

1978 Annual Report

ATCO

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HOWARD ROSS LE
OF MANAGEMENT
JUL 20 1979
MCGILL UNIVERSITY

Corporate Information

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Directors

W. L. Britton
Partner, Jones, Black & Company, Calgary
*B. P. Drummond
President, Greenshields Inc., Montreal
F. N. Farch
President, ATCO Industries (Aust.) Pty Ltd
†G. A. Freeman
Secretary, ATCO
†G. F. Johnson
Sr. Vice President, Controller, ATCO
†*G. P. Kiefer
Sr. Vice President, Manufacturing, ATCO
*R. Rice
Sr. Vice President, Citibank, N.A., New York
†C. S. Richardson
Sr. Vice President, Finance, ATCO
†N. W. Robertson
Senior Vice President & Chief Operating Officer, ATCO
†J. G. Scott
President, International Division, ATCO
C. N. Simpson
President
C. Norman Simpson Consultants Limited, Vancouver
†R. D. Southern
President & Chief Executive Officer, ATCO
S. D. Southern
Chairman of the Board of Directors, ATCO
†Dr. J. D. Wood
President, North American/Australian Division, ATCO
*Member — Audit Committee
†Member — Executive Committee

Officers

S. D. Southern
Chairman of the Board
R. D. Southern
President & Chief Executive Officer
M. Durdle
Assistant Secretary
G. A. Freeman
Secretary
G. P. Kiefer
Senior Vice President, Manufacturing
K. B. Purdie
Vice President, Controller
C. S. Richardson
Senior Vice President, Finance
N. W. Robertson
Senior Vice President & Chief Operating Officer
J. G. Scott
President, International Division
Dr. J. D. Wood
President, North American/Australian Division

Counsel

Jones, Black & Company
Calgary

Auditors

Pricewaterhouse & Co.
Calgary, Alberta

Transfer Agents

Canada Permanent Trust Co.
Calgary, Alberta
Montreal, Quebec
Toronto, Ontario

Stock Exchanges

The Toronto Stock Exchange
The Montreal Stock Exchange

Right: Board of Directors, standing l to R —
C. F. Johnson, G. P. Kiefer, J. G. Scott, C. S.
Richardson, N. W. Robertson, J. D. Wood, R. D.
Southern, Seated l to R — G. A. Freeman, C. N.
Simpson, S. D. Southern, B. P. Drummond, R.
Rice

Missing from photo: W. L. Britton, F. N. Farch

Financial Highlights

(Thousands of dollars)

	1978	1977	Change
Total Revenue	\$249,071	\$261,156	- 5%
Earnings:			
Before income taxes	\$ 9,592	\$ 31,869	- 70%
Income taxes	1,672	15,103	- 89%
Net Earnings	\$ 7,920	\$ 16,766	- 53%
Earnings per share:			
Before income taxes	\$ 1.82	\$ 6.06	- 70%
Income taxes	0.32	2.87	- 89%
Net Earnings	\$ 1.50	\$ 3.19	- 53%
Financial position:			
Working capital	\$ 33,686	\$ 34,415	- 2%
Rental assets	31,650	28,587	+ 11%
Property, plant & equipment	32,102	30,748	+ 4%
Other assets	26,271	2,647	+892%
	123,709	96,397	+ 28%
Less — long term debt	23,379	19,986	+ 17%
	100,330	76,411	+ 31%
Deferred items	12,104	10,131	+ 19%
Shareholders' equity	\$ 88,226	\$ 66,280	+ 33%



Report to the Shareholders



The 1978 fiscal year operating results for the ATCO group of companies were down from the record highs of 1977. Revenues totalled \$249,071,000, compared to \$261,156,000 last year. The current year's earnings were \$7,920,000 or \$1.50 per share, compared to restated earnings of \$16,766,000 or \$3.19 per share in the previous year. Working capital decreased approximately 9% to \$33,686,000 at year end. Capital expenditures amounted to \$22,003,000, compared to \$36,930,000 last year.

Despite the lower earnings, we are proud of ATCO's performance in 1978. Our employees performed exceptionally well under a heavy work load, which included the major reorganization of portions of the Company, completion of the Thomson purchase and an investment in a large land development company, all in one year.

