	4,816	25	34,015	10,426	—
Total	68,218	30,957	27,434	63,907	22,910	1,155

The Company's and HBOG's total Gross Working Interest land holdings and Royalty Interest land holdings at December 31, 1981 amounted to approximately 123.3 million acres and 28.4 million acres respectively, after adjustment for those land holdings in which both companies had an interest.

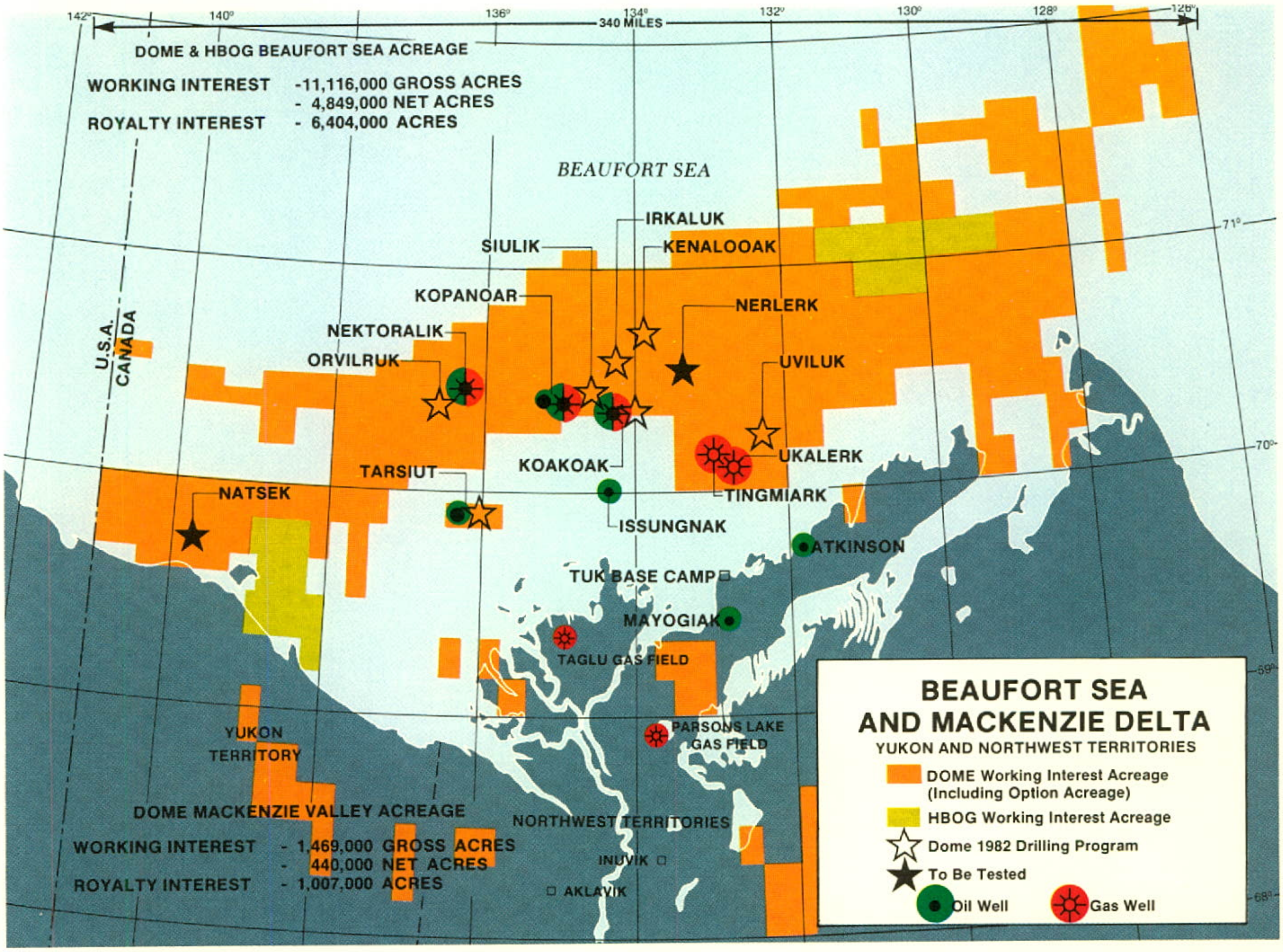
Beaufort Sea

Dome has been actively exploring in the Beaufort Sea since 1976 when the Company brought a fleet of ice-reinforced drillships and icebreaker supply boats into the area. The Company currently operates four drillships, eight icebreaking supply vessels, three dredges, four tugs, four standby boats and other smaller craft and one Class 4 icebreaker, the Kigoriak.

The exploration effort has been very successful in corroborating the expectations of geologists who have long predicted that the Mackenzie Delta-Beaufort Sea area would be a major oil and gas producing region. The Dome et al, drillship operation has now completed 14 wells, resulting in four oil discoveries, two step-out oil wells, two gas discoveries and one dry hole. The remaining wells have not been taken to total depth and/or tested.



Drillship "Explorer 3", which drilled and partly tested the Koakoak O-22 well in 1981, is part of a Dome Beaufort Sea exploration fleet comprised of four drillships and numerous support vessels.



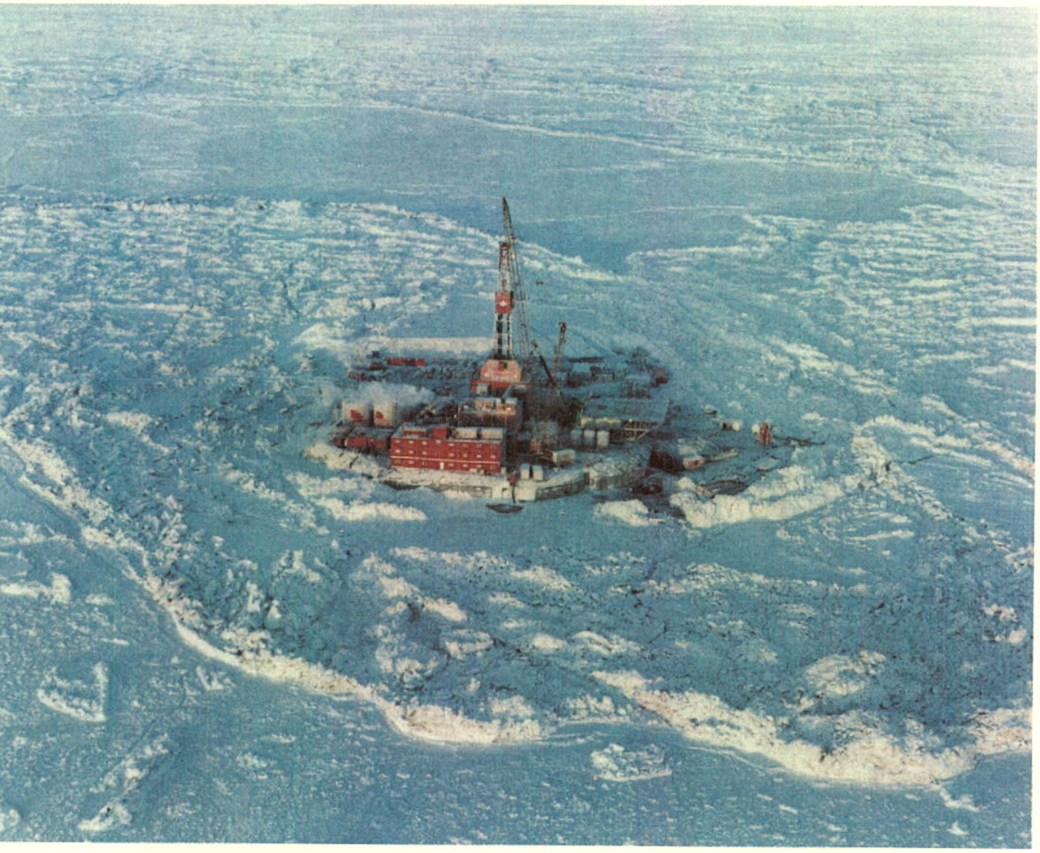
Government regulations, ice intrusion and weather conditions have combined to limit deep drilling in the Beaufort Sea to less than 500 days since operations began in 1976.

During 1981 the Company pursued an active exploratory program. The results of drilling and/or production testing operations carried out by Dome, in participation with other companies, were as follows:

— Kopanoar 2I-44, located 2½ miles west of the 1979 Kopanoar oil discovery well, was drilled to a total depth of 13,100 feet in 1981 and tested oil in the equivalent zone to that of the initial Kopanoar discovery well. An independent assessment of geological and well data by DeGolyer and MacNaughton, a Dallas consulting firm, indicates that the Kopanoar structure may contain from 270 million to 1.8 billion barrels of recoverable oil.

— Koakoak O-22, 25 miles east of Kopanoar 2I-44, reached total depth of 14,300 feet. Testing was suspended by drilling season closure. DeGolyer and MacNaughton have estimated that the recoverable reserves for the Koakoak structure could range from 300 million to 2.0 billion barrels of oil.

— Kilannak A-77, reached total depth of 9,800 feet and was abandoned.



— Irkaluk B-35, reached 7,250 feet where casing was set. The well will be deepened and tested in 1982.

— Tarsiut N-44, located 3.5 miles east of the 1980 Tarsiut oil discovery, commenced drilling in December on an artificial island built in 75 feet of water. On April 2, 1982 the well was drilling at 14,865 feet, having penetrated a thick oil pay zone at approximately 4,900 feet. This oil zone is similar to, but thicker than, that found in the discovery well. It will be fully tested and results announced in the second quarter of 1982.

Although an independent assessment of the Tarsiut structure's recoverable reserves has yet to be done, it is worth noting that the area of the Tarsiut structure is larger than either Kopanoar or Koakoak, and hence has the potential for larger reserves.

Above left: Tarsiut drilling island was built in 75 feet of water with sand-filled caissons. Its steep 1:5 slope minimized need for dredging and made possible faster completion.

Left: Scientists use Hans Island near the Greenland coast, about 6/10 mile in diameter, to calculate effects ice will have on man-made drilling islands in the Beaufort Sea. This rocky island has a slope similar to that of the Tarsiut island.

Right: Pump jacks in Pembina field near Drayton Valley, Alberta mark crude oil production from Cardium and Belly River formations.

United States

During 1981, the Company participated in the drilling of 105 gross (40 net) exploratory wells resulting in 24 oil discoveries and 10 gas discoveries. In addition, the Company drilled 216 gross (109 net) development wells resulting in 149 oil and 30 gas producing wells. The most significant areas of drilling activity were in Oklahoma, North Dakota, Montana, Wyoming and Texas.

During the year, Dome participated in the construction of four natural gas liquids extraction plants, one each in Louisiana, Texas, North Dakota and Oklahoma.

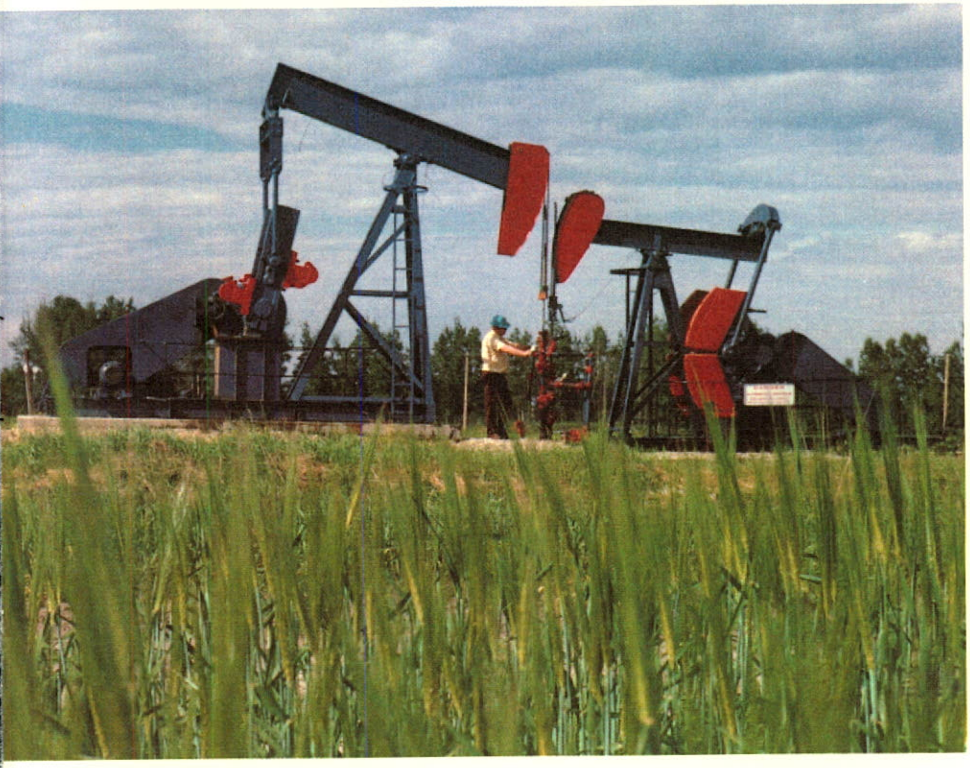
Dome's United States production of oil, natural gas liquids and oil equivalent of natural gas averaged 7,288 bpd in 1981, a 32% increase over the 1980 average of 5,540 bpd.

Development: Conventional Oil

In the Grand Forks A and B Pools in southern Alberta, the Company drilled 11 wells resulting in seven successful oil wells. In total, these seven new wells are averaging 450 bpd, 50% owned by the Company. They qualify for the new oil reference price (NORP).

At Sounding Lake, in southern Alberta, 11 development wells were drilled. These wells completed the delineation drilling of the Sounding Lake Cummings A Pool, identifying 10 million barrels of oil-in-place. The Company has interests varying from 38% to 87% in this pool.

At Genesee, located approximately 30 miles southwest of Edmonton, Dome participated in the drilling of 17 development wells, resulting in the successful completion of 12 oil wells and three gas wells. Dome currently has an interest in 18 wells in the area. Its share of production is approximately 1,100 bpd, of which 60% qualifies for the NORP.



Dome, as operator of the Pembina Belly River "X" Pool, located 45 miles southwest of Edmonton, drilled 17 infill wells. At year-end, eight of these wells were onstream, adding 800 bpd to total production. Dome's share is approximately 73%.

At Simonette, approximately 170 miles northwest of Edmonton, Dome drilled eight wells resulting in three gas wells and three dual oil/gas wells. Oil production will begin in early 1982 and qualifies for the NORP.

At Pouce Coupe, 60 miles northwest of Grande Prairie, Dome participated in the drilling of four delineation oil wells during 1981. This has defined a Boundary Lake oil pool of significant size with four sections proven and additional delineation drilling underway. All of the wells qualify for NORP. Dome has a 37.5% working interest in this play.

Dome participated in the drilling of four successful oil wells and three gas development wells in the Wembley area, 60 miles west of Grande Prairie. Dome's working interest varies from 12.5% to 62.5%. Approximately half of the oil and condensate production from these wells will be eligible for NORP.

In the Birch Field in northeastern British Columbia, Dome completed one oil well and successfully drilled two step-out wells that qualify for the NORP. Three follow up locations are scheduled in the first half of 1982. Dome maintains a 50% interest in this new oil play.

Engineering studies and scheme design work continued on two hydrocarbon miscible flood projects in the Caroline area, about 60 miles northwest of Calgary. Implementation of the Caroline Viking "A" project is scheduled to commence during 1982, with field facility installation and infill drilling.

Uncertainties in the areas of crude oil pricing and new tax regimes have caused a delay in evaluation and implementation of enhanced recovery schemes. Studies to expand the hydrocarbon miscible flood at Willesden Green and to evaluate a major new project at Garrington were initiated during 1981.

At Matziwin, in southeastern Alberta, 10 successful gas wells were drilled. The Company has 100% interest in these wells.

At Caroline, 60 miles northwest of Calgary where a 50 million cubic feet per day sour gas plant commenced operations in early 1981, 16 gas wells were completed and two oil wells. Gas sales began in April, 1981 at about 15 million cubic feet per day of gas and 900 bpd of associated hydrocarbon liquids. Daily production was 30 million cubic feet of gas and 1,600 barrels of liquids at the end of 1981.

At Cutbank, 250 miles northwest of Edmonton, construction of a 70 million cubic feet per day gas plant was started during 1981, which will be capable of producing 2,000 bpd of LPG. Gas sales are expected to commence in July, 1982.

At Chinchaga, about 300 miles northwest of Edmonton, Dome participated in the drilling of five successful gas development wells. The Chinchaga plant, operated by Dome, is being expanded to double its capacity to 80 million cubic feet per day to accommodate additional gas sales in 1982.

In the Birch Wavy gas contract area of east central Alberta, Dome participated in the drilling of 32 gas wells. Two gas compression stations will be constructed during 1982. Average Dome working interest is 60%.

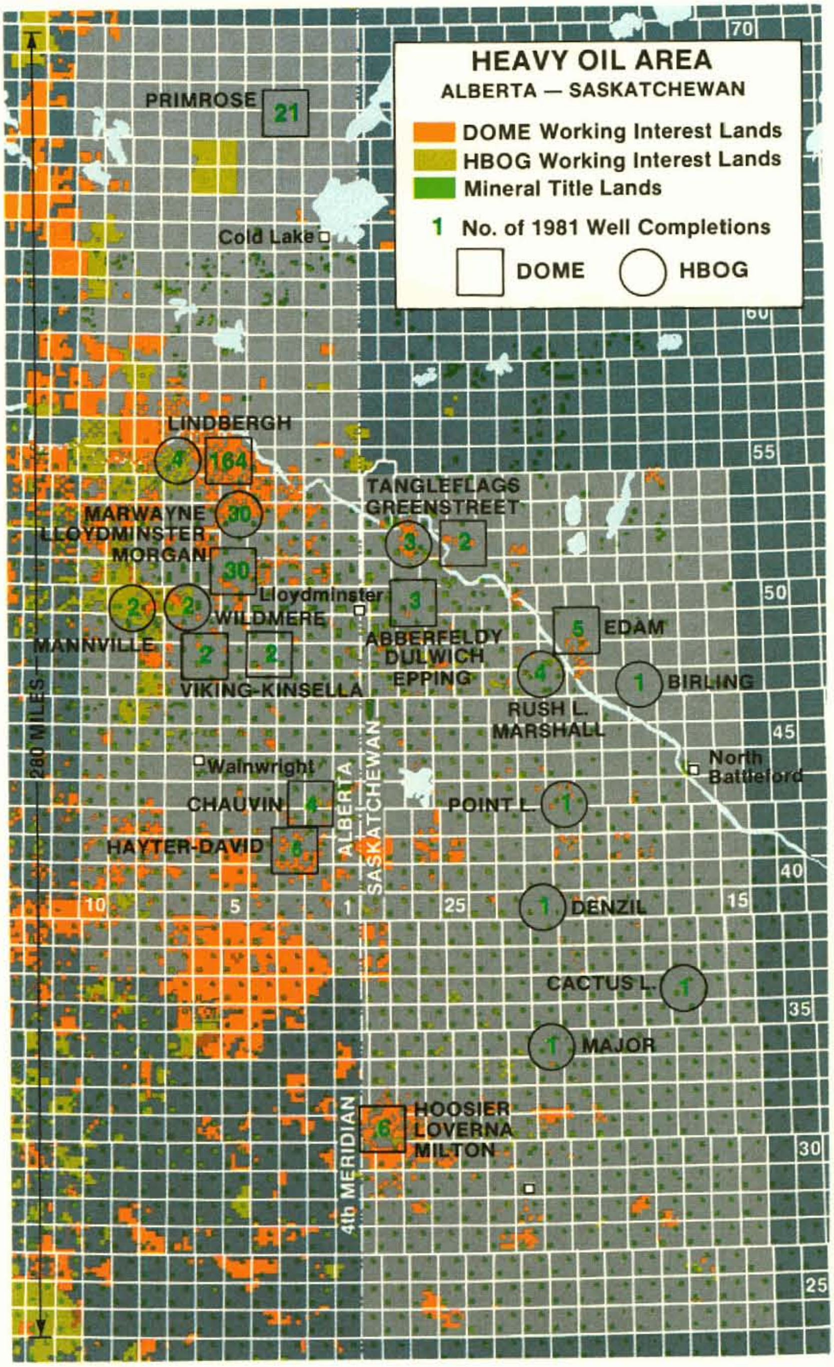
At Kirby, 170 miles northeast of Edmonton, Dome drilled 20 gas wells and constructed a gas compressor station and gathering system. The Company has a 67% working interest. Production commenced in November and has averaged 30 million cubic feet per day of natural gas.

At Willesden Green, 90 miles southwest of Edmonton, where Dome operates a miscible flood project, a 40 million cubic feet per day gas plant was constructed and placed onstream during 1981. The plant produces 2,000 bpd of liquefied petroleum gases (LPG). Gas injection was replaced by nitrogen generated from an air separation plant, the largest of its kind in North America, which began production during 1981.

Sour gas plant at Caroline, 60 miles northwest of Calgary, went on stream in early 1981.

Heavy Oil

A total of 287 gross (200 net) exploratory and development wells was drilled in various heavy oil areas of Alberta and Saskatchewan, representing an increase of 33% over 1980. Excluding the 46 wells drilled in the Primrose area, 224 wells were completed in the traditional heavy oil areas, resulting in a 93% success ratio.



The Company holds a total 1.37 million gross acres (868,000 net acres) of prospective heavy oil lands in Alberta and Saskatchewan.

Average production of heavy oil during 1981 was 6,055 barrels per day (3,196 bpd net to Dome), an increase of 53% over 1980.

Construction of an Enhanced Oil Recovery (EOR) plant at Morgan, Alberta, 115 miles east of Edmonton, was completed in 1981 and the project is now operational. Half of the 50 wells of the project were drilled and completed in 1981.

Construction of a second EOR project in Lindbergh, Alberta, 85 miles east of Edmonton, is near completion. Forty-seven wells were drilled and completed in 1981. The project involves both enriched air (oxygen) injection and a thermal drive pilot.

These two projects are expected to receive NORP status. Dome has a 75% interest in both.

Specialized pumping system is used for enhanced heavy oil recovery at Morgan, Alberta, 115 miles east of Edmonton, near the Saskatchewan border.

OPERATIONS REVIEW

Natural Gas Liquids

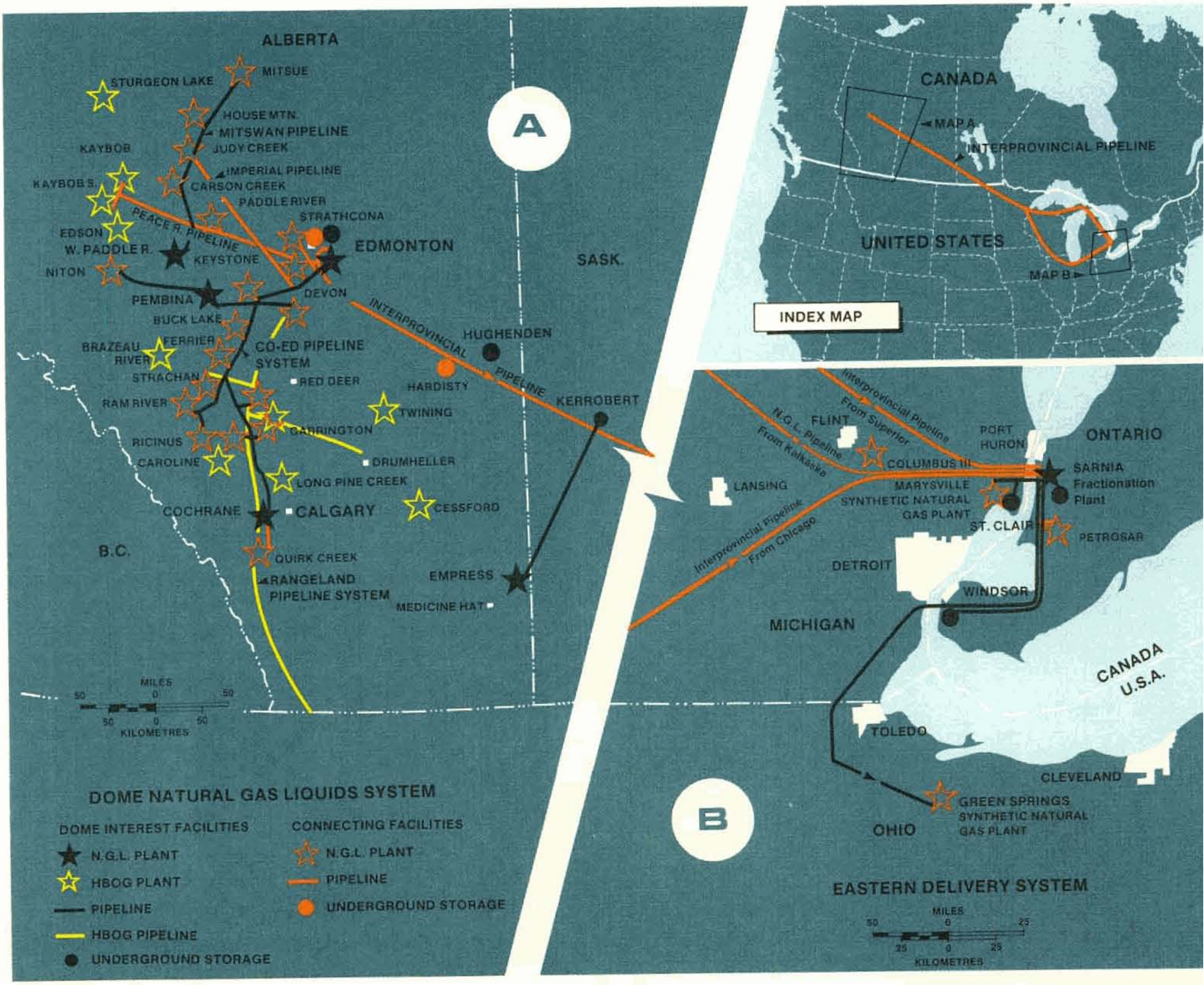
Dome is engaged in the production, purchase, transportation and marketing of natural gas liquids ("NGL"). These operations include the integrated Natural Gas Liquids System, the Ethane Project, the Cochin Pipeline System, and certain smaller facilities including an NGL plant at Steelman, Saskatchewan and a 3,700,000 barrel underground storage terminal at Melville, Saskatchewan. Dome is also engaged, through Steelgas Utilities Ltd., a wholly-owned subsidiary, in the distribution of propane in several communities in northern Manitoba.

At present a significant proportion of Dome's NGL is sold under contract to customers in Canada and the United States. Sales of NGL for 1981 averaged 118,816 barrels per day.

NGL System

The integrated Natural Gas Liquids System comprises a processing, transportation, storage and marketing system extending from Alberta to eastern Canada and the eastern United States. Dome is

Dome's Edmonton plant is a major part of its natural gas liquids system. Here ethane, propane, butane and condensate are extracted from natural gas and stored.



the operator and owns varying interests, averaging approximately 50%.

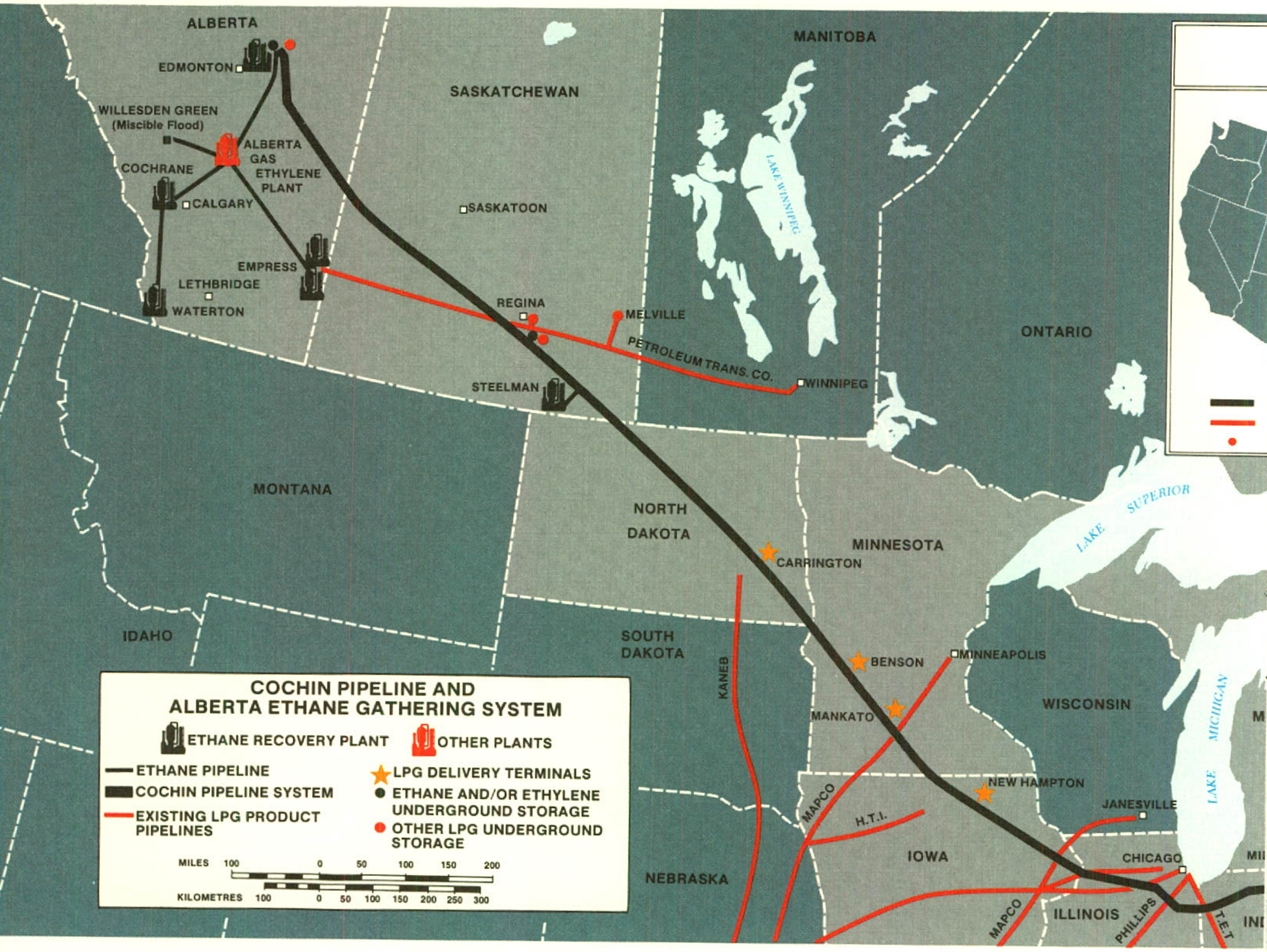
The NGL production is primarily derived from Dome-operated plants at Edmonton and Empress in Alberta in which Dome has a 50% interest and a 37% interest, respectively, and from a plant at Cochrane, Alberta in which Dome has a 50% interest. These plants are located on major natural gas transmission pipeline systems and extract NGL from natural gas under long term contracts.

Dome transports its production of NGL, together with NGL purchased from other connected plants through interconnecting pipelines, into Dome interest storage facilities at Edmonton, Alberta, and at Kerrobert, Saskatchewan. From Edmonton and Kerrobert, NGL is shipped through the pipeline system of Interprovincial Pipe Lines Limited to Dome operated storage and fractionation facilities at Sarnia, Ontario, where the liquids are separated into propane, isobutane, normal butane and condensate. These NGL products and certain other purchased products are marketed in eastern Canada and in the United States.

At Fort Saskatchewan, Alberta, a depropanizer is being engineered and built to provide specification propane for western Canadian and U.S. markets.

At the Sarnia plant a new isomerization unit was completed and put into service. Also, installation of a new butane splitter and retrofitting of the existing splitters by adding a heat pump system is well underway. These changes will materially increase the splitting capacity and reduce operating costs at the Sarnia plant.

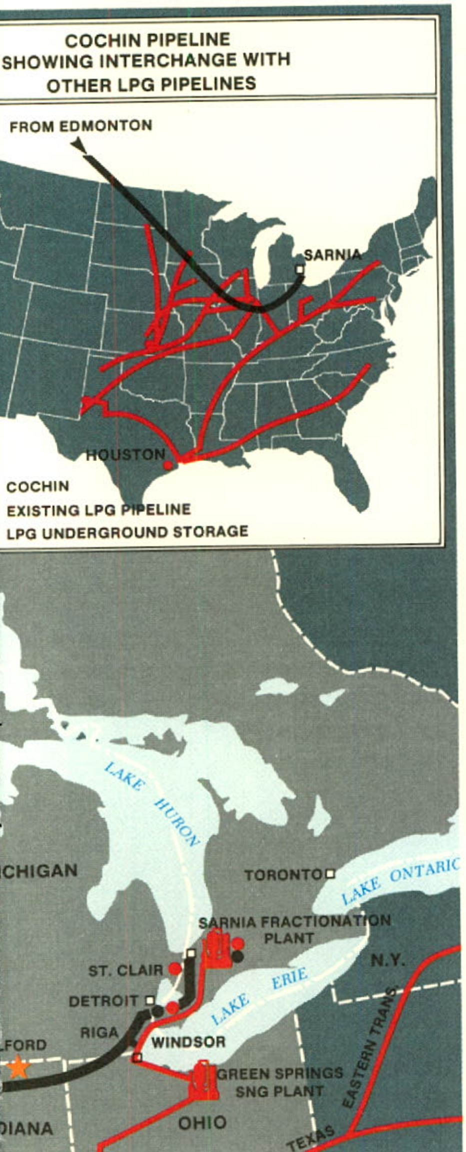
Dome is working on a planned expansion of the Empress Straddle Plant System which, when completed in the fall of 1983, will add productive capacity of 34,200 bpd of ethane and 17,500 bpd of NGL mix.

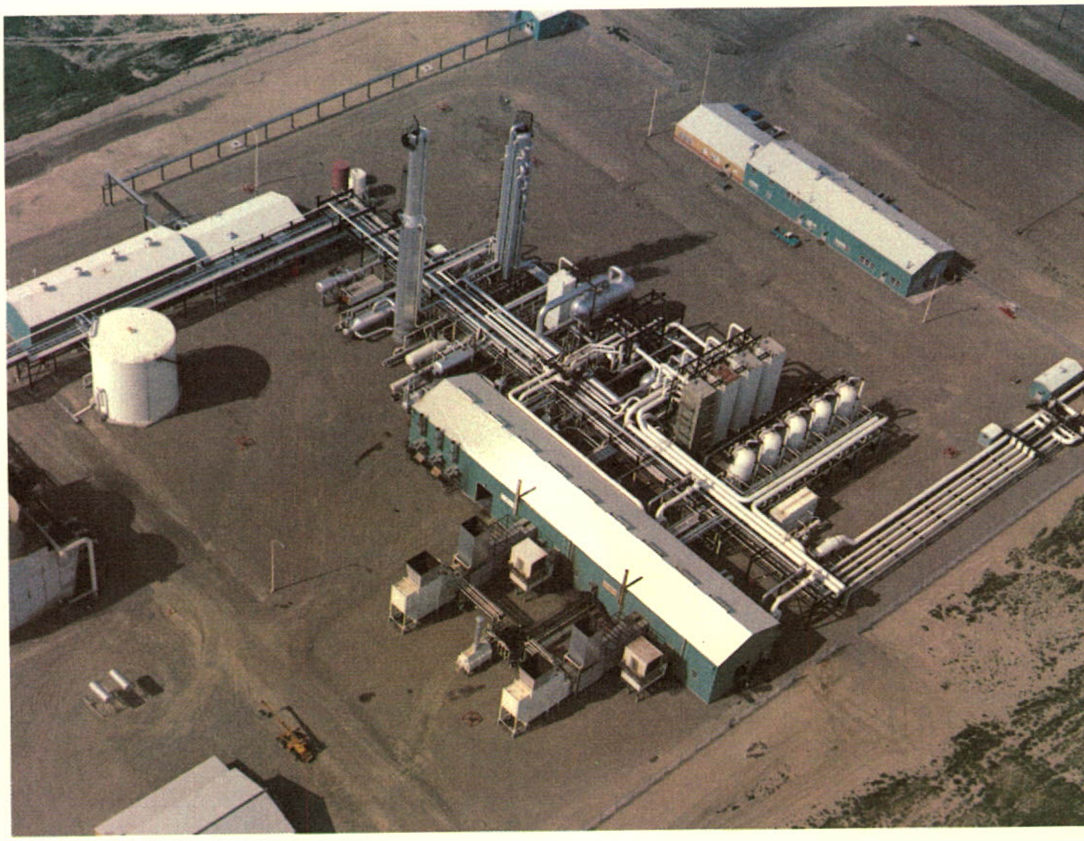


Ethane Project and Cochine Pipeline System

Dome is the operator of, and an approximate one-third participant in, the Alberta Ethane Gathering System and the Cochin Pipeline System. The Alberta Ethane Gathering System consists of a 530 mile ethane gathering system in Alberta delivering ethane from five plants (which extract ethane from natural gas) to a pipeline terminus at Fort Saskatchewan, Alberta and to a world-scale petrochemical plant near Red Deer, Alberta, owned by companies other than Dome, which produces ethylene. The Cochin Pipeline System consists of a 12-inch diameter, 1,870 mile pipeline system to transport ethane and ethylene to eastern Canada and the United States. Propane is also shipped through this pipeline to propane distribution terminals in the United States.

In 1981, the Alberta Ethane Gathering System transported ethane at an average rate of 81,000 bpd. During the year the Cochin Pipeline System delivered approximately 49,000 bpd of ethane, 7,000 bpd of ethylene and 17,000 bpd of propane.





Planned expansion of Dome's processing plant at Empress, in southeastern Alberta, will result in additional production of ethane and natural gas liquids.

New Projects

The following projects are in various stages of investigation. Implementation will depend on favorable economic conditions, and on the availability of project financing.

CO_2 Project

After two years of research and development work, the Company has developed a process to recover large volumes of carbon dioxide (CO_2) from combustion flue gases. The new process will permit extraction of large quantities of CO_2 from stack gases at thermal power plants.

The largest potential use would be for enhanced oil recovery projects. This recovery technique, although popular in the United States, has not been used in Canada due to a lack of CO_2.

The Company has signed agreements with TransAlta Utilities, Saskoil and Saskatchewan Power Corp. to recover CO_2 and to promote its use for enhanced oil recovery.

LNG Project

This project involves the construction of pipeline facilities, a natural gas liquefaction plant and five liquefied natural gas ("LNG") carriers for the export of 425 million cubic feet per day of natural gas to several Japanese utilities. Dome's participation in the $3 billion project will be approximately 30%, and will be project financed. This proposal is scheduled to be reviewed by the National Energy Board during the third quarter of 1982.

Davie Shipbuilding

In August, 1981 Dome Petroleum acquired Davie Shipbuilding Ltd., which included the Davie shipyard at Lauzon, Quebec, the largest in Canada, and a shipping division comprising six vessels that carry petroleum products on the Great Lakes and eastern Arctic waters.

A major expansion to enable the shipyard to build vessels for Dome's Beaufort Sea operations is under review.

Davie Shipbuilding Ltd. in Lauzon, near Quebec City, was purchased by Dome in 1981.