While this is the first year since ATCO went public in 1968 in which the earnings are lower than the previous year, these results were not unexpected. We think it appropriate to recall for you excerpts of our 1977 Annual Report which, in retrospect, seemed to accurately predict the difficulties we encountered. The change referred to is the reorganization of our International Division.

It is as follows:

"I repeat to you, our shareholders, my statement to your Board of Directors when proposing this change, namely, 'that in addition to the estimated one million dollars of direct costs associated with the reorganization, I fully expect that some millions of dollars of potential profits will not be realized due to the loss of continuity and productivity associated with a transition of such major magnitude.' However, I also stated to your Directors and I repeat to you, 'After a year or so, I am confident that ATCO will be

properly staffed and organized to achieve our 1981 target of over a half-billion dollars of profitable sales.'"

The 1977 report goes on to say:

"I would like to emphasize that we fully expect our earnings will not be as buoyant in this fiscal year as in the past year due to slow growth in our North American/Australian Division's basic economies and because of our own reorganization difficulties in the International Division. I expect our efficiency to improve constantly, however, and by 1978 we should be well positioned for future growth."

Today, in August 1978, we can indeed say that we are positioned for strong future growth. The restructuring which has taken place leaves our operating units lean, efficient and able to take advantage of improving markets. Once again, ATCO is a major force in the international marketplace. Our Australian operations are buoyant and the North American economy is reasonably strong. While the Quebec economy is very weak and mobile home sales are disappointing, housing and commercial building activity is still very encouraging in Alberta.

While, as just indicated, the current position of the historical ATCO companies is considerably improved over this time last year, the market improvements anticipated for some of our companies might be a few years away. In almost every case they will only improve in response to appropriate political and fiscal policies which will, hopefully, be enacted by the governments involved.

Recognizing the possibility of a cyclical downturn in our traditional lines of business, which in fact has occurred, and the maturing of our basic product lines, a strategy decision was made several years ago to diversify our operations into those two areas we felt offered the greatest potential — energy related business and



land development. To enter these fields we created totally new companies and directed our efforts to growing them.

While we have met our projections and have had rapid growth in these companies, the approach of starting from scratch is a long and arduous one.

Therefore, when the opportunities arose this year for ATCO to assume a major, established position in each of these fields, your management acted. Because of the significance of the Thomson Acquisition, this report contains a substantial amount of Financial and operational information on the Thomson companies. We trust this approach will answer many of your questions in this regard.

We would like to make our shareholders aware of the strength that we feel has been achieved by virtue of the Thomson acquisition. ATCO is now one of the leading land contract drilling companies in North America and the largest in Canada.

To maintain and improve our position in the industry, a major capital expenditure program has been undertaken. For the drilling companies a 47.5 million dollar capital program to be completed in 1979 brings to our American and Canadian operations 13 modern, new SCR all electric rigs which represent the best in the industry.

It also supports major maintenance and upgrading programmes which, along with the professional performance of our crews, places ATCO in the position of being the industry leader.

Similarly, ATCO Oilfield Services Ltd., already one of North America's leading oilfield services group, is in the midst of an 8.5 million dollar capital expansion programme. By the end of fiscal 1979 the Target Well Servicing companies will be operating 17 rigs in Alberta and 12 in Southern Texas.

ATCO has grown and changed, and will continue to do so, but basically its endeavours fall into three categories:

- Industrial housing manufactured in factories for use in isolated areas
- Land and property development
- Energy related business (contract drilling — oil well servicing — oil and gas exploration)

We believe this diversity provides for the best combination of growth and security as we approach the 80's.

We would like to mention the extraordinary efforts of Dr. John Wood and Mr. Jay Scott, Presidents of the North American/Australian and International Divisions respectively, during the reorganization.

We would also like to thank Mr. Alan Gates, President of ATCO Drilling and Mr. George Goruk, President of ATCO Oilfield Services, for the professional manner in which they have integrated their major divisions into ATCO.

At the forthcoming Annual General Meeting, Mr. George Johnson, long-standing Senior Vice-President, Officer and Director of the Company, will not stand for re-election. On behalf of his colleagues and our shareholders we want to thank Mr. Johnson for his valuable counsel and the outstanding contribution he has made to ATCO as a director over the years. Mr. Johnson will continue in a senior position in our executive offices, while his previous controllership duties will be assumed by Mr. Kingsley Purdie who has been appointed Vice President, Controller.