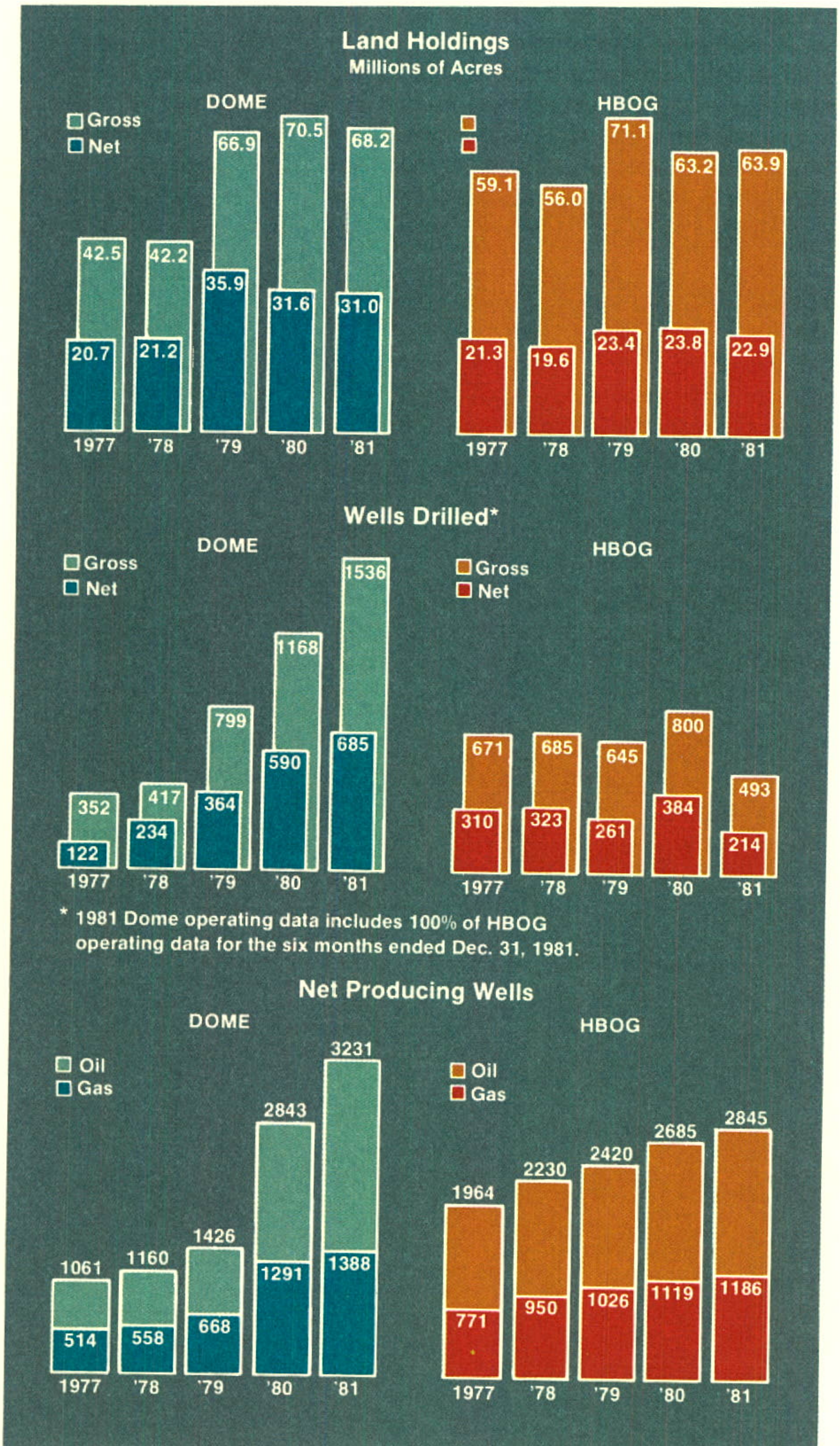
Hudson's Bay Oil and Gas

Hudson's Bay Oil and Gas Company Limited was a natural resource exploration and development company with operations in Canada and abroad.

HBOG was founded in 1926 in an agreement between Ernest W. Marland, an Oklahoma wildcatter, and The Hudson's Bay Company, which owned substantial mineral rights throughout western Canada. At the time, Hudson's Bay owned 4,600,000 acres of mineral rights, and the new company, Hudson's Bay Marland Oil Company, obtained the exclusive right to lease the acreage in western Canada. The Marland Company eventually became Conoco Inc., and Hudson's Bay Marland evolved into Hudson's Bay Oil and Gas Company Limited, which until 1981 was majority-owned by Conoco.

In Canada, HBOG carried out an active petroleum exploration program and was the third largest producer of natural gas and the ninth largest producer of petroleum liquids (crude oil and natural gas liquids). Other activities in Canada included the operation of a crude oil and natural gas liquids pipeline system and related gathering lines, the purchase and sale of crude oil and natural gas liquids, and the production and sale of sulphur. HBOG owned a 5% interest in the Syncrude Project which produces synthetic crude oil from the Athabasca oil sands. HBOG had 8,240 gross oil wells (1,636 net wells) and 4,236 gross gas wells (1,186 net wells) capable of production in Canada. In

Syncrude Ltd., located in the Athabasca tar sands of northern Alberta, is the world's largest producer of synthetic crude oil.



Indonesia it had 217 gross oil wells (23 net wells). It had interests in 19 gas plants in Canada, with a net working interest of 46.8%.

HBOG owned and operated a crude oil and natural gas liquids pipeline system in Alberta which consists of 450 miles of trunk lines and 501 miles of gathering lines.

HBOG also participated in exploration programs for coal, and uranium and in the production of base metals.

Outside of Canada, HBOG held interests in petroleum exploratory properties in ten countries and crude oil production in Indonesia.

In July, 1981 Dome acquired 52.9% of HBOG from Conoco, Inc. In March, 1982 Dome acquired the remaining 47.1% interest in HBOG and concurrently sold approximately 35% of HBOG's assets to Dome Canada, TransCanada PipeLines and Dow Chemical. Because of these dispositions and Dome's intentions to sell additional assets of the combined companies that do not meet its business plans, caution should be exercised in attempting to estimate future results.

The following statistics represent 100% of HBOG's operations for the full year 1981.

Petroleum Production and Sales

Total crude oil and natural gas liquids production averaged 76,100 barrels per day (bpd) during the year. Of this total, Canadian crude oil production averaged 52,100 bpd, natural gas liquids production 14,300 bpd, and Indonesian crude 9,700 bpd.

Sulphur production averaged 1,200 long tons per day. Sulphur inventories at year-end averaged 1.5 million long tons.

Petroleum Exploration

The Canadian exploration program in 1981 included participation in 128 exploratory wells, resulting in 27 oil and 46 gas discoveries or extensions. Of the total wells drilled 125 were located in western Canada and three in the Northwest Territories. At year-end holdings of undeveloped rights in Canada totalled 11.5 million net acres.

In its international exploration program, HBOG participated in 44 exploratory wells which resulted in 20 oil and one gas discoveries or extensions.

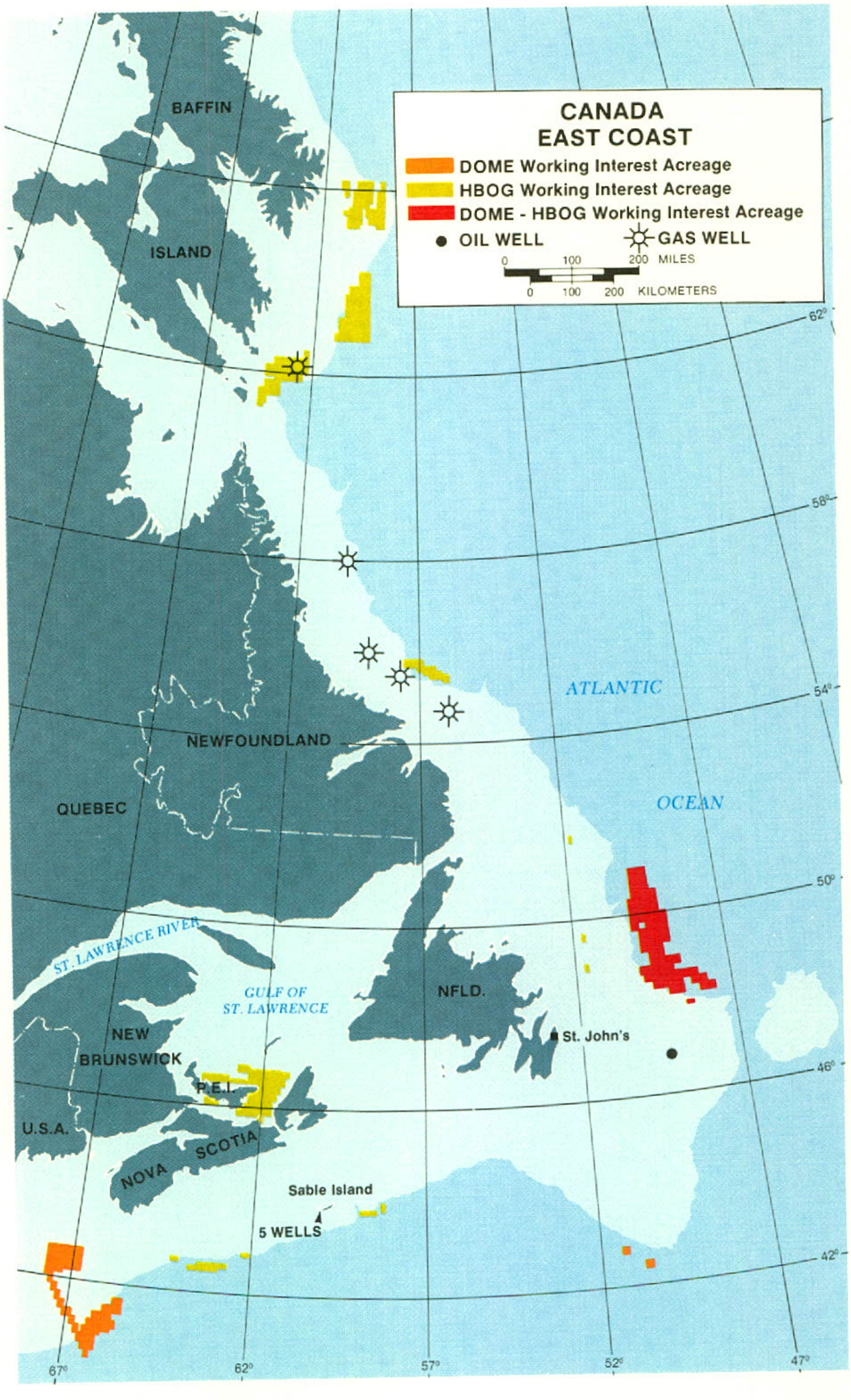
Recoverable Petroleum Reserves

Recoverable reserves of crude oil, natural gas liquids and natural gas equivalent totalled 940.5 million barrels. Of this total, recoverable synthetic crude reserves amounted to 51.7 million barrels.

Minerals Reserves

At Cyprus Anvil's mine at Faro in the Yukon, mineable reserves at year-end totalled 30.7 million short tons grading 2.9% lead, 4.3% zinc and 1.0 ounces per ton of silver.

At Les Mines Selbaie in northwestern Quebec, HBOG's share of developed ore reserves amounted to 1.7 million short tons grading 3.5% copper, 0.7% zinc, with 0.9 ounces per ton of silver and 0.03 ounces per ton of gold.



Comparative Summary of Operations

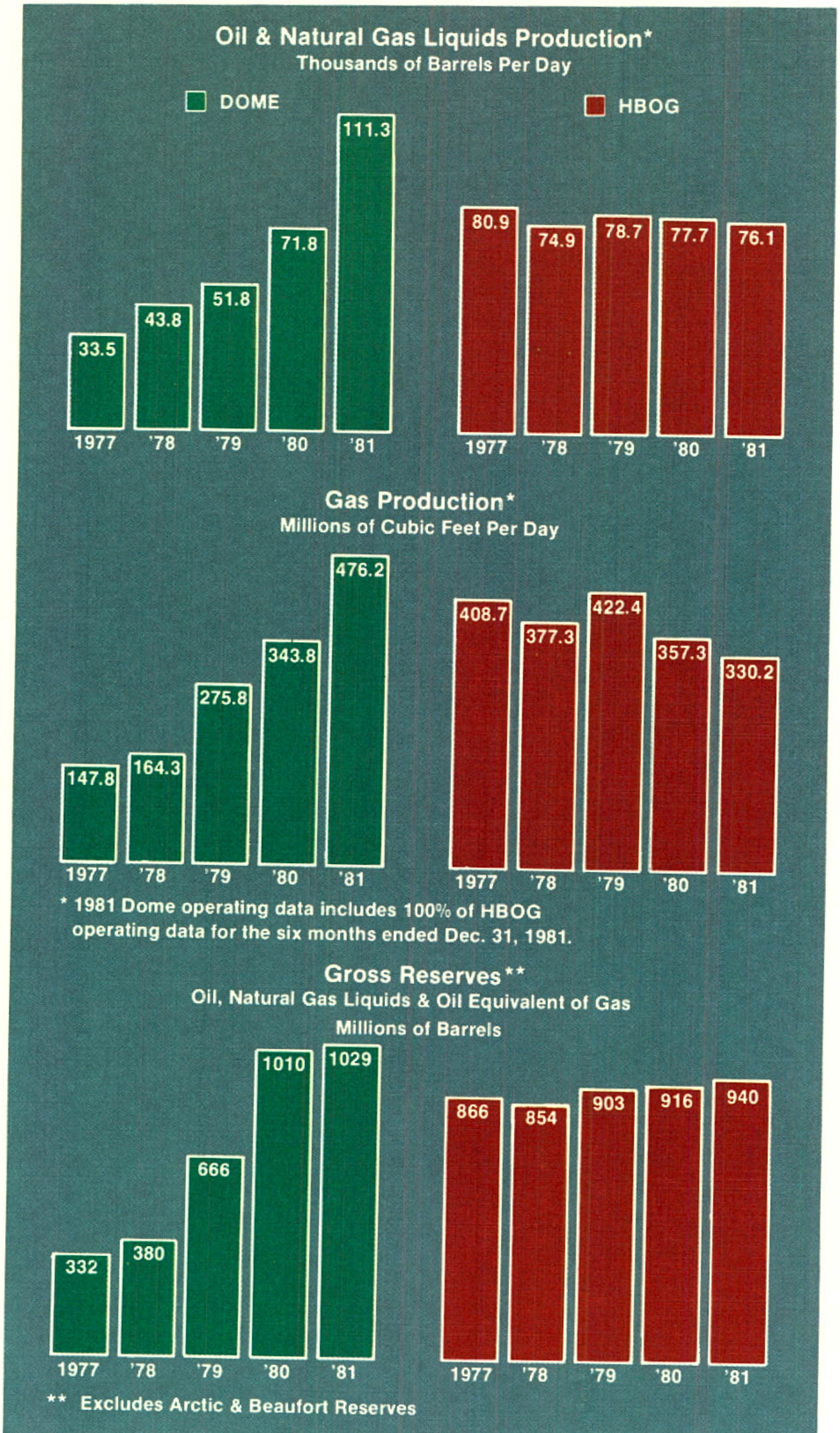
This review states Dome's 1981 key operating results, including 100% of those of HBOG from July 1, 1981. The accompanying charts show Dome results, and separate HBOG results for the full year.

Production of crude oil and natural gas liquids in 1981 was 40,608,805 barrels (111,257 bpd), compared to 26,283,000 barrels (71,812 bpd) in 1980.

Natural gas production in 1981 amounted to 173.8 billion cubic feet (476.2 mmcf/d), compared to 125.8 billion cubic feet (343.8 mmcf/d) produced in 1980.

Recoverable reserves at year-end amounted to 1.97 billion barrels of crude oil, natural gas liquids and oil equivalent of gas. All reserve figures are stated gross of provincial and federal royalties since it is not practical to project full-life royalty rates, given the numerous and variable factors prevailing in the various jurisdictions.

At December 31, 1981, the combined companies held petroleum and natural gas rights to 123.3 million gross acres (53.9 million net acres).



Sovereign Oil & Gas

Sovereign Oil & Gas Ltd., approximately 23% owned by Dome Petroleum, is an independent British company engaged in the exploration and development of crude oil and natural gas, primarily in the North Sea. The Sovereign Group, 30% owned by Sovereign Oil & Gas Ltd., made an encouraging oil discovery on newly acquired Seventh Round block 2/15 in the North Sea. The well tested 6,340 barrels per day (bpd) of crude oil and three further wells are planned for 1982 by the operator.

Construction of facilities for the South Brae field, in which Sovereign has a 4% net royalty interest, are nearing completion and first production is anticipated in 1983.

On June 3, 1981, Dome entered into an agreement with a British shipbuilder to construct a semi-submersible drilling rig. The drilling rig has been contracted by Sovereign to drill exploratory wells in Seventh Round acreage and will be operated by a wholly-owned subsidiary of Dome. Fifty per cent of the cost of the drilling rig will be shared by a third party. Dome's share of expenditures by Sovereign and of the semi-submersible are completely project-financed.

Steel jacket for self-contained drilling and production platform is shown under construction in Scotland. The barge-launched structure will be used in the North Sea's South Brae field.

Dome Canada

Dome Canada was formed in March, 1981 in response to incentives in the NEP for Canadian owned and controlled companies. It qualifies for the maximum incentives for exploration and development activities.

Under a minimum three-year agreement, Dome has granted the right to Dome Canada to earn varying interests in its exploratory lands in return for the obligation to pay for exploration.

During the year, Dome Canada participated in three principal areas of exploration: western Canada, the high Arctic and the Beaufort Sea. During the period since inception of operations on March 19, 1981, the Company completed 15,700 miles of seismic, a majority of which was in Alberta. A total of 64 exploratory wells were drilled, of which 40 were indicated discoveries.