Two new directors have been nominated for your consideration at the Annual General Meeting. They are:

Mr. Alan Gates, President, ATCO Drilling Ltd.

Mr. Otto Steiner, President, ATCO Development Corporation

We recommend both of them to you as men of outstanding experience who can make a significant contribution to your Board's policies.

To more clearly depict the activities of our operating units we wish to implement a number of name changes. It is our intention to seek your approval, via a special resolution, to change the Company name from ATCO Industries Ltd. to ATCO Ltd. If you agree, we will proceed with other name changes at the divisional and subsidiary levels to achieve the goal of clarity and relevance in operating unit names.

On behalf of our shareholders we would like to thank all ATCO's employees who have worked so diligently during the past year to improve the group's fortunes. While it has not been easy, it has been a job well done. A special thanks is due the personnel of Thomson Industries who have brought new enthusiasm and capability to ATCO.

We also wish to thank our Board of Directors for their steadfast counsel, involvement and encouragement. They are a great source of strength to the Company. Last, but certainly not least, may we thank our customers and shareholders for their continued confidence and support. We think you will be proud of our accomplishments in the next few years.

On behalf of the Board of Directors:



N. W. Robertson
Chief Operating Officer



R. D. Southern
Chief Executive Officer

Corporate Organization



ATCO Industries Ltd.

International Division

Sales Group	Operations Group	Offshore Group
The Americas	Manufacturing (Canada)	ATCO Saudi Arabia Ltd.
Europe, Africa & Middle East	Manufacturing (U.S.)	ATCO International (U.K.) Ltd.
	Manufacturing (Australia)	ATCO Algeria
	Construction (International)	

North American

Industrials Group	Australian Group	Housing & Development Group
ATCO Structures Ltd.	ATCO Structures Pty. Ltd.	ATCO Development Corporation
ATCO Eastern Ltd.	ATCO Constructions Pty. Ltd.	ATCO Housing Corp (Alta. South)
ATCO Metal Ltd.	ATCO Homes (Aust.)	ATCO Housing Corp (Alta. North)
ATCO Components Ltd.		

ATCO Project Consultants



Australian Division

Drilling Division

Mobile & Modular Homes Group

ATCO Homes (Calgary)

ATCO Homes (B.C.)

Gas & Oil Group

ATCO Gas & Oil Ltd.

Cayuga Exploration Inc.

Oilfield Services Group

Target Well Servicing Inc.

Target Well Servicing

L & M Oilfield Equipment

Nitrogas Services

Drilling Group (Canada)

Mustang Drilling

Sarcee Drilling

Bow Island Drilling

Drilling Group (U.S.A.)

ATCO Drilling Inc.
Rocky Mountain Division

ATCO Drilling Inc.
Southern Division

Drilling Group (Over-seas)

ATCO Drilling International Ltd.

ATCO Drilling (Libya)

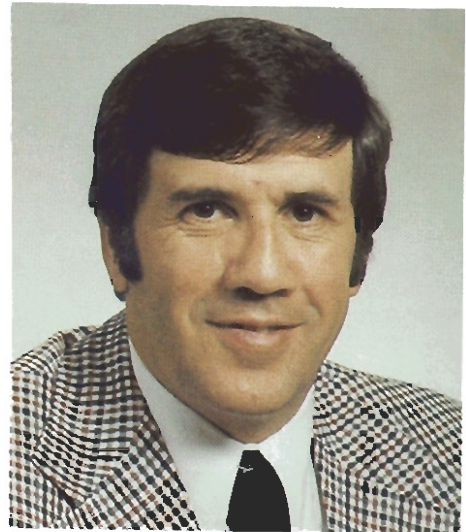
Thomson Resources Ltd.

Cayuga Oil & Gas Ltd.

International Division



J. G. Scott, President International Division



W. A. Hoffman, President of TCI Sales Division

ATCO International Ltd.

The most significant events which took place during the past year were organizational in nature with the centralization of International Division activities in Calgary and the incorporation of ATCO Saudi Arabia Ltd. While the period of transition to more centralized operations was a difficult one, the concept has overcome communication problems and duplication of effort thereby increasing the efficiency of the division's complex worldwide sales and service network.

The \$45,000,000 plus contract received in mid-summer 1977 for the provision of housing in Jubail, the multi-billion dollar seaport and industrial city being built on the east coast of Saudi Arabia, is on schedule and due for completion in the fall of 1978. The size and complexity of this contract has provided ATCO with yet another opportunity to demonstrate its expertise in managing on a massive scale the logistics of manufacturing, transportation, installation, and site work. The establishment of a presence in Jubail, during the early stages of the project, has given the company an important advantage as related construction gets underway. Early successes include the obtaining of contracts for additional housing and a hospital complex.

The overall demand for housing and related facilities in Saudi Arabia continued to be very strong in the past year and, in its position as market leader, ATCO obtained a number of significant contracts. Within the grounds of the Jeddah Royal Palace, ATCO is completing a 600-man training complex

which includes two-storey housing and office facilities. Because of its unique surroundings, a great deal of emphasis was placed on the design and appearance of these structures.

Other work in Jeddah included the supply of family housing for the technicians of the French contractor, Thinet. The demand for family housing is growing as an increasing number of senior personnel prefer to bring their families with them to the job site. In response to this demand, a vigorous product improvement program has been instituted with a view to providing ATCO's clients with a diversified line of quality family housing.

You-One, a Korean-based international contractor, purchased a 1000-man camp including unitized sewage, water, and electrical systems for its construction site in Tubak, Saudi Arabia, while Aramco, continuing to expand its operations, purchased dormitories for 8000 men and three 1000-man kitchen/dining complexes.



Elsewhere in the Middle East, ATCO provided housing facilities for Exxon in Iran, and Sybertra, a Belgium company in Iraq.



Above: Man in white uniform preparing in kitchen

Below right: Large building under construction in Algeria



While not as active as in past years, the Algerian market continued to provide ATCO with significant work. Most visible of last year's contracts is the 100 service stations supplied by ATCO dotting the Algerian highway system. Each station includes an office, workshop, retail space and washroom facilities. In addition, the company received a contract from Sonatrach-Kellogg for the supply of 127 houses, as well as a theatre, store and school complex.

With the restructuring of operations complete, the International Division is in a position to capitalize on opportunities in those market areas identified as having the greatest potential.





Opposite page: Sonatrach drilling unit in Algeria

Above: Standing L to R—P. House, Vice President Controller, P. Miller, Vice President Support Operations, G. Hull, Vice President Offshore Operations. Seated L to R: W. Grant, Vice President Operations, J. G. Scott, President International Division, D. Ferguson, Vice President International Sales

Above right: ATCO International headquarters in Calgary, Canada

Above centre: Sonatrach service station in Algeria

Right: Sonatrach motel in Algeria

ATCO Saudi Arabia Ltd.

Incorporation of ATCO Saudi Arabia Ltd. provides a continuing operating base for day-to-day sales of equipment from inventory as well as for the control of installation and site work activities. Sales offices are located in Dammam, Riyadh and Jeddah with related storage and service facilities in Dammam and Jeddah.



Top left: ATCO's versatile Supertruss light building assembled on-site using pre-engineered quality units

Top right: G. P. Kister, Senior Vice President of ATCO signs the Jubail project contract. Witnessing his signature is Hisham M. Nazer, Minister of Planning and Vice Chairman of the Royal Commission for Jubail and Yanbu.

Right centre: Knockdown housing being loaded in Vancouver, Canada for shipment to Saudi Arabia

Right: Knockdown units being erected at a new camp

Opposite page above: Camp for Bechtel - first step in the massive industrialization undertaking in Jubail

Opposite page below: - - - - - provide adequate climate control





An aerial photograph showing a city skyline in the background, a residential area in the middle ground, and a large industrial facility with several large buildings and a parking lot in the foreground. The text "North American/Australian Division" is overlaid on the image.

North American/ Australian Division



...and ...
...over
...unities

The ATCO philosophy is to decentralize the operating units as "profit centres" and this is even more pronounced with the Australian companies because of geography. The senior ATCO executive, domiciled in Adelaide, South Australia, is Mr. E. N. Farch, Group President of Australia. The operating units are:

- ATCO Structures Pty. Ltd.,
Elizabeth, S.A.
- ATCO Constructions Pty. Ltd.,
Salisbury, S.A.
- ATCO Homes (Aust.),
Elizabeth, S.A.