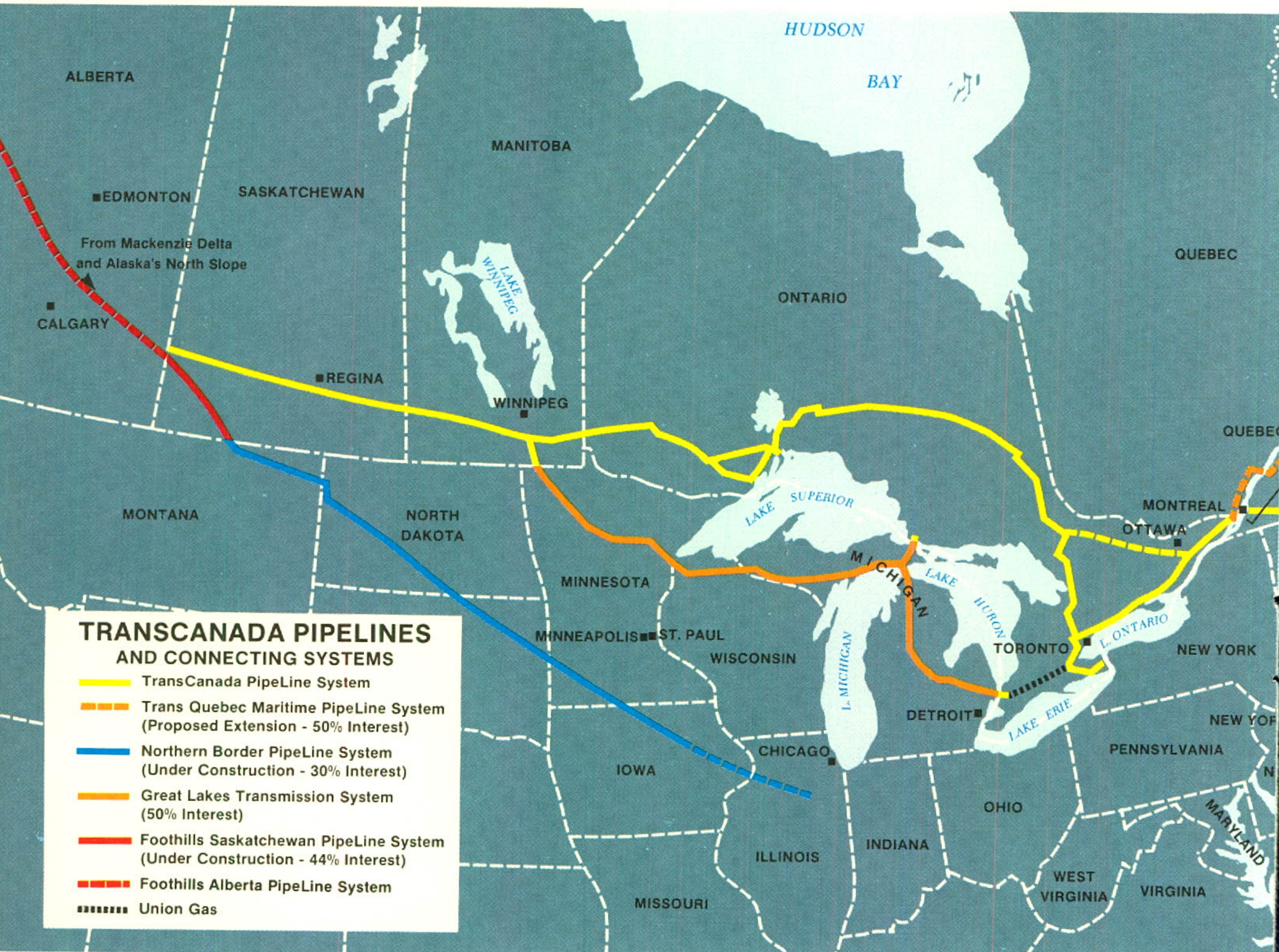
In 1981, Dome Canada reported a net operating cash flow of $83 million, equal to 94 cents per share. Its net income was $57 million or 65 cents a share. By year-end the Company had $1.13 billion in assets.

TransCanada PipeLines

Dome Petroleum and Dome Canada together own approximately 46.4% of the outstanding common shares of TransCanada PipeLines Limited ("TCPL"). TCPL operates the principal natural gas transmission system in Canada, which transports western Canadian gas production to markets in eastern Canada and the United States. Its approximately 6,000 miles of pipelines carry over three billion cubic feet per day of natural gas.

In 1981, the consolidated operating revenues of TCPL totalled $3.4 billion and net income applicable to common shares was $125.6 million.

Capital expenditures for the year totalled $1.1 billion, which in part reflected the largest construction program in TCPL's history in order to meet an expected expansion of domestic sales commencing in 1982. TCPL has a 30% interest in the $1.4 billion first phase of the Northern Border Pipeline project which runs from the Saskatchewan-North Dakota border to Ventura, Iowa. In addition, TCPL will participate in the Alaska section of the proposed



Alaska Highway Natural Gas Pipeline project, for which financing negotiations are underway.

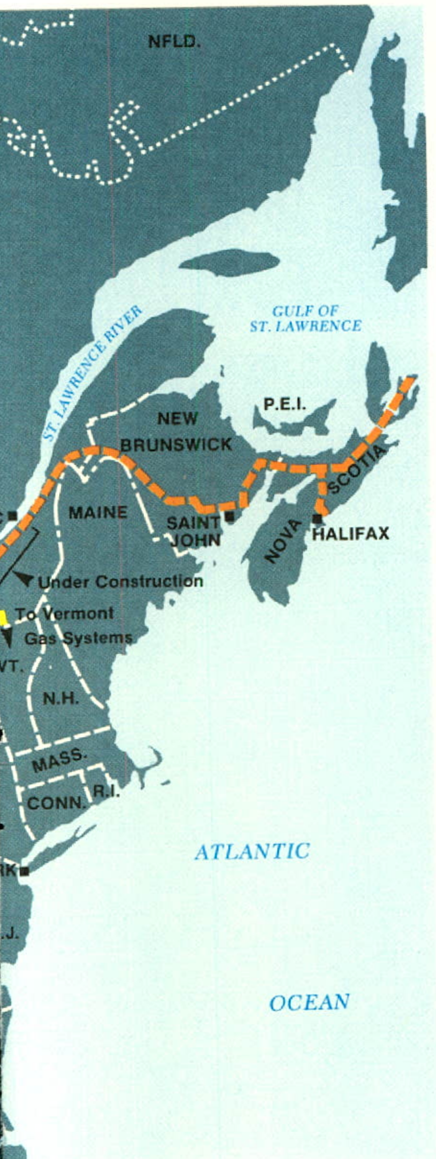
TCPL also owns 50% of Trans Quebec & Maritimes Pipeline Inc., where construction has begun on natural gas pipeline facilities in Quebec.

TCPL also owns substantial oil and gas exploration and production interests in western Canada and the United States which are operated by Dome Petroleum.

In March, 1982, TCPL purchased a 12.5% interest in all of HBOG's properties, with the exception of coal, pipelines and certain other non-resource assets. The purchase price was approximately $560 million.

Dome owns approximately 39.3% of the outstanding common shares of Dome Mines and is its principal shareholder. Dome Mines, in turn, owns approximately 26.7% of the outstanding common shares of Dome and is its principal shareholder.

Dome Mines and its associated mining companies are col-



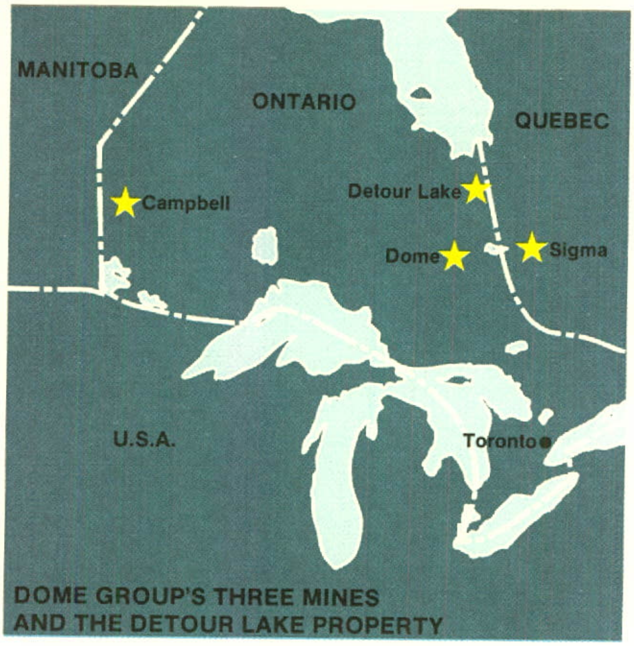
TransCanada PipeLines lays 48-inch pipe near Portage La Prairie, Manitoba in summer, 1981.

lectively the largest gold producer in Canada. It owns and operates a gold mine in the Porcupine district of Ontario and owns controlling interests in two other major gold producers, Campbell Red Lake Mines Limited (57%) and Sigma Mines (Quebec) Limited (66%). Campbell Red Lake and Dome Mines each owns a 25% interest in the Detour Lake gold mine approximately 125 miles northeast of Timmins, Ontario, which is scheduled to go into production in late 1983. Dome Mines owns a 10% interest in Denison Mines Limited, a major uranium producer, and a 20% interest in Canada Tungsten Mining Corporation Limited.

Dome Mines and associated mining companies own substantial oil and gas producing and exploratory rights in western Canada, operated by Dome Petroleum.

In 1981, Dome Mines had bullion revenue of $180.5 million and consolidated net income of $91.3 million.

Above left: Mine at South Porcupine, Ontario owned and operated by Dome Mines is a major gold producer.



Management Discussion and Analysis of the Company's Results of Operations and Financial Condition

Summary Financial Data

	Years Ended December 31,				Year to Year Percentage Increase (Decrease) Years Ended	
	Pro* Forma 1981	1981	1980	1979	1981-1980	1980-1979
		(Millions of Dollars)				
Revenue		$2,239	$1,144	$ 946	96	21
Cost of sales — product		582	419	328	39	28
Operating and general		575	174	185	230	(6)
Depreciation and depletion		165	84	63	96	33
Interest on long term debt		724	292	141	148	107
Interest capitalized		(215)	(142)	(30)	51	376
Income taxes		78	84	96	(7)	(12)
Equity in earnings of affiliated companies		78	71	42	10	69
Net income		199	287	182	(31)	58
Property, plant and equipment**	$ 8,156	8,049	3,692	2,071	118	78
Long term debt**	3,913	6,244	2,646	1,332	136	99
Secured preferred share financing**	1,605	—	—	—	—	—
Current assets**	1,223	1,223	702	493	74	42
Current liabilities**	2,557	1,229	544	380	126	43
Redeemable preferred shares	280	280	283	286	(1)	(1)
Redeemable preferred shares issued by a subsidiary**	225	225	220	220	2	—

* Reflects the 100% ownership of HBOG and the sale of 37.5% of certain HBOG assets as detailed on the Consolidated Balance Sheet and Note 21 to the Consolidated Financial Statements.

** Amounts are at the end of years indicated.

RESULTS OF OPERATIONS

Years Ended December 31, 1981, 1980 and 1979

The growth in earnings per common share in 1979 and 1980 of 39% and 54% respectively has been interrupted as 1981 earnings per common share decreased to $0.80, representing a 33% decrease as compared to 1980. The 1981 results reflect the impact of the debt financed acquisition of 52.9% of Hudson's Bay Oil and Gas Company Limited ("HBOG") combined with interest rates 1.5 times their 1980 level.

The results for the year 1981 include the consolidation of HBOG as a 52.9% subsidiary of the Company from July 1, 1981 together with the consolidation of Davie Shipbuilding Ltd. ("Davie") effective January 1, 1981. Results for previous years relate to the operations of Dome only and therefore direct comparisons with 1981 are not meaningful. The following analysis isolates the changes due to significant acquisitions in 1981 and changes related to the Company's business as it existed prior to these acquisitions.

The increase in 1981 revenue as compared with 1980 includes $372 million from HBOG and $128 million from Davie. The remaining increase of $595 million is mainly attributed to expanded Beaufort drilling operations on behalf of partners and others and increased natural gas liquids sales volumes. Oil and gas revenues were up slightly with higher prices being offset by lower volumes resulting from dispositions of oil and gas properties of the former Kaiser Petroleum Ltd. in late 1980 and the cost of Petroleum and Gas Revenue Tax in 1981.

Expense increases in 1981 more than offset revenue increases. This was primarily due to higher interest charges resulting from the combination of record high interest rates and a higher debt load tied to rates which fluctuate with the prime bank rate and the London Inter-Bank Offered Rate (LIBOR). Approximately $152 million in gross interest charges was due to the HBOG acquisition and an additional $40 million was interest incurred by HBOG. Capitalized interest also increased as a result of higher rates and interest capitalized on certain properties acquired as a result of the purchase of HBOG. In 1980 Dome changed its method of capitalizing interest to conform to the provisions of U.S. Financial Accounting Standards Board Statement No. 34. The effect of this change was to increase interest capitalized in 1980 by $80 million over the amount which would have been capitalized using Dome's previous method. See Note 12 to the Consolidated Financial Statements.

Cost of product was $582 million in 1981, up 39% from 1980, which was primarily due to the cost of increased natural gas liquids volumes purchased. Operating margins on natural gas liquids sales decreased in the year. The increase of 28% in comparing 1980 with 1979 again reflects higher product and processing costs. The 1981 cost of shipbuilding of $132 million is due to the Davie acquisition.

Operating and general expense increased $401 million in 1981 as compared with 1980. Of this amount $159 million is the result of the inclusion of HBOG. The remaining increase is largely related to the cost of Beaufort drilling activities. The decrease in operating and general expense in 1980 as compared with 1979 primarily results from the greater participation by third parties in the 1979 Beaufort Sea drilling program as compared with 1980. Such third party participation increases costs but also results in greater revenues from conducting these activities on behalf of third parties.

In each of the past three years, the earnings in affiliated companies accounted for by the equity method have provided an increasingly significant source of income.

Equity in earnings of Dome Canada Limited ("Dome Canada") amounted to $28 million in 1981. Dome Canada's earnings were primarily the result of interest income on short term investments. At December 31, 1981 Dome Canada had funds of $594 million remaining from its formation and public share issue in early 1981 and Petroleum Incentive Program Grants receivable of $130 million. Dome Canada also has a 23% equity in earnings of TransCanada PipeLines Limited ("TransCanada").

Equity in earnings of TransCanada amounted to $32 million in 1981 as compared with $41 million in 1980 and $31 million in 1979. The Company retains a 23% interest in TransCanada, having disposed of half its interest to Dome Canada as part of the consideration for a 48% interest in Dome Canada. TransCanada's earnings increased in 1981 mainly due to an increased return on rate base approved by the National Energy Board.

Equity in the earnings of Dome Mines Limited ("Dome Mines") decreased in 1981 to $14 million following significant increases in previous years. Earnings were unfavorably affected by lower bullion prices and higher mine operating costs. Production of gold increased slightly.

Income taxes decreased in 1981 to $78 million. However, the 1981 effective tax rate on before tax income increased, largely as a result of the loss of frontier exploration allowance and the non-deductibility of Petroleum and Natural Gas Revenue Tax. The 12% decrease in income tax expense in comparing 1980 with 1979 was primarily due to the greater amount of Frontier Exploration Allowance available in 1980 partially offset by the increase in the corporate tax rate.

Property, plant and equipment increased by $4.4 billion during 1981 representing the HBOG acquisition, the Company's ongoing capital program, HBOG's capital program and HBOG's acquisition of Cyprus Anvil Mining Corporation ("Cyprus"). The increase of $1.6 billion during 1980 again reflects the acquisition net of subsequent dispositions of the shares of Kaiser Petroleum Ltd. and the Company's ongoing capital program. These capital expenditures have been financed through the investment by the Company of its funds generated from operations and by the issuance of long term debt.

The pro forma information reflects the acquisition of the remaining 47.1% of the common shares of HBOG together with the related dispositions of approximately 37.5% of certain of HBOG's assets. The acquisition of 47.1% was financed through the issue of retractable preferred shares by a subsidiary of the Company, valued at $2,018.4 million together with the issue of common share warrants of the Company valued at $47.2 million and as included in the balance sheet caption "Secured preferred share financing". The reduction of long term debt and increased short term borrowings reflect the use of the proceeds from the disposition of certain of HBOG's assets. Reference is made to Notes 21 and 22 of the notes to the Consolidated Financial Statements.

Impact of Inflation

The Canadian Institute of Chartered Accountants issued an exposure draft in December 1981 entitled "Reporting the Effect of Changes in Prices" which proposes a method of current cost accounting to enable readers of financial statements to evaluate the effect of inflation on the results of operations and the value of assets owned by a company. The following is a general discussion on the effect of inflation on the Company pending the Institute's issuance of formal guidelines.

The Company's revenue is indirectly affected by inflation. Approximately 29% of 1981 revenue is from production of oil and gas, the selling price being subject to government policy which is influenced by the international price of oil. Approximately 38% of total revenue is from natural gas liquids, prices of which fluctuate in a free market system and are influenced by the price of and demand for alternative fuels and feedstock. The remaining revenues are primarily from marine drilling and shipbuilding operations where the level of activity is the prime factor affecting revenue.

Although operating and general expense is affected by inflation most of the annual increases are related to the Company's expanding operations. A large portion of the Company's long term debt is tied to the Canadian prime bank rate and LIBOR. Government monetary policy directly affects these rates and, to the extent they are varied, the Company's interest expense is affected.

Current cost and constant dollar analyses of integrated companies in the oil and gas industry have generally indicated lower earnings and lower return on a company's asset base. These negative results occur where inventories are a significant component of total assets and where depreciation and depletion are calculated on property, plant and equipment acquired in past years at significantly lower costs than today's market values and recorded at historic cost. In the Company's case these inflation adjustments would not cause a significant decrease in earnings or return on assets employed. Inventories are only 4% of the total assets and over 80% of property, plant and equipment has been acquired in the past three years. As a result of these two factors charges against earnings would come close to current dollars.

Liquidity and Capital Resources

The Company's financial position from 1979 through 1981 exhibits a growth in assets from $3 billion in 1979 to $10 billion in 1981. This growth was achieved primarily in two ways. Firstly, a program of capital expenditures averaged approximately three times cash flow during the three year period. Secondly, the Company acquired substantial oil and gas properties, notably those previously held by Siebens Oil and Gas Ltd. and Mesa Petroleum Company in 1979 for a net consideration of $311 million, the shares of Kaiser Petroleum Ltd. and others in 1980 for a net consideration of $583 million and a 52.9% interest in the shares of HBOG in 1981 for $2 billion.

In January 1981, the formation of Dome Canada and its farmin on the Company's exploration lands made available a substantial proportion of the Company's future cash flow that would have been used to pay exploration costs. An exploration agreement entered into with Dome Canada requires Dome Canada to pay for exploration costs on the Company's undeveloped lands in return for varying interests on these lands.

In June of 1981 the Company further increased its assets, reserves and production base by acquiring 52.9% of HBOG. The acquisition in the amount of $2,014 million was debt financed which, in addition to the Company's existing borrowings and when combined with record high interest rates, resulted in a significant drain on the Company's cash flow.

The remaining 47.1% of HBOG shares outstanding were acquired effective March 10, 1982 in a preferred share and common share warrant exchange totalling $2,066 million, more fully explained in Note 21 to the Consolidated Financial Statements. These preferred shares will be retracted for cash on or before December 31, 1984. To finance the retraction the Company has arranged for a syndicated bank loan in the amount of U.S. $1,800 million fully secured by a charge on certain Company assets together with cash collateral in the amount of U.S. $400 million. In addition, the exercise of the common share warrants at an exercise price of $23.1125 per warrant could potentially provide further funds of up to a maximum of $1,107 million although the current market price of the Company's common shares is considerably lower than the exercise price. Concurrent with the acquisition of the remaining 47.1% of HBOG shares, the Company disposed of approximately 37.5% of certain assets of HBOG which enabled the Company to reduce its outstanding long term debt by approximately $1,087 million (including current portion).

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Outlook

In order to finance the acquisition of the remaining 47.1% of HBOG together with the Company's existing outstanding long term debt the Company has borrowed the full amount available under its presently arranged bank lines of credit. In addition essentially all assets that presently generate cash flow are pledged as security for secured long term indebtedness. However, these pledged assets generate cash flow significantly in excess of the associated debt service requirements. During 1982 the Company will require funds in the amount of $200 million during April and May of 1982 and approximately $300 million by mid 1982, which amounts are required to maintain the Company's operations and capital commitments. In addition, the Company has undertaken to reduce the current portion of long term debt which increased by $1,243 million as a result of the financing arrangements required to complete the acquisition of the minority shareholders' interest in HBOG. The Company intends to approach these requirements as follows:

1) Effective April 6, 1982 the Company entered into a joint venture arrangement with an affiliated company whereby it purchased an approximate 50% undivided interest in the Company's ice reinforced Beaufort Sea fleet and shore base facilities. The total consideration amounts to $200 million of which $100 million was received April 6, 1982 with the balance of $100 million due by May 15, 1982, contingent on the release of a negative pledge on these assets.

2) With regard to the $300 million required by mid 1982, for continuing operations, negotations are presently being carried out with several parties, and the Company will attempt to obtain the necessary funds by one or a combination of the following: the sale of assets, the proceeds from the sale of equity or long term debt securities or from the proceeds of additional short term borrowings.

3) In order to reduce the current portion of long term debt the Company will renegotiate its current financing arrangements or sell certain of its existing assets which do not fit into the Company's future plans. Presently the Company is in the process of making arrangements to sell such assets in order to meet its obligation to repay the current portion of long term debt.

The Company expects that 1982 cash flow generated from the Company's operations will be higher than in 1980 or 1981 due principally to the following factors: higher levels of oil and gas production from the increased asset base and an ongoing development program; certain higher prices and net backs as a result of the five year Federal Provincial Energy Pricing and Taxation Agreement signed in September 1981; and tax efficiencies resulting from combining HBOG's income with the Company's existing tax pools. The Company also anticipates operating and general cost efficiencies as a result of the merger of operations with those of HBOG.

The Company's 1982 budgeted capital expenditures are anticipated to be significantly lower than capital expenditures in 1981 and 1980. The 1982 capital expenditure program will be concentrated on oil and gas development and, to a lesser extent, on additions to drillships, supply vessels and processing plants, all of which are likely to result in near term additions to operating cash flow. Expenditures for Canadian exploration will continue to be carried by the Dome Canada farmin. The 1982 capital expenditure program is largely of a discretionary nature with no material multiple year capital commitments. The Company is involved in a number of major projects that are presently in various stages of planning but which the Company intends to finance largely on a project basis. It is management's intention that future significant increases in the level of capital expenditures will be largely dependent on their ability to increase the level of cash generated and on project financing arrangements.

Consolidated Statement of Income

Three Years Ended December 31, 1981
(Millions of Dollars, Except Per Share Amounts)

	1981	1980	1979
REVENUE (Note 18)	**$2,238.8**	$1,143.6	$945.5
EXPENSE			
Cost of sales — product	**581.6**	418.5	328.1
shipbuilding	**132.2**	—	—
Operating and general	**574.5**	173.5	184.8
Minerals production	**43.0**	—	—
Interest on long term debt	**724.4**	291.8	141.2
Less interest capitalized (Note 12)	**(215.1)**	(142.4)	(29.9)
Depletion	**99.7**	53.6	28.9
Depreciation	**65.4**	30.0	34.0
Preferred share dividends of subsidiaries	**24.0**	18.2	22.9
	2,029.7	843.2	710.0
	209.1	300.4	235.5
INCOME TAXES (Note 11)			
Current	**24.6**	(33.0)	—
Deferred	**53.6**	117.3	95.9
	78.2	84.3	95.9
	130.9	216.1	139.6
EQUITY IN EARNINGS OF AFFILIATED COMPANIES	**78.0**	71.1	42.1
INCOME BEFORE MINORITY INTEREST	**208.9**	287.2	181.7
Minority Interest	**9.8**	—	—
NET INCOME	**$ 199.1**	$ 287.2	$181.7
PER COMMON SHARE (Note 10)			
Net income	**$0.80**	$1.20	$0.78
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in millions) (Notes 8 and 10)	**223.4**	221.5	223.1

Consolidated Statement of Retained Earnings

Three Years Ended December 31, 1981
(Millions of Dollars)

	1981	1980	1979
RETAINED EARNINGS, BEGINNING OF YEAR	**$ 861.3**	$595.1	$421.3
Net income for the year	**199.1**	287.2	181.7
	1,060.4	882.3	603.0
Preferred share dividends — stock	**2.0**	2.1	1.1
— cash	**18.8**	18.9	6.8
RETAINED EARNINGS, END OF YEAR	**$1,039.6**	$861.3	$595.1

See accompanying summary of significant accounting policies and notes.

Consolidated Balance Sheets

December 31, 1981 and 1980
(Millions of Dollars)

	Pro Forma December 31, 1981 (Note 22)	**1981**	1980
Assets			
CURRENT			
Cash and short term deposits	$ 33.3	**$ 33.3**	$ 50.5
Accounts receivable (Note 14)	787.9	**787.9**	411.6
Inventories — product (Note 5)	178.8	**178.8**	133.5
— materials and supplies	223.1	**223.1**	106.8
	1,223.1	**1,223.1**	702.4
INVESTMENTS (Note 5)			
Dome Mines Limited (Market value December 31, 1981 — $556.9; 1980 — $789.6) (Note 1)	195.4	**195.4**	188.2
Less Dome Petroleum's pro rata interest in its shares held by Dome Mines Limited	(108.5)	**(108.5)**	(79.6)
	86.9	**86.9**	108.6
Dome Canada Limited (Market value December 31, 1981 — $259.9) (Note 2)	417.7	**417.7**	—
TransCanada PipeLines Limited (Market value December 31, 1981 — $249.9; 1980 — $458.7) (Note 3)	246.8	**246.8**	460.4
Sovereign Oil & Gas Ltd. (Market value December 31, 1981 — $67.5; 1980 — $99.2)	11.7	**11.7**	11.6
Panarctic Oils Ltd.	33.0	**33.0**	26.3
Other	11.4	**11.4**	5.8
	807.5	**807.5**	612.7
PROPERTY, PLANT AND EQUIPMENT (Notes 4 and 5)	8,155.7	**8,048.6**	3,692.1
OTHER ASSETS	129.5	**129.5**	71.5
	$10,315.8	**$10,208.7**	$ 5,078.7

The Company follows the full cost method of accounting for oil and gas operations.
See accompanying summary of significant accounting policies and notes.

Auditors' Report

To the Shareholders of Dome Petroleum Limited

We have examined the consolidated balance sheets of Dome Petroleum Limited as at December 31, 1981 and 1980 and the consolidated statements of income, retained earnings and changes in financial position for the three years ended December 31, 1981. 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 1980, the results of its operations and the changes in its financial position for the three years ended December 31, 1981 in accordance with generally accepted accounting principles

	Pro Forma December 31, 1981 (Note 22)	1981	1980
Liabilities and Shareholders' Equity			
CURRENT			
Bank loans (Note 14)	$ 315.9	**$ 231.1**	$ 8.8
Accounts payable	846.9	**846.9**	475.8
Long term debt due within one year	1,393.8	**150.7**	59.2
	2,556.6	**1,228.7**	543.8
DEFERRED REVENUE (Note 15)	112.4	**112.4**	—
LONG TERM DEBT (Note 5)	3,913.3	**6,243.8**	2,646.2
DEFERRED INCOME TAXES (Note 11)	554.3	**554.3**	499.3
SECURED PREFERRED SHARE FINANCING	1,604.6	**—**	—
MINORITY INTEREST in Hudson's Bay Oil and Gas Company Limited	—	**494.9**	—
REDEEMABLE PREFERRED SHARES issued by subsidiaries (Note 6)	225.0	**225.0**	220.0
REDEEMABLE PREFERRED SHARES (Note 7)	279.5	**279.5**	282.7
COMMON SHARES (Issued and outstanding at December 31, 1981 — 250,062,776; 1980 — 248,260,805) (Note 8)	136.2	**136.2**	104.0
CONTRIBUTED SURPLUS	2.8	**2.8**	1.0
RETAINED EARNINGS	1,039.6	**1,039.6**	861.3
DOME PETROLEUM'S PRO RATA INTEREST in its shares held by Dome Mines Limited (Note 1)	(108.5)	**(108.5)**	(79.6)
	$10,315.8	**$10,208.7**	$ 5,078.7

On behalf of the Board: Director Director

consistently applied, except for the change in 1980, with which we concur, in the method of capitalizing interest as explained in Note 12 to the consolidated financial statements.

We have also examined the pro forma consolidated balance sheet and, in our opinion, it presents fairly the pro forma financial position of the company as at December 31, 1981 in accordance with generally accepted accounting principles after giving effect to the transactions described in Note 22 to the consolidated financial statements.

Calgary, Canada
March 18, 1982

Clarkson Gordon
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Three Years Ended December 31, 1981
(Millions of Dollars)

	1981	1980	1979
FUNDS WERE PROVIDED FROM:			
Cash flow from operations	**$ 388.5**	$ 449.6	$ 323.4
Less preferred share dividends	**(18.8)**	(18.9)	(6.8)
Cash flow after deduction of preferred share dividends	**369.7**	430.7	316.6
Issue of long term debt	**3,743.6**	1,756.8	844.7
Issue of preferred shares	**—**	—	284.5
Issue of common shares	**32.2**	19.9	5.8
Advances on future natural gas sales	**26.5**	—	—
Other	**(2.4)**	—	3.4
Decrease in working capital	**164.2**	—	—
	$4,333.8	$2,207.4	$1,455.0
FUNDS WERE USED FOR:			
Expenditures for property, plant and equipment	**$1,463.3**	$1,043.0	$ 859.7
Acquisitions (Note 13)	**2,284.6**	604.7	311.0
Less amounts contributed through participation agreements (Note 9)	**—**	(12.6)	(166.9)
	3,747.9	1,635.1	1,003.8
Reduction in long term debt	**387.2**	442.8	89.6
Investments in:			
Dome Canada Limited	**400.7**	—	—
Less related disposition of shares of TransCanada PipeLines Limited	**(251.2)**	—	—
TransCanada PipeLines Limited	**—**	19.8	246.6
Dome Mines Limited	**—**	—	65.8
Sovereign Oil & Gas Ltd.	**—**	—	11.4
Panarctic Oils Ltd.	**6.7**	16.4	—
Increase in other investments and other assets	**39.2**	43.6	15.0
Redemption of preferred shares	**3.3**	4.1	—
Increase in working capital	**—**	45.6	22.8
	$4,333.8	$2,207.4	$1,455.0

CONSOLIDATED COMPONENTS OF CHANGES IN WORKING CAPITAL

Three Years Ended December 31, 1981
(Millions of Dollars)

	1981	1980	1979
INCREASE (DECREASE) IN CURRENT ASSETS			
Cash and short term deposits	**$ (17.2)**	$ (4.5)	$ 4.1
Accounts receivable	**376.3**	95.9	111.6
Inventories	**161.6**	117.7	38.9
	520.7	209.1	154.6
INCREASE (DECREASE) IN CURRENT LIABILITIES			
Bank loans	**222.3**	2.3	(27.2)
Accounts payable	**371.1**	132.6	150.4
Long term debt due within one year	**91.5**	28.6	8.6
	684.9	163.5	131.8
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (164.2)**	$ 45.6	$ 22.8

See accompanying summary of significant accounting policies and notes.

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Dome Petroleum Limited and its wholly-owned subsidiary companies. **In addition the Company owns 52.9% of Hudson's Bay Oil and Gas Company Limited ("HBOG"), together with its wholly-owned subsidiaries including Cyprus Anvil Mining Corporation ("Cyprus"). The Company has included the accounts of HBOG and its subsidiary companies since July 1, 1981, the effective date of acquisition.** The excess of the consideration paid for the shares of subsidiaries over their net book values at dates of acquisition has been attributed to the related property, plant and equipment. **The consolidated financial statements are substantially in conformity with accounting principles generally accepted in the United States except as described in Note 16.**

FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities are translated at the rates of exchange prevailing at the balance sheet dates. Long term assets and liabilities are translated at rates in effect at the dates the assets were acquired or obligations incurred. Revenue and expense items are translated at average rates during the year with the exception of depreciation and depletion which are translated at the rates of exchange used for the related assets. The resulting gains and losses are included in income.

INVENTORY VALUATIONS

Inventories of product are valued at the lower of average cost and net realizable value. Materials and supplies are valued at average cost.

INVESTMENTS

The Company's investments in Dome Mines Limited ("Dome Mines") (39.3%), Dome Canada Limited ("Dome Canada") (48.0%), TransCanada PipeLines Limited ("TransCanada") (23.2%) and Sovereign Oil & Gas Ltd. (22.9%) are accounted for by the equity method. Under this method the investments are carried at cost plus the related equity in undistributed earnings less the amortization of the excess of the purchase price over the net book value at dates of acquisition. The Company's 7.9% interest in Panarctic Oils Ltd. is carried at cost.

PROPERTY, PLANT AND EQUIPMENT

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition, geological and geophysical, interest and other carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead related to exploration activities. The Company's share of costs incurred in drilling in the Beaufort Sea includes depreciation of drillships and related facilities, interest and operating costs.

The Company defers mining exploration and development costs at such time as it is determined that there is a reasonable degree of certainty as to the existence of economically recoverable mineral reserves within defined areas of interest. Such costs will be amortized against future production from that area or written off if the property is abandoned. The Company expenses all exploration project costs outside defined areas of interest in the year in which they are incurred. Such costs include the cost of properties not yet in the development stage.

Maintenance and repair costs are charged against income. Significant improvements are capitalized and replaced assets, if any, are retired from the accounts.

Gains or losses are not recognized upon disposition of oil and gas properties accounted for under the full cost method. Gains or losses are recognized upon disposition of other assets.

DEPRECIATION AND DEPLETION

The changed circumstances arising from the introduction of the National Energy Program and the signing of the Energy Pricing and Taxation Agreements have caused the Company to conclude that, effective January 1, 1981, it is more appropriate to base provisions for depreciation of Canadian production facilities and depletion of Canadian oil and gas properties on production revenues rather than on production quantities. Accordingly, the depreciation and depletion charges included in the 1981 financial statements have been calculated as the proportion of net property and production facility costs that current production revenues are to current plus estimated future revenues from proved reserves as determined by Company engineers. These estimated future revenues are based on prices contained in the Agreements reached between the Federal Government and the producing provinces but have been limited to 75% of the 1981 world price for crude oil. As a result, the provision for depreciation and depletion for 1981 is $40.9 million less than it would have been had the calculation been based on reserve quantities. Prior to 1981 and for United States production facilities and oil and gas properties, oil sands and foreign properties, the provisions for depreciation of production facilities and depletion are computed on the composite unit-of-production method based on proved reserves of oil and gas as determined by Company engineers. In the unit-of-production calculation, natural gas and natural gas liquids reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Costs incurred in the Beaufort Sea, Arctic and certain other undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be ascertained through further exploration.

Plants, pipelines, related facilities and other assets, drillships and supply vessels and shipyard facilities and vessels are depreciated on the straight-line basis at rates designed to amortize the assets over their estimated useful lives.

Depreciation of mining properties is calculated on the basis of tonnes of ore milled in relation to total estimated mineable ore reserves not exceeding the useful life of the asset.

SHIPYARD OPERATIONS

The Company reports income from contracts on the percentage of completion basis determined by the ratio of incurred costs to management's estimates of total anticipated costs. If a loss on a contract becomes apparent, the entire amount of the estimated loss is accrued.

CAPITALIZED INTEREST

Interest is capitalized on all costs that are excluded from the depletion calculation and on costs incurred during the construction of property, plant and equipment. Once the exploration stage is complete, or the facility commences operations, subsequent interest costs are charged to income. Prior to 1980, the Company followed the policy of capitalizing interest only where the related financing could be identified with the purchase or construction of assets.

INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs in excess of depreciation and depletion provided in the accounts.

Notes to Consolidated Financial Statements

(Millions of Dollars, Except Per Share Data and as Otherwise Noted)

1. INVESTMENT IN DOME MINES LIMITED

At December 31, 1981 the Company owned 30,515,784 common shares of Dome Mines (after taking into account the four for one share split effective May 22, 1981) representing a 39.3% interest therein. At December 31, 1981 Dome Mines owned 26.7% of the outstanding common shares of the Company resulting in the Company having a pro rata interest of 10.5% in its own shares. The investment in Dome Mines and shareholders' equity have therefore been reduced by the allocated portion of the cost of the investment in shares of Dome Mines related thereto. The excess of the purchase price over the net book value of Dome Mines at dates of acquisition other than its holdings in the Company, amounts to $51.8 million and is attributable to the value of the mineral assets held by Dome Mines. This excess is being amortized over the expected life of these mineral assets.

The following table indicates the common shares acquired and the dividends received from Dome Mines.

	Number of Shares	Amount	Dividends Received	Interest in Dome Mines	Dome Mines Interest in Dome	Pro Rata Interest
Years ended:						
1981	—	$ —	$ 7.0	39.3%	26.7%	10.5%
1980	—	—	5.1	39.3	25.7	10.1
1979	6,566,184	65.8	3.2	39.5	25.6	10.1

DOME MINES LIMITED

Summarized Financial Information

Balance Sheet

	December 31, 1981	December 31, 1980
Current assets	**$ 66.2**	$143.2
Investments — Dome Petroleum Limited	**344.5**	222.9
— Other	**70.1**	73.4
Property, plant and equipment	**237.8**	95.9
	$718.6	$535.4
Current liabilities	**$ 45.6**	$ 86.0
Bank indebtedness	**94.3**	—
Deferred income and mining taxes	**66.3**	30.1
Minority interest in subsidiary companies	**65.6**	51.4
Shareholders' equity	**446.8**	367.9
	$718.6	$535.4

Statement of Income

	Years Ended December 31, 1981	1980	1979
Revenues	**$ 187.4**	$ 240.6	$ 129.7
Income before taxes and other items	**$ 125.7**	$ 194.8	$ 109.1
Income, mining and other taxes	**(60.3)**	(106.0)	(49.6)
Income after taxes, before other items	**65.4**	88.8	59.5
Equity in earnings of affiliated companies			
Dome Petroleum Limited	**48.4**	62.8	41.1
Canada Tungsten Mining Corporation Limited	**0.5**	4.5	3.3
Minority interest in net income of subsidiary companies	**(23.0)**	(29.6)	(14.6)
Net income	**$ 91.3**	$ 126.5	$ 89.3

2. INVESTMENT IN DOME CANADA LIMITED

Effective March 19, 1981 the Company acquired 42,461,535 common shares of Dome Canada representing a 48.0% interest therein. Consideration was made by the transfer to Dome Canada of 10,306,886 common shares of TransCanada valued at $251.2 million and cash in the amount of $149.5 million. At December 31, 1981 Dome Canada's interest in the common shares of TransCanada was 23.2%. During November, 1981 the Company received on the basis of one warrant for each five common shares held 8,492,307 common share warrants. The Company is entitled to purchase one common share of Dome Canada for each common share warrant at a price of $12.50 per share on or before November 1, 1983.

On April 1, 1981 the Company entered into certain agreements with Dome Canada which enabled Dome Canada to earn interests in certain Canadian exploratory lands held by the Company and others in return for the obligation to fund all exploration including the drilling of exploratory wells and geological and geophysical surveys. Subsequent development costs will be borne by the Company and Dome Canada in proportion to their respective interests. The operations of Dome Canada, including administration, are carried out by the Company on behalf of Dome Canada. (Also see Note 21.)

DOME CANADA LIMITED

Summarized Financial Information

Balance Sheet

	December 31, 1981
Current assets	**$ 786.2**
Investment in TransCanada	**260.3**
Property, plant and equipment	**84.9**
	$1,131.4
Current liabilities	**$ 75.8**
Long term debt	**129.5**
Deferred income taxes	**34.6**
Shareholders' equity	**891.5**
	$1,131.4

Statement of Income

	For the period March 19 to December 31, 1981
Interest income	**$ 77.2**
General and administrative	**(6.3)**
	70.9
Deferred income taxes	**(34.6)**
Equity in earnings of TransCanada	**21.0**
Net income	**$ 57.3**

3. INVESTMENT IN TRANSCANADA PIPELINES LIMITED

At December 31, 1981 and 1980 the Company owned 10,306,885 and 20,613,771 common shares of TransCanada respectively representing 23.2% and 46.9% interests therein. During the three years ended December 31, 1981, the Company acquired and disposed of common shares and received dividends from TransCanada as follows:

	Number of shares acquired (sold)	Amount	Dividends Received
1981	**(10,306,886)**	**$(251.2)**	**$ 12.0**
1980	900,000	19.8	23.7
1979	10,693,550	246.6	19.7

At December 31, 1981 and 1980 the excess of the purchase price over the net book value of TransCanada at dates of acquisition and disposition amounted to $68.7 million and $137.3 million respectively which is attributable to the value of the pipelines owned by TransCanada. This excess is being amortized over the expected remaining life of these assets. (Also see Notes 2 and 21.)

TRANSCANADA PIPELINES LIMITED

Summarized Financial Information

Balance Sheet

	December 31, 1981	December 31, 1980
Current assets	**$ 566.9**	$ 476.0
Payments on future gas supply	**1,013.3**	832.1
Investments	**1,032.0**	615.1
Plant, property and equipment (net)	**1,920.3**	1,438.9
Deferred charges	**53.8**	18.6
	$4,586.3	$3,380.7
Current liabilities	**$ 716.8**	$ 566.1
Long term debt	**2,458.8**	1,706.8
Deferred income taxes	**246.6**	141.0
Shareholders' equity	**1,164.1**	966.8
	$4,586.3	$3,380.7

Statement of Income

	Years Ended December 31, 1981	1980	1979
Revenues	**$ 3,404.9**	$ 3,123.1	$ 2,581.0
Income before income taxes	**$ 256.6**	$ 184.7	$ 175.8
Income taxes	**(102.5)**	(82.2)	(81.8)
Net income for the year	**$ 154.1**	$ 102.5	$ 94.0

4. PROPERTY, PLANT AND EQUIPMENT

	Principal Depreciation and Depletion Rates	1981 Investment at Cost	1981 Accumulated Depreciation and Depletion	1981 Net Investment	1980 Net Investment
Plants, pipelines, related facilities and other assets	3.3% to 6.7%	**$ 678.2**	**$ 118.7**	**$ 559.5**	$ 431.6
Oil and gas properties	Unit of revenue or production	**5,799.3**	**237.1**	**5,562.2**	2,727.8
Oil sands mining, developed rights and related facilities	Unit of production	**190.7**	**3.1**	**187.6**	—
Production facilities	Unit of revenue or production	**718.2**	**41.4**	**676.8**	267.6
Metal mines and related facilities	Unit of production	**512.4**	**5.6**	**506.8**	—
Drillships and supply vessels	6.7% to 10.0%	**578.3**	**93.1**	**485.2**	265.1
Shipyard facilities and vessels	10.0% to 15.0%	**73.6**	**3.1**	**70.5**	—
		$8,550.7	**$ 502.1**	**$8,048.6**	$3,692.1

Costs of properties excluded from the depletion calculation in millions of dollars were: 1981 — $1,413.2; 1980 — $561.8; 1979 — $253.8.

5. LONG TERM DEBT

	1981	1980
Debentures		
9½% Series A Debentures due 1992 (U.S. $150.0 million)	**$ 158.8**	$ 158.8
Income Debenture, with interest at 52% of the prime bank rate plus ¾%, due 1988	**200.0**	200.0
14¾% Debentures due 2006 (U.S. $100.0 million)	**119.9**	—
13½% Debentures due 1992 (1981 — U.S. $44.8 million; 1980 — U.S. $48.6 million)	**52.3**	56.7
10⅝% Sinking Fund Debentures due 1996	**27.9**	28.4
10% Debentures due 1994 (U.S. $50.0 million)	**57.4**	57.3
7.85% Collateral Trust Bonds due 1994 (U.S. $18.6 million)	**20.0**	—
Term Bank Loans		
With interest rates varying up to 1¼% in excess of the prime bank rate and up to ⅝% in excess of the London Interbank Offered Rate		
In Canadian funds, due 1982-1993	**1,950.2**	1,503.3
In U.S. funds, due 1982-1993 (1981 — U.S. $2,361.1 million; 1980 — U.S. $108.5 million)	**2,822.5**	117.4
In Swiss francs, due 1985-1986 (Swiss francs 149.0 million)	**87.0**	87.0
Promissory Notes		
With interest at the prime bank rate between 8¼% and 10¼% per annum adjusted for one half the differential in prime below or above these limits, due 1989	**19.5**	25.5
With interest at prime less ¼%, due 1985	**75.0**	75.0
With interest at varying rates from 6% to prime plus 1¼%		
Due 1988 ($161.6 million less funds on deposit of $123.3 million)	**38.3**	38.3
Due 1991	**105.0**	—
Due 1998	**220.8**	225.5
With interest at approximately 16%, due 2030	**175.0**	—
With interest at 7¼%, due 1990 (Swiss francs 100.0 million)	**58.2**	—
With interest at 6%, due 1986 (Swiss francs 100.0 million)	**69.5**	69.5
With interest at 5¾%, due 1991 (Swiss francs 100.0 million)	**61.4**	—
Other (including capitalized lease and royalty obligations)	**75.8**	62.7
	6,394.5	2,705.4
Less amounts due within one year	**150.7**	59.2
	$6,243.8	$2,646.2

The 9½% Series A Debentures are secured by a first fixed mortgage and charge upon certain of the Company's oil and gas properties, related production equipment and sales agreements. The Trust Deed securing the Debentures requires annual redemption at varying amounts in each of the years 1982 to 1992.

As security for the Income Debenture and Term Bank Loans, the Company has issued collateral demand debentures which include floating charges on property, plant and equipment; has pledged certain oil and gas properties and product inventories; has assigned certain amounts due under marketing agreements and has hypothecated shares of TransCanada, Dome Mines, Dome Canada, HBOG and certain subsidiary companies. Under the provisions of the Income Debenture, the Company is required to make principal repayments of varying amounts in each of the years 1984 to 1988.

The 14¾% Debentures are secured by a charge on certain oil and gas properties and are subject to an annual sinking fund requirement sufficient to retire U.S. $6.5 million of Debentures in each of the years 1992 to 2005 and U.S. $9.0 million at maturity.

The 13½% Debentures are subject to a purchase fund which requires that the Company use all reasonable efforts to purchase in the market debentures in the amount of U.S. $2.0 million in each of the years commencing May 1, 1981 to 1986 at prices not exceeding 100% of the principal amount. During 1981 and 1980, U.S. $3.8 million and U.S. $1.4 million of debentures were purchased under this provision.

The 10⅝% Sinking Fund Debentures are secured by certain oil and gas properties and are subject to annual sinking fund payments in the amount of $1.5 million in each of the years 1982 to 1995 inclusive. During 1981 and 1980, $0.5 million and $1.6 million of debentures were purchased under this requirement.

The 10% Debentures are subject to annual sinking fund payments in the amount of U.S. $2.8 million in each of the years 1984 through 1993.

The 7.85% Collateral Trust Bonds are secured by certain oil and gas properties and are subject to sinking fund payments in the amount of U.S. $1.1 million in 1984, U.S. $1.25 million per annum from 1985 to 1993 and U.S. $6.25 million at maturity.

As security for certain of the Promissory Notes, the Company has pledged certain oil and gas properties which are subject to a first fixed charge and has placed in escrow with a Canadian chartered bank $123.3 million in cash. The monies held in escrow earn interest and will be released in proportion to the principal repayment of the promissory notes. The promissory notes are repayable in the amount of $36.1 million in each of the years 1983 through 1986.

The Company arranged through an agreement dated February 16, 1981 that the Arctic Petroleum Corporation, a Japanese company, will advance $400.0 million during 1981 and 1982 to be used in conducting exploration activities in the Beaufort Sea. The first $175.0 million was assigned to the Company in respect of 1980 Beaufort drilling activities, and the remaining $225.0 million will be retained by an affiliate, Dome Canada. The Company and Dome Canada are joint and severally liable for repayment of the principal balance by the year 2030. Prior to that date repayment of the principal amount is to be made from 20% of the net proceeds of production from certain fields to be developed in the Beaufort Sea, but in any event the principal balance is repayable by the year 2030. Interest on the borrowing will approximate 16% per year compounded annually, the payment of which will be contingent upon proceeds of production from the Beaufort Sea. Accordingly, such interest will not be accrued until production is assured.

Discounts on debt issued and related expenses are deferred and amortized over the term of the loan.

Approximate instalments of long term debt (including sinking fund repayments) due in each of the years 1983 to 1986 are (in millions): 1983 — $696.1; 1984 — $133.3; 1985 — $331.8 and 1986 — $774.2. (Also see Note 21.)

6. REDEEMABLE PREFERRED SHARES ISSUED BY SUBSIDIARIES

At December 31, 1981 and 1980 a subsidiary of the Company had outstanding 2,200,000 cumulative, non-voting, first preference shares redeemable in 1988 which redemption is guaranteed by the Company. The dividend rate is 52% of the prevailing prime bank rate plus ¾%. At the Company's option, the shares may be converted to a term bank loan and may be redeemed at any time. (Also see Note 21.)

In addition, Davie Shipbuilding Limited (Also see Note 13) has outstanding 50,000 Class A 5% cumulative preferred shares redeemable at par value of $100 and is committed to redeem these shares prior to September 26, 1983.

7. REDEEMABLE PREFERRED SHARES

Authorized:

An unlimited number of preferred shares issuable in series.

Issued:

14,546,611 preferred shares (December 31, 1980 — 14,622,549).

Preferred shares outstanding at December 31, 1981 and 1980 were as follows:

		1981		1980	
	Authorized	**Outstanding**	**Amount**	Outstanding	Amount
7.76% Series A and B	10,500,000	**4,951,516**	**$123.1**	5,048,112	$126.1
Stock dividends		**133,251**	**2.0**	105,345	2.1
Redeemed		**(209,189)**	**(5.2)**	(201,941)	(5.1)
		4,875,578	**119.9**	4,951,516	123.1
6.98% Series C	1,450,000	**1,450,000**	**36.2**	1,450,000	36.2
7.25% Series D	4,110,517	**4,110,517**	**61.7**	4,110,517	61.7
7% Series E	4,110,516	**4,110,516**	**61.7**	4,110,516	61.7
		14,546,611	**$279.5**	14,622,549	$282.7

During 1981, the Company purchased for cancellation 209,189 Series A and B Preferred Shares at a discount of $1.8 million which amount has been credited to Contributed Surplus.

Series A Cumulative Preferred Shares and Series B Cumulative Stock Dividend Preferred Shares were issued at $25 per share and are interconvertible at any time on a share for share basis at the option of the holder. The shares are redeemable at the option of the Company after August 31, 1984 at $26 per share to August 31, 1985, declining thereafter by $0.20 per share annually to $25 after August 31, 1989. The Company is required to use all reasonable efforts to purchase each year, commencing in 1980, a total of 4% of the Series A and Series B Preferred Shares outstanding at the beginning of each year provided such shares are available at prices not exceeding $25 per share plus costs of purchase.

Series C Cumulative Preferred Shares were issued at $25 per share with redemption of 5% per annum of the issued shares beginning in 1985 at $25. Each holder has the right to waive this redemption obligation of the Company in any year. The dividend rate will be adjusted in 1984 and each fifth year thereafter.

Series D Cumulative Preferred Shares were issued at $15 per share and are redeemable beginning in 1991. The holder has the right to require redemption at $15 in 1982.

Series E Cumulative Preferred Shares were issued at $15 per share and are redeemable beginning in 1988. The holder has the right to require redemption at $15 in 1982 and each third year thereafter. At the holders' request these shares were redeemed January 4, 1982.

8. COMMON SHARES

Authorized:

An unlimited number of common shares of no par value

Issued:

250,062,776 common shares (December 31, 1980 — 248,260,805)

During 1979, each common share of the Company was subdivided into four shares and subsequently the authorized number of common shares was increased to 100,000,000. Effective May 22, 1981 each common share of the Company was divided into five shares and subsequently the authorized number of common shares was increased to an unlimited number. All share and per share data have been restated to reflect the share splits. Common shares issued for the years ended December 31, 1981 and 1980 were as follows:

	1981		1980	
	Shares	**Amount**	Shares	Amount
Under stock purchase plans	**463,125**	**$ 6.8**	1,969,675	$19.9
In exchange for shares of a subsidiary	**7,926**	**—**	5,280	—
On the exercise of an option	**2,000**	**—**	24,500	—
On the acquisition of subsidiaries (Note 13)	**1,328,920**	**25.4**	—	—
	1,801,971	**$32.2**	1,999,455	$19.9

At December 31, 1981, 2,792,324 shares (December 31, 1980 — 3,271,375) were reserved for issue as follows: 2,567,200 under the Company's stock purchase plans, 108,000 for options granted or to be granted under employee stock option plans, and 117,124 for shares of a subsidiary not yet presented for exchange. The Company has made interest-free loans to officers to enable them to purchase shares from the Company under the stock purchase plans. At December 31, 1981, $16.7 million (December 31, 1980 — $13.9 million) was receivable by the Company under the above arrangements and is included in Other Assets.

Stock Option and Key Employee Stock Purchase Plans

During 1970 and 1971, the Company granted 10-year options under the Company's stock option plans. No options to purchase shares of the Company have been granted since 1971. No options became exercisable during the two years ended December 31, 1981 at which date 108,000 shares were reserved for the granting of future options under the plans. During the year, 2,000 shares at an option price of $1.35 per share were exercised when the market price was $16.53 per share. None of these options were exercised by an officer or director of the Company. No options are presently outstanding.

Under the Company's key employee stock purchase plans, the Company is authorized to sell to a trustee, at the prevailing market price, an aggregate of 14,000,000 common shares of the Company for resale at the same price to key employees of the Company. The purchase price of these shares is payable, without interest, by the employees over a maximum period of 10 years, during which the shares are held as security. At December 31, 1981, there were 493,125 shares remaining available for sale under these plans. Shares sold under these plans are as follows:

	Number of Shares	Purchase Price Per Share	Purchase Price Total
Years ended: **1981**	**2,072,500**	**$17.32**	**$35.9**
1980	1,186,750	$11.96	$14.2

9. PARTICIPATION AGREEMENTS

Under various agreements, other than conventional farmout agreements, third parties have agreed to participate in the Company's exploration and development program in order to earn varying interests in the lands covered by the agreements. Amounts contributed under the above arrangements for the years ended were (in millions): 1981 — $ NIL; 1980 — $12.6; 1979 — $166.9.

10. NET INCOME PER COMMON SHARE

Net income per common share is calculated, after the deduction of preferred share dividends, using the weighted monthly average number of shares outstanding which amounts have been reduced by the Company's pro rata interest in its outstanding shares held by Dome Mines. There are no dilutive factors that would have a material effect on net income per share. The average number of common shares outstanding and net income per common share calculations have been restated to reflect the four for one share split effective May 18, 1979 and the five for one share split effective May 22, 1981.

11. INCOME TAXES

Income tax provisions differ from the calculated tax obtained by applying the Canadian corporate tax rate to income before income taxes. These differences are accounted for as follows:

	Years Ended December 31, 1981	1980	1979
Corporate tax rate	**47.8%**	47.8%	46.0%
Calculated income tax provision	**$100.0**	$143.6	$108.3
Add (deduct):			
Crown charges disallowed for tax purposes less provincial rebates	**82.4**	48.7	20.3
Federal resource allowance	**(87.1)**	(42.6)	(26.7)
Depletion allowance on Canadian oil and gas production income	**(43.5)**	(25.1)	(15.7)
Frontier exploration allowance	**—**	(45.4)	(2.6)
Investment tax credit	**(10.2)**	(2.0)	(1.8)
Manufacturing and processing tax rate reduction	**—**	(3.3)	(4.0)
Income debenture interest	**10.3**	7.8	6.8
Preferred share dividends of a subsidiary	**11.3**	9.7	10.5
Non-deductible depletion	**10.8**	6.2	—
Depreciation claimed for tax purposes which has no accounting equivalent	**(16.8)**	(17.1)	—
Petroleum and gas revenue tax	**24.9**	—	—
Other	**(3.9)**	3.8	0.8
Income tax provision	**$ 78.2**	$ 84.3	$ 95.9

The components of income before income taxes between domestic and foreign categories together with related income taxes are set out below. The foreign components of net income and income tax expense were not significant prior to 1980.

	Years ended December 31,					
	1981			1980		
	Canada	**Foreign**	**Total**	Canada	Foreign	Total
Income before income taxes, equity earnings and minority interest	**$180.6**	**$ 28.5**	**$209.1**	$268.0	$32.4	$300.4
Income taxes:						
Current	**$ 17.5**	**$ 7.1**	**$ 24.6**	$ (33.0)	$ —	$ (33.0)
Deferred	**55.5**	**(1.9)**	**53.6**	104.4	12.9	117.3
	$ 73.0	**$ 5.2**	**$ 78.2**	$ 71.4	$12.9	$ 84.3

Current income taxes recorded during 1980 amounting to $33.0 million represent the recovery of an income tax liability previously incurred by an acquired subsidiary.

12. CHANGE IN ACCOUNTING POLICY

On December 31, 1980 the Company adopted, retroactive to January 1, 1980, the provisions of U.S. Financial Accounting Standards Board Statement No. 34 under which standards are established for capitalizing interest cost related to the acquisition and development of certain assets. The Company believes this policy more accurately reflects the cost of exploring in areas such as the Beaufort Sea, Arctic and other exploratory areas where the exploration period is lengthy and costs are significant. As a result, the Company has capitalized interest during 1980 on all costs incurred to date in such exploratory areas. Previously the Company followed the policy of capitalizing interest only where the related financing could be identified with the purchase or construction of assets. If this policy had been applied in 1979, net income for 1979 would have increased by $17.5 million ($0.08 per share). Net income for 1980 was increased by $54.5 million ($0.25 per share).

13. ACQUISITIONS (Also see Note 21)

(a) During 1979, the Company acquired the oil and gas properties of several companies including those previously held by Siebens Oil and Gas Ltd. and Mesa Petroleum Company for a net consideration of $311.0 million.

(b) During 1980, the Company acquired the shares of a number of oil and gas exploration and development companies including Kaiser Petroleum Ltd. which have been accounted for by the purchase method. The details of the transactions are as follows (in millions):

Value attributed to property, plant and equipment	$946.8
Net proceeds of subsequent dispositions	(270.1)
Deferred income taxes	(72.0)
Acquisitions per Consolidated Statement of Changes in Financial Position	604.7
Working capital and other assets	8.6
Long term debt assumed	(30.0)
Net purchase price financed by debt	$583.3

(c) During 1981, the Company acquired the shares of a number of companies, the most significant of which are as follows:

(i) On June 10, 1981, Dome Energy Limited ("Dome Energy"), a wholly-owned subsidiary of the Company, acquired 22,000,000 common shares of Conoco Inc., a Delaware corporation, for a consideration of $1,719.4 million. Subsequently Dome Energy exchanged its holdings in Conoco Inc., together with cash in the amount of $294.6 million, for Conoco's 52.9% interest in HBOG, representing 40,156,268 common shares. To fund this acquisition Dome Energy entered into a loan agreement with four Canadian chartered banks to borrow $2,014.0 million, the loan being secured by the shares of HBOG, 24,000,000 shares of Dome Mines and certain oil and gas properties.

(ii) During August 1981, the Company concluded an agreement for the acquisition of all the issued and outstanding common shares and certain preferred shares of Davie Shipbuilding Limited ("Davie") for a total consideration of $37.8 million consisting of $15.0 million in cash and 1,221,500 common shares of the Company.

(iii) Effective August 31, 1981, HBOG acquired 100% of the outstanding shares of Cyprus. The purchase price of $345.3 million was financed by term bank loans.

These acquisitions are being accounted for by the purchase method as follows:

	HBOG	Davie	Cyprus	Total
Value attributed to property, plant and equipment	$2,601.0	$ 54.0	$396.1	$3,051.1
Minority interest	(487.5)	—	—	(487.5)
Liabilities net of other assets	(201.0)	(19.2)	(58.8)	(279.0)
	1,912.5	34.8	337.3	2,284.6
Working capital acquired	120.6	3.0	8.0	131.6
Less interest capitalized June 10 to June 30, 1981	(19.1)	—	—	(19.1)
Net purchase price	$2,014.0	$ 37.8	$345.3	$2,397.1

The excess of the purchase price over the net book values of assets acquired has been attributed to the value of property, plant and equipment and is being depreciated or depleted over the expected life of the related assets.

14. SHORT TERM BANK LOANS

Short term bank loans bear interest at the prime bank rate and are secured by an assignment of accounts receivable and an undertaking to provide oil and gas properties as security if required. As at December 31, 1981, there was an unused line of credit under these arrangements of approximately $250.0 million.

15. RELATED PARTY TRANSACTIONS

In addition to those described in Note 21, the Company undertook the following related party transactions:

(a) The Company has contracts with TransCanada for the sale of gas and extraction of gas by-products. The utility operations of TransCanada are regulated and establish the terms and conditions with which TransCanada deals with outside parties, including the Company. Revenue and cost of product included in the Consolidated Statement of Income during 1981 amounted to $224.1 million (1980 — $142.0 million) and $27.0 million (1980 — $25.0 million), respectively. Accounts receivable from TransCanada at December 31, 1981 amounted to $21.9 million (1980 — $15.0 million). In addition, at December 31, 1981 approximately $90.0 million was deferred in relation to future sales of natural gas to TransCanada.

(b) During 1980, the Company sold to TransCanada for a consideration of approximately $126.0 million a 12½% interest in certain oil and gas properties.

(c) During 1980, the Company sold to subsidiaries of Dome Mines a 5% interest in certain resource properties for a consideration of approximately $42.5 million. In addition, these subsidiaries have earned an interest in certain exploratory oil and gas rights by spending approximately $100.0 million.

(d) With respect to the Dome Exploratory Lands Agreement and the Corporate Services Agreement the Company charged Dome Canada the following:

(i) $161.7 million with respect to management fees in relation to exploration, land acquisitions, geological and geophysical services provided, together with costs incurred for exploration in the Beaufort Sea.

(ii) $5.0 million with respect to the Corporate Services Agreement. Accounts receivable from and payable to Dome Canada at December 31, 1981 amounted to $61.7 million and $48.7 million, respectively.

16. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following information is disclosed in accordance with U.S. Securities and Exchange Commission requirements.

	1981	1980	1979
Net income in accordance with Canadian generally accepted accounting principles as reported	**$ 199.1**	$ 287.2	$ 181.7
Add (deduct) adjustment for			
a) Foreign currency translation	**(1.7)**	(4.0)	3.3
b) Other	**(5.9)**	(3.9)	—
Net income in accordance with United States generally accepted accounting principles	**$ 191.5**	$ 279.3	$ 185.0
Net income per share in accordance with United States generally accepted accounting principles	**$ 0.76**	$ 1.17	$ 0.79

(a) The U.S. Financial Accounting Standards Board Statement No. 8 requires that long term debt payable in foreign currencies be translated at the rate of exchange in effect at the end of the year with the resulting translation gains and losses being reflected in income immediately.

(b) Comprised of interest capitalized by an equity accounted affiliate, not in accordance with U.S. Financial Accounting Standards Board Statement No. 34 and a deemed gain relating to shares in TransCanada which under U.S. accounting practice would be included in contributed surplus.

At December 31, 1981, retained earnings of the Company included $205.3 million representing cumulative earnings of equity accounted affiliates.

17. PENSION AND SAVINGS PLANS

The Company's voluntary contributory pension plan and employee savings plan are available to substantially all of its permanent employees. Employee and Company contributions made under the pension plan are paid to, and invested by, an insurance company. Similar contributions made under the savings plan are invested by a trustee in the common shares of the Company on behalf of the employees. Pension costs are funded in accordance with actuarial requirements. Amounts charged to income to fund the plans in millions were: 1981 — $21.7; 1980 — $10.7; 1979 — $5.7.

18. INFORMATION BY BUSINESS SEGMENT AND GEOGRAPHIC AREA

The Board of Directors of the Company has determined and recorded in the minutes of a Board meeting that the following segments are the business segments of the Company.

Business Segment	**Operations**
Crude Oil and Natural Gas	Exploration, development and production activities for crude oil, natural gas, field liquids, sulphur, and oil sands
Pipeline Transportation	Transportation of natural gas liquids

	1981	1980	1979
SALES TO CUSTOMERS			
Crude oil and natural gas	**$1,965.5**	$1,085.5	$ 885.0
Pipeline transportation	**63.4**	46.8	38.7
Other	**209.9**	11.3	21.8
Consolidated	**$2,238.8**	$1,143.6	$ 945.5

OPERATING INCOME	1981	1980	1979
Crude oil and natural gas	**$ 740.1**	$ 451.1	$ 340.1
Pipeline transportation	**48.0**	28.9	20.9
Other	**23.9**	9.7	20.5
Consolidated	**812.0**	489.7	381.5
General corporate expenses	**(69.6)**	(21.7)	(11.8)
Interest expense	**(509.3)**	(149.4)	(111.3)
Preferred share dividends of subsidiaries	**(24.0)**	(18.2)	(22.9)
Income taxes	**(78.2)**	(84.3)	(95.9)
Equity in earnings of affiliated companies	**78.0**	71.1	42.1
Minority interest	**(9.8)**	—	—
Net income	**$ 199.1**	$ 287.2	$ 181.7
IDENTIFIABLE ASSETS			
Crude oil and natural gas	**$ 7,115.7**	$3,378.9	$1,817.9
Pipeline transportation	**283.5**	249.7	237.0
Other	**649.4**	63.5	15.8
Consolidated	**8,048.6**	3,692.1	2,070.7
Corporate assets	**1,352.6**	773.9	522.4
Investments	**807.5**	612.7	537.4
Total assets	**$10,208.7**	$5,078.7	$3,130.5
CAPITAL EXPENDITURES			
Crude oil and natural gas	**$ 3,105.3**	$1,565.8	$ 945.4
Pipeline transportation	**41.8**	20.0	49.3
Other	**600.8**	49.3	9.1
Consolidated	**$ 3,747.9**	$1,635.1	$1,003.8
DEPRECIATION AND DEPLETION			
Crude oil and natural gas	**$ 146.5**	$ 74.8	$ 54.6
Pipeline transportation	**7.9**	7.3	7.3
Other	**10.7**	1.5	1.0
Consolidated	**$ 165.1**	$ 83.6	$ 62.9

Geographic Area

SALES TO CUSTOMERS	1981	1980	1979
Canada	**$ 1,781.7**	$ 815.2	$ 696.6
United States	**429.0**	328.4	248.9
Other foreign	**28.1**	—	—
Consolidated	**$ 2,238.8**	$1,143.6	$ 945.5
TRANSFERS BETWEEN GEOGRAPHIC SEGMENTS			
Canada	**$ 304.2**	$ 243.8	$ 226.4
United States	**—**	0.5	—
Eliminations	**(304.2)**	(244.3)	(226.4)
Consolidated	**$ —**	$ —	$ —
OPERATING INCOME			
Canada	**$ 767.9**	$ 440.5	$ 355.2
United States	**45.8**	49.2	26.3
Other foreign	**(1.7)**	—	—
Consolidated	**812.0**	489.7	381.5
General corporate expenses	**(69.6)**	(21.7)	(11.8)
Interest expense	**(509.3)**	(149.4)	(111.3)
Preferred share dividends of subsidiaries	**(24.0)**	(18.2)	(22.9)
Income taxes	**(78.2)**	(84.3)	(95.9)
Equity in earnings of affiliated companies	**78.0**	71.1	42.1
Minority interest	**(9.8)**	—	—
Net income	**$ 199.1**	$ 287.2	$ 181.7

IDENTIFIABLE ASSETS	1981	1980	1979
Canada	**$ 8,027.8**	$3,820.0	$2,296.2
United States	**898.0**	646.0	297.0
Other foreign	**475.4**	—	—
Consolidated	**$ 9,401.2**	$4,466.0	$2,593.2
Investments	**807.5**	612.7	537.3
Total assets	**$10,208.7**	$5,078.7	$3,130.5

The majority of the crude oil and natural gas produced in Canada by the Company is sold to government marketing agencies or transmission companies. Approximately 66% of the Company's domestic crude oil production is sold to the Alberta Petroleum Marketing Commission, a provincial government agency. The largest customer for natural gas is TransCanada, which accounts for approximately 60% of the Company's total natural gas sales. Due to the nature of the Company's marketing arrangements, the portion of the Company's Canadian crude oil and natural gas production that is ultimately exported cannot be identified. The transfers between geographic segments reported above are sales of natural gas liquids.

19. CAPITALIZED COSTS AND COSTS INCURRED IN OIL AND GAS PRODUCING ACTIVITIES

(a) Cumulative capital costs of proved and unproved properties and production facilities, together with related depreciation and depletion, incurred in oil and gas producing activities as at December 31, are as follows:

	1981		1980	
	Capitalized Costs	**Accumulated Depreciation and Depletion**	Capitalized Costs	Accumulated Depreciation and Depletion
Canada	**$5,507.7**	**$ 222.5**	$2,737.3	$ 142.1
Foreign	**1,009.8**	**56.0**	418.4	18.2
	$6,517.5	**$ 278.5**	$3,155.7	$ 160.3

The Company's proportionate interests in the cumulative capital costs of proved and unproved properties, net of depreciation and depletion, of companies accounted for by the equity method at December 31, 1981 and 1980 are $343.8 million and $283.0 million, respectively.

(b) Costs incurred, together with related depreciation and depletion, in oil and gas producing activities during the years indicated are as follows:

	Property Acquisition	Exploration	Development	Production (Lifting)	Depreciation and Depletion
1981					
Canada	**$2,121.4**	**$ 274.1**	**$ 374.9**	**$ 132.6**	**$ 80.4**
Foreign	**345.7**	**164.1**	**81.6**	**29.8**	**37.8**
	$2,467.1	**$ 438.2**	**$ 456.5**	**$ 162.4**	**$ 118.2**
1980					
Canada	$ 680.2	$ 388.4	$ 203.2	$ 57.3	$ 49.8
Foreign	198.8	42.2	40.2	10.7	11.1
	$ 879.0	$ 430.6	$ 243.4	$ 68.0	$ 60.9
1979					
Canada	$ 519.6	$ 146.4	$ 144.8	$ 25.6	$ 32.5
Foreign	24.1	34.5	21.8	1.0	4.1
	$ 543.7	$ 180.9	$ 166.6	$ 26.6	$ 36.6

The Company's proportionate interests in costs incurred, together with related depreciation and depletion, in oil and gas producing activities of companies accounted for by the equity method are as follows:

	Property Acquisition	Exploration	Development	Production (Lifting)	Depreciation and Depletion
1981					
Canada	**$ 9.2**	**$ 75.8**	**$ 13.9**	**$ 3.6**	**$ 2.9**
Foreign	**4.9**	**4.6**	**1.8**	**—**	**—**
	$ 14.1	**$ 80.4**	**$ 15.7**	**$ 3.6**	**$ 2.9**
1980					
Canada	$ 80.1	$ 20.3	$ 10.3	$ 1.6	$ 3.4
Foreign	6.9	0.6	—	—	—
	$ 87.0	$ 20.9	$ 10.3	$ 1.6	$ 3.4
1979					
Canada	$ 153.4	$ 0.1	$ 0.2	$ 0.1	$ 0.3

20. NET REVENUE FROM OIL AND GAS PRODUCING ACTIVITIES

		Canada	Foreign	Total
Revenue, net of royalties and lifting costs	**1981**	**$457.6**	**$64.2**	**$521.8**
	1980	$296.0	$31.5	$327.5
	1979	$166.9	$ 3.9	$170.8

The Company's proportionate interest in the net revenues of companies accounted for by the equity method amounted to $10.6 million in 1981; $6.9 million in 1980; $0.3 million in 1979.

21. EVENTS SUBSEQUENT TO DECEMBER 31, 1981

(a) On January 13, 1982, the shareholders of HBOG voted in favor of a plan of arrangement (the "Plan") whereby HBOG would become a wholly-owned subsidiary of the Company. On March 10, 1982 Dome Resources Limited ("Dome Resources"), a wholly-owned subsidiary, acquired 35,922,620 common shares of HBOG ("HBOG Shares"), representing 100% of the outstanding HBOG Shares not already owned by the Company in exchange for securities valued at $2,066 million, consisting of:

(i) 35,922,620 $5.75 Class A Retractable Preferred Shares of Dome Resources ("Class A Preferred Shares") with fixed cumulative preferential cash dividends at the annual rate of $5.75 payable quarterly and retractable at $57.50 per share on December 31, 1984. The shares are redeemable at any time by Dome Resources in whole or in part in the amount of $57.50 per share plus accrued dividends or may be purchased by Dome Resources at the lowest prices obtainable, but in any event not exceeding $57.50 per share plus costs of purchase,

(ii) 47,896,826 warrants to purchase common shares of Dome Petroleum Limited exercisable until December 31, 1984 at $23.1125 ("Common Share Warrants").

On March 10, 1982 Dome Resources sold to Dome Energy for demand notes the HBOG Shares so acquired for $2,117 million which includes an amount equal to one quarterly dividend on the Class A Preferred Shares.

Dome Energy has secured its obligation under the demand notes by delivering $2,117 million to a trustee, for the benefit of Dome Resources. Funds will be held by the trustee sufficient at all times to retract the outstanding Class A Preferred Shares together with an amount equal to one quarterly dividend payment. These funds will be invested in certain restricted classes of negotiable instruments, with the interest earned applied towards the interest payments on the syndicated loan (see below).

On March 10, 1982 Dome Energy drew down a U.S. $1,800 million ($2,182.6 million Canadian dollars) syndicated loan, the majority of which was immediately deposited with a trustee as described above. The terms of the loan include repayment in quarterly instalments commencing in 1982, with a final maturity in 1989. Four year principal repayments on the loan are as follows (in U.S. millions); 1983 — $160.0; 1984 — $218.0; 1985 — $38.0; 1986 — $ Nil. The interest rate is equal to the London Inter-Bank Offered Rate plus ⅝ to ¾ of one per cent per annum. The loan is secured by certain oil and gas properties of HBOG and U.S. $400 million ($485.0 million Canadian dollars) cash collateral. This cash collateral will be invested in certain restricted classes of negotiable instruments the interest from which will be applied towards interest and principal payments on the syndicated loan.

(b) On March 10, 1982 the Company sold interests in certain of HBOG's assets as follows:

(i) To Dome Canada a 12.5% interest in all of HBOG's oil and gas properties located in Canada including HBOG's interest in the Beaufort Sea, Arctic Islands, East Coast and Syncrude for a cash consideration of $489 million.

(ii) To Maligne Resources Limited ("Maligne"), a wholly-owned subsidiary of Dow Chemical Canada Inc., a 12.5% interest in all of HBOG's conventional oil and gas properties located in the western Canadian provinces, the Yukon and Northwest Territories for $451 million, of which $192 million was received on closing, with the remainder of $259 million to be paid over nine years, plus interest thereon. In addition Dome Energy obtained a non-recourse term bank loan in the amount of $240 million which is secured by certain of Maligne's oil and gas properties and by $240 million of this receivable and is repayable as the receivable is repaid.

(iii) To TCPL Resources Ltd., a wholly-owned subsidiary of TransCanada, an undivided 12.5% interest in essentially all of HBOG's properties, including foreign and mining properties but excluding HBOG's coal, pipeline interests and other non-resource assets, for a cash payment of $560 million.

The Company received $1,241 million in cash, and an amount receivable for $259 million, which includes compensation for the purchasers' pro rata share of the Company's carrying and other costs incurred in acquiring all the shares of HBOG and certain other charges.

As a result of the financing arrangements undertaken to complete the above transactions, the original borrowing by Dome Energy to fund the initial acquisition of 52.9% of HBOG was reduced to $1,202 million, using a portion of the proceeds of disposition. This remaining balance is due and payable by September 30, 1982 and is presently secured by certain oil and gas properties, a limited guarantee by Dome Mines in the amount of $250 million, and certain other assets.

22. PRO FORMA BALANCE SHEET INFORMATION

The pro forma consolidated balance sheet has been prepared to give effect at December 31, 1981 to 1) the acquisition and related financing by the Company of the outstanding common shares of HBOG held by minority interest shareholders ("HBOG Shares") in exchange for $5.75 Class A Retractable Preferred Shares of Dome Resources ("Class A Preferred Shares") and common share warrants of Dome Petroleum Limited and, 2) the related dispositions of approximately 37.5% of certain of the HBOG assets (Also see Note 21).

The following describes the adjustments used in the preparation of the pro forma balance sheet information:

(i) The issuance of Class A Preferred Shares of Dome Resources and Common Share Warrants of Dome Petroleum Limited in exchange for the HBOG Shares. For the purpose of this pro forma balance sheet the Class A Preferred Shares have been valued at $2,018.4 million and the Common Share Warrants at $47.2 million. The Class A Preferred Shares are retractable in the aggregate of $2,065.6 million ($57.50 per share).

(ii) The draw-down of the syndicated loan proceeds of $2,141.4 million (net of amounts due within one year of $41.1 million, included in current liabilities).

(iii) The deposit of $2,117.4 million with a trustee for the redemption of the Class A Preferred Shares.

(iv) The deposit of proceeds of disposition amounting to $485.0 million as cash collateral securing the syndicated loan.

To disclose the effect of these arrangements the foregoing adjustments have been combined in the pro forma balance sheet under the caption "secured preferred share financing" as follows:

Syndicated bank loan	$ 2,141.4
Funds on deposit	(2,117.4)
Cash collateral	(485.0)
Class A Preferred Shares	2,018.4
Common Share Warrants	47.2
	$ 1,604.6

(v) The allocation of the excess of the purchase price over the minority interest in the net assets of HBOG at December 31, 1981 to oil and gas properties.

(vi) The elimination of the minority interest in the net assets of HBOG.

(vii) The disposition proceeds of certain HBOG assets together with increased short term indebtedness of $84.8 million applied to reduce long term indebtedness by $1,087.4 million.

(viii) The increase in long term debt due within one year amounting to $1,202 million, relating to the balance of the Dome Energy loan due by September 30, 1982.

(ix) The offset of the non-recourse $240 million term bank loan against the amount receivable of the same amount.

(x) The increase of $107.1 million in property, plant and equipment reflecting (v) above together with the related dispositions of approximately 37.5% of certain of the HBOG assets.

23. PRO FORMA INCOME STATEMENT INFORMATION

(a) Pro forma income statement information assuming that 100% of the HBOG shares were acquired and the related disposition of certain of the HBOG assets occurred effective January 1, 1980 for the year ended December 31, 1980 and effective January 1, 1981 for the year ended December 31, 1981. This information has been provided in accordance with both Canadian and United States disclosure requirements. However, had the transactions occurred January 1, 1981 or 1980 the Company would have managed the combined operations in a substantially different manner. Consequently in Management's opinion these pro forma results are not indicative of the future combined operations of the Companies.

	1981	1980
Revenue	**$2,422.0**	$1,690.7
Net income	**$ 50.7**	$ 196.1
Net income per share	**$ 0.13**	$ 0.79

The following explanations describe the estimated pro forma adjustments used in the preparation of the above pro forma income statement information:

(i) The acquisition of 100% of the HBOG shares and subsequent disposition of certain of the HBOG assets were consummated on January 1, 1981 and 1980 respectively and accounted for as purchases.

(ii) The income statement information of HBOG included by consolidation with the Company, has been adjusted to reflect the acquisition by HBOG of 100% of the shares of Cyprus as if this acquisition had been consummated on January 1, 1981 and 1980 respectively and accounted for as a purchase.

(iii) The earnings of HBOG were adjusted to conform HBOG's method of accounting for oil and gas operations (successful efforts) to that of the Company (full cost).

(iv) The interest on the borrowings resulting from the acquisition of HBOG net of the related dispositions has been calculated on the London Interbank Offered Rate and the monthly exchange rates between Canadian and United States dollars.

(v) United States Accounting Principles require the difference between the value attributed to the $5.75 Class A Retractable Preferred Shares of Dome Resources and the retraction value of such shares be amortized against retained earnings of Dome Resources over the period to the retraction date. Such amortization would reduce consolidated pro forma net income by $15.7 million or $0.07 per share for 1981 and 1980. (Also see Note 16).

(b) Pro forma income statement information for 1981 assuming that the Company did not acquire any interest in HBOG during 1981:

Revenue	$1,866.8
Net income	$ 223.4
Net income per share	$ 0.94

UNAUDITED SUPPLEMENTARY INFORMATION

OIL AND GAS RESERVES

Net proved reserves (developed and undeveloped) of oil (including natural gas liquids) and gas as defined by the United States Securities and Exchange Commission ("SEC") and as estimated by Dome engineers for Dome reserves and by HBOG engineers for HBOG reserves, at the dates indicated and with the detail of changes between these dates, are presented below.

The reserves include 100% of HBOG reserves, a 52.9% owned subsidiary at December 31, 1981, as purchases of minerals-in-place as required by SEC, Regulation S-X Article 4-10(k)(5). In accordance with SEC definitions these reserves exclude the Company's interest in Syncrude crude oil reserves and reserves recoverable from proposed enhanced recovery projects. They also exclude crude oil reserves in Indonesia which are classified as probable until such time as a production permit is granted and an offshore production platform is in place. In addition, the Company's interests in certain heavy oil reserves, substantial gas reserves in the Canadian Arctic Islands and major oil and gas discoveries in the Beaufort Sea are excluded.

OIL (thousands of barrels)	Canada	Foreign	Total
Proved reserves at December 31, 1978	125,961	2,344	128,305
Revisions of previous estimates	(3,717)	(1,166)	(4,883)
Improved recovery	2,488	—	2,488
Purchases of minerals-in-place	23,420	1,348	24,768
Extensions, discoveries and other additions	24,888	7,728	32,616
Production	(6,770)	(327)	(7,097)
Proved reserves at December 31, 1979	166,270	9,927	176,197
Revisions of previous estimates	6,025	(2,733)	3,292
Improved recovery	17,756	—	17,756
Purchases of minerals-in-place	79,468	6,453	85,921
Extensions, discoveries and other additions	32,389	4,713	37,102
Production	(14,308)	(1,114)	(15,422)
Proved reserves at December 31, 1980	287,600	17,246	304,846
Revisions of previous estimates	16,941	(6,378)	10,563
Improved recovery	5,088	—	5,088
Purchases of minerals-in-place	264,154	9,551	273,705
Extensions, discoveries and other additions	8,115	11,624	19,739
Production	(21,788)	(3,450)	(25,238)
Proved reserves at December 31, 1981	560,110	28,593	588,703

GAS (billions of cubic feet)	Canada	Foreign	Total
Proved reserves at December 31, 1978	1,901	25	1,926
Revisions of previous estimates	20	(6)	14
Improved recovery	—	—	—
Purchases of minerals-in-place	600	2	602
Extensions, discoveries and other additions	491	69	560
Production	(100)	(1)	(101)
Proved reserves at December 31, 1979	2,912	89	3,001
Revisions of previous estimates	97	(3)	94
Improved recovery	—	—	—
Purchases of minerals-in-place	464	69	533
Extensions, discoveries and other additions	520	16	536
Production	(120)	(6)	(126)
Proved reserves at December 31, 1980	3,873	165	4,038
Revisions of previous estimates	(134)	(83)	(217)
Improved recovery	—	—	—
Purchases of minerals-in-place	3,537	30	3,567
Extensions, discoveries and other additions	254	13	267
Production	(166)	(8)	(174)
Proved reserves at December 31, 1981	7,364	117	7,481

Proved developed reserves of oil and natural gas at the dates indicated were:

OIL (thousands of barrels)	Canada	Foreign	Total
December 31, 1979	120,563	4,128	124,691
December 31, 1980	210,137	12,306	222,443
December 31, 1981	493,064	23,316	516,380
GAS (billions of cubic feet)			
December 31, 1979	1,386	52	1,438
December 31, 1980	1,635	120	1,755
December 31, 1981	5,522	71	5,593

The Company's proportionate interest in proved reserves of oil (thousands of barrels) and gas (billions of cubic feet) of companies accounted for by the equity method at the dates indicated were:

	Canada		Foreign	
	Oil	Gas	Oil	Gas
December 31, 1979	2,430	122	—	—
December 31, 1980	17,137	233	—	—
December 31, 1981	17,934	213	334	7

PRO FORMA RESERVES INFORMATION

Effective March 10, 1982 the Company completed a transaction to acquire the remaining 47.1% shares of HBOG held by minority shareholders. Concurrently the Company sold approximately 37.5% of HBOG's Canadian oil and gas reserves, 25% of HBOG's synthetic reserves and 12.5% of HBOG's foreign reserves to Maligne Resources Limited and two affiliated companies accounted for by the equity method, TransCanada and Dome Canada. See Note 21 to the Consolidated Financial Statements. If this transaction had been consummated December 31, 1981 the Company would have reported the following reserve information:

	Oil (Thousands of barrels)			Gas (Billions of cubic feet)		
	Canada	Foreign	Total	Canada	Foreign	Total
Proved reserves at December 31, 1981	464,897	27,668	492,565	6,069	116	6,185
Company's proportionate interest in reserves of companies accounted for by the equity method	44,149	1,259	42,660	569	7	576

There have not been any major discoveries or other events since December 31, 1981, other than the dispositions described under the heading "PRO FORMA RESERVES INFORMATION", that would cause a significant change from the estimated reserves reported.

ESTIMATED FUTURE NET REVENUES AND THE PRESENT VALUE THEREOF

As prescribed by the SEC, estimated future net revenues from production of the Company's proved and proved developed oil and gas reserves and the present value of these reserves for the three years ended December 31, 1981, as determined by the Company's engineers, are set forth below. Estimated future net revenues are based on current year prices of oil and gas with consideration of future price increases only to the extent provided by contractual arrangements and after deducting future expenditures (based on current year costs) to be incurred in developing and producing these reserves. Future net revenues as at December 31, 1981 were calculated using the price escalations provided in the Energy Pricing and Taxation Agreements established between the Government of Canada and the producing provinces, assuming the existing world price remains constant. A 10% discount factor has been applied in determining the present value of estimated future net revenues.

The present value of proved reserves, computed under the guidelines prescribed by the SEC, should not be construed as fair market value of the Company's oil and gas properties. Future prices are not anticipated to remain at the level of 75% of the present world price and costs under present economic conditions are not anticipated to remain constant. The 10% discount factor is considered to be arbitrary.

Estimated future net revenues as at December 31, 1981

	CANADA		FOREIGN		TOTAL	
	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED
1982	$ 785.6	$ 859.6	$ 80.2	$ 96.8	$ 865.8	$ 956.4
1983	1,076.8	1,148.5	83.6	77.1	1,160.4	1,225.6
1984	1,304.0	1,232.3	73.4	61.9	1,377.4	1,294.2
Remainder	17,544.2	14,529.3	359.4	215.2	17,903.6	14,744.5
	$20,710.6	$17,769.7	$ 596.6	$ 451.0	$21,307.2	$18,220.7
Present value	$ 9,351.9	$ 8,426.8	$ 409.2	$ 328.9	$ 9,761.1	$ 8,755.7

Estimated future net revenues as at December 31, 1980

	CANADA		FOREIGN		TOTAL	
	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED
1981	$ 250.6	$ 178.7	$ 116.1	$ 88.0	$ 366.7	$ 266.7
1982	368.9	272.1	125.7	111.3	494.6	383.4
1983	441.0	309.7	119.0	96.2	560.0	405.9
Remainder	5,537.6	2,847.5	350.6	321.6	5,888.2	3,169.1
	$ 6,598.1	$ 3,608.0	$ 711.4	$ 617.1	$ 7,309.5	$ 4,225.1
Present value	$ 3,074.7	$ 1,717.2	$ 507.2	$ 455.5	$ 3,581.9	$ 2,172.7

Estimated future net revenues as at December 31, 1979

	CANADA		FOREIGN		TOTAL	
	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED	PROVED	PROVED DEVELOPED
1980	$ 10.4	$ 48.9	$ 8.1	$ 18.1	$ 18.5	$ 67.0
1981	190.4	118.0	24.5	21.5	214.9	139.5
1982	224.6	135.7	44.0	20.8	268.6	156.5
Remainder	3,500.2	1,886.8	203.6	88.2	3,703.8	1,975.0
	$3,925.6	$2,189.4	$ 280.2	$ 148.6	$4,205.8	$2,338.0
Present value	$1,700.6	$ 999.1	$ 186.5	$ 102.8	$1,887.1	$1,101.9

RESERVE RECOGNITION ACCOUNTING (RRA)

The SEC has concluded that the traditional methods of accounting (full cost or successful efforts) fail to provide sufficient information to disclose operating results of oil and gas producers. Although the SEC has announced that it will not pursue the development of RRA as a method of accounting for oil and gas producing activities in the primary financial statements, the SEC regulations still require that the Company prepare supplementary information in accordance with RRA until an alternative method of accounting is formulated.

The Company believes the guidelines on which RRA is based to be unrealistic and the results reported under RRA to be potentially misleading.

Under RRA, a value is ascribed to reserves of oil and gas at the time of discovery rather than at the time of production. Income is based on the present value of estimated future net revenues, computed under uniform guidelines prescribed for all oil and gas producers.

The concepts and guidelines underlying RRA contrast sharply with the concepts of oil and gas operations under the full cost method and as a result RRA net income should not be interpreted as representing net income reported under conventional accounting methods.

SUMMARY OF OIL AND GAS PRODUCING ACTIVITIES ON THE BASIS OF RESERVE RECOGNITION ACCOUNTING THREE YEARS ENDED DECEMBER 31, 1981

	1981	1980	1979
Additions and revisions to estimated oil and gas reserves			
New field discoveries and extensions	$ 340.6	$ 432.4	$ 382.3
Revisions to reserves proved in prior years			
Changes in prices	1,034.4	269.1	100.9
Interest factor-accretion of discount	358.2	188.7	93.5
Change in volumes	(163.7)	(13.5)	21.2
Total revisions to proved reserves	1,228.9	444.3	215.6
Total additions to proved reserves	1,569.5	876.7	597.9
Related exploration and development costs incurred	310.9	498.7	251.9
RRA income before income tax provision	1,258.6	378.0	346.0
Provision for income taxes	627.7	179.6	137.0
RRA net income, oil and gas operations only	$ 630.9	$ 198.4	$ 209.0

1) The purchase price of HBOG reserves, which is less than the RRA valuation in the amount of $2,406.8 million, has been deferred and will be amortized over future years.

2) Deferred costs amounted to: December 31, 1981 — $962.4; 1980 — $846.3; 1979 — $495.3.

3) The 1980 figures have been reclassified from those previously reported.

CHANGES IN RESERVE RECOGNITION ACCOUNTING VALUATION OF PROVED OIL AND GAS RESERVES FOR THE THREE YEARS ENDED DECEMBER 31, 1981

	1981	1980	1979
Balance — beginning of year	$3,581.9	$1,887.1	$ 934.9
Revisions to reserves proved in prior years	1,228.9	444.3	215.6
New field discoveries and extensions	340.6	432.4	382.3
Purchases of reserves	4,812.5	963.1	400.2
Projected development costs incurred	319.0	182.5	124.9
Production, net of lifting costs	(521.8)	(327.5)	(170.8)
Balance — end of year	$9,761.1	$3,581.9	$1,887.1

MARKET PRICE OF COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Dome Petroleum Limited's common stock is listed on the Toronto, Montreal, American and London Stock Exchanges. The Toronto and American Stock Exchanges are the principal markets in which the Company's common shares are traded. Quarterly price ranges of the Company's common stock in Canadian and United States dollars which traded during the periods indicated, as reported by the Toronto Stock Exchange and American Stock Exchange, respectively, were as follows:

	Toronto Stock Exchange (Canadian dollars)		American Stock Exchange (U.S. dollars)	
	High	Low	High	Low
1980				
1st quarter	16.90	10.45	14.70	8.70
2nd quarter	17.55	12.05	15.25	10.13
3rd quarter	18.65	14.70	16.25	12.63
4th quarter	17.00	11.55	14.60	9.70
1981				
1st quarter	17.70	14.10	14.95	11.80
2nd quarter	25.38	17.50	21.25	14.70
3rd quarter	24.88	11.25	21.25	9.38
4th quarter	16.25	11.63	13.75	9.63

The approximate number of registered holders of common stock as of December 31, 1981 was 31,800.

The Company has not paid dividends on its common stock since the Company's inception and there is no expectation to do so in the near future.

QUARTERLY FINANCIAL DATA

Data for the first three quarters of 1980 has been restated to reflect the change in accounting policy. See Note 12 of the "Notes to Consolidated Financial Statements" of Dome Petroleum Limited.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1981					
Revenue	$359.9	$438.3	$692.5	$748.1	$2,238.8
Net income applicable to common shares	$ 54.1	$ 50.0	$ 30.5	$ 43.7	$ 178.3
Net income per share	$ 0.24	$ 0.23	$ 0.13	$ 0.20	$ 0.80
1980					
Revenue	$260.1	$250.7	$283.2	$349.6	$1,143.6
Net income applicable to common shares	$ 47.9	$ 51.7	$107.5	$ 59.1	$ 266.2
Net income per share	$ 0.22	$ 0.23	$ 0.48	$ 0.27	$ 1.20
1979					
Revenue	$178.9	$154.7	$291.5	$320.4	$ 945.5
Net income applicable to common shares	$ 25.4	$ 23.3	$ 60.9	$ 64.2	$ 173.8
Net income per share	$ 0.11	$ 0.10	$ 0.28	$ 0.29	$ 0.78

Five Year Review

(DOLLAR AMOUNTS IN MILLIONS EXCEPT PER SHARE FIGURES)

FINANCIAL	**1981**	1980	1979	1978	1977
Revenue (after royalties)	**$2,238.8**	1,143.6	945.5	627.3	518.7
Cost of sales - product	**581.6**	418.5	328.1	292.1	254.3
- shipbuilding	**132.2**	—	—	—	—
Operating and General	**574.5**	173.5	184.8	94.1	74.5
Interest	**509.3**	149.4	111.3	46.5	29.4
Depreciation and Depletion	**165.1**	83.6	62.9	31.0	24.7
Preferred Share Dividends of Subsidiaries	**24.0**	18.2	22.9	2.1	—
Income Before Income Taxes	**209.1**	300.4	235.5	161.4	135.8
Provision for Income Taxes	**78.2**	84.3	95.9	47.5	33.8
Equity in Earnings of Affiliated Companies	**78.0**	71.1	42.1	11.2	2.2
Net Income for the Year	**199.1**	287.2	181.7	125.1	104.3
Average Shares Outstanding	**223.4**	221.5	223.1	224.3	224.6
Net Income Per Common Share	**0.80**	1.20	0.78	0.56	0.46
Cash Flow From Operations	**388.5**	449.6	323.4	198.7	163.5
Long Term Obligations	**6,748.3**	3,148.9	1,837.8	797.1	520.5
Capital Expenditures*					
Exploration and Property Acquisitions	**532.6**	661.9	580.6	233.8	161.8
Development	**456.5**	243.4	166.6	69.5	15.5
Plants, Pipelines, Related Facilities and Other Assets	**154.3**	121.1	34.4	72.5	129.2
Drillships and Supply Vessels	**240.6**	33.0	78.3	10.9	15.5
Metal Mines and Related Facilities	**61.6**	—	—	—	—
Shipyard Facilities and Vessels	**16.5**	—	—	—	—
Oil Sands Mining, Developed Rights and Related Facilities	**7.9**	—	—	—	—
Total Capital Expenditures**	**1,470.0**	1,059.4	859.7	386.8	321.9
Total Assets	**10,208.7**	5,078.7	3,130.5	1,713.4	1,197.7
OPERATING					
Gross Production - Daily Average					
Oil and Natural Gas Liquids - Barrels	**111,257**	71,812	51,802	43,846	33,487
Natural Gas Production - MMCF	**476.2**	343.8	275.8	164.3	147.8
Gross Reserves***					
Estimated Recoverable Reserves of Oil, Natural Gas Liquids and Oil Equivalent of Natural Gas - Millions of Barrels	**1,969.3**	1,010.4	665.9	379.9	332.0
Land Holdings — Acres (thousands)					
Gross Working Interest	**123,322**	70,514	66,938	42,150	42,475
Net Working Interest	**53,867**	31,557	35,906	21,235	20,670
Gross Royalty Interest	**28,422**	26,737	31,660	26,789	29,823

See page 29 for Management Discussion and Analysis of the Company's Financial Condition and Results of Operations for 1981, 1980 and 1979.

* Includes investment in Panarctic Oils Ltd.
** Exclusive of acquisitions
*** Excludes the Company's interest in substantial gas reserves in the Canadian Arctic Islands and major oil and gas discoveries in the Beaufort Sea.

DIRECTORS

Norman J. Alexander, *
Winnipeg, Manitoba
Investment Consultant

Marshall A. Crowe, **
Ottawa, Ontario
President, M. A. Crowe Consultants, Inc.

Fraser M. Fell, Q.C., **
Toronto, Ontario
Partner, Fasken & Calvin

John P. Gallagher, **
Calgary, Alberta
Chairman

Maclean E. Jones, Q.C., * **
Calgary, Alberta
Partner, Bennett Jones

John L. Loeb,
New York, N.Y.
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Shearson/American Express Inc.

A. Bruce Matthews,
Toronto, Ontario
Chairman, Dome Mines Limited

William F. Morton,
Winchester, Mass.
Investment Manager

William E. Richards, **
Calgary, Alberta
President

Frederick W. Sellers, * **
Winnipeg, Manitoba
Chairman, Spiroll Corporation Ltd.

Malcolm A. Taschereau,
Toronto, Ontario
Chief Executive, Dome Mines Limited

* Audit Committee Member
** Executive Committee Member

Officers

John P. Gallagher
Chairman and Chief Executive

William E. Richards
President

John M. Beddome
Group Vice President

Gordon R. Harrison
Group Vice President

John Andriuk
Senior Vice President, Exploration

Valden M. Eshleman
Senior Vice President, Administration

Ronald Sedgewick
Senior Vice President, Production and Exploitation

H. James Strain
Senior Vice President, Drilling

Murray B. Todd
Senior Vice President, Frontier Drilling and Production

Robert R. Andrews
Vice President, Marketing

Ewan M. Cotterill
Vice President, Northern Policy

J. Graham Day
Vice President, Shipyards and Marine Development

Earle L. Forgues
Vice President, Business Development

Raymond R. Forseth
Vice President, Japanese Business Relations

Dean P. Geddes
Vice President, Administration

Robert W. Gillanders
Vice President, Special Projects

Donald R. Gilley
Vice President, Corporate Planning

Akira Masuda
Vice President, Production

John R. Moore
Vice President, Exploitation

David E. Powell
Vice President, International

Robert M. Scarborough
Vice President, Heavy Oil

Peter J. Van Altena
Vice President, Exploration and Land

George W. Watson
Vice President, Finance

Andrew H. Younger
Vice President, NGL

Victor J. Zaleschuk
Vice President and Controller

Henry T. Astle
Treasurer

Harry M. Eisenhauer
Secretary

Form 10-K

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available free of charge by writing to the Corporate Secretary of the Company.

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