These companies manufacture, sell, lease, and service construction camps, schools, offices, houses, large span metal buildings (Supertruss), etc. Most of these products serve the Australian domestic market, however, they are also exported to South East Asia, India, and the Middle East.

A new endeavour in Australia is ATCO Project Consultants which is involved in project planning and engineering design for resource town infrastructure. This group of professionals is located in Perth, West Australia.



E. N. Farch, President, Australian Group

The companies of like and inter-related products which report to the Group Vice President, Industrials, Mr. A. Schieman, are:

- ATCO Structures Ltd.,
Calgary, Alberta
- ATCO Eastern Ltd.,
Montreal, Quebec
- ATCO Metal Ltd.,
Calgary and Montreal
- ATCO Components Ltd.,
Calgary, Alberta

These companies manufacture, sell, lease, and service most of the historical products of ATCO including construction camps, schools, hospitals, drilling and geophysical camps, offices, metal buildings, metal components, kitchen cabinets, and other metal and wood components.



A. Schieman, Vice President, Industrial Group

Below: Manufacturing facilities of ATCO Structures Pty. Ltd. (Elizabeth, South Australia)



ATCO Structures Ltd.

Industrials Group



W. A. Kmetz, President and General Manager, ATCO Structures Ltd.

One of the most important steps taken during the past year was completion of the decentralization of ATCO Structures Ltd.'s district office organization. With greater local autonomy, these district offices are now better able to respond to local market conditions and provide the personalized service so necessary to the success of our clients' endeavours. In conjunction with this decentralization, service facilities were expanded in the Prince George and Vancouver districts, while the Edmonton district relocated to new facilities at Spruce Grove. Preparations were also completed for the Alaska district to occupy larger facilities shortly after the year end.

The future looks exceptionally promising for ATCO Structures with the advent of

the Alcan Pipeline, projected tar sands and heavy oil developments, the impending development of uranium deposits in Northern Saskatchewan, continuing steady development of thermal and hydro electric power generation and the future development of the vast Western Canadian mineral deposits awaiting improved world prices. With its record of proven performance and versatile product lines, ATCO Structures is well placed to participate in these significant resource development programs as they unfold.



Left: Unloading of metal panels for mining camp for Elbow, Alberta, project.

Above: ATCO Structures Ltd. District Manager Sales Service District Manager Manager of Engineering District Manager District President & General Manager Smith, District Manager District Manager District Manager District Manager

Opposite page above: ATCO Structures Ltd. housing unit.

Right: ATCO Structures Ltd. District Manager

Industrial Housing

With the exception of the most intensive search in history for conventional sources of oil and gas in the Province of Alberta, the industrial housing market in Western Canada and Alaska continued its modest level of activity during the past year.

Despite this situation, ATCO Structures Ltd. was able, through the expertise and flexibility of its engineering and design department, to participate in a number of highly interesting projects. In the contract drilling industry, unique housing concepts were utilized to supply Parker Drilling with a 50-man, two-storey self-contained drilling camp mounted on a transportable master skid, as well as Nabors Drilling with a two-storey, 50-man permanent camp and master skid mounted emergency camp. Alberta Government Telephones chose ATCO to provide skid-mounted transmission and relay stations which, because they contain temperature sensitive telephone switching gear, were



custom designed to meet extremely rigid structural and environmental specifications. Reaction time and turnkey services are becoming bywords in the industrial housing industry and during the past year, ATCO demonstrated its capability in both of these fields. In order to meet winter road closing deadlines across Lake Athabasca, the company provided Northern Construction with a

complete 120-man camp, storage buildings, office facilities, and family housing in a four-week period. The camp was fully operational in another three weeks. ATCO also designed and installed the water treatment, sewage disposal and power distribution systems for this housing complex.





Commercial Structures

ATCO's factory-built commercial structures are gaining increased acceptance as a viable alternative to on-site construction. Recent examples of ATCO commercial structures include the 30-room **Denwood Motel** in **Wainwright, Alberta** which contains a restaurant, lounge, dining room, and tavern; the hotel in **Jenner, Alberta**, which includes a restaurant and beverage room; and the motel supplied to **Norwell Development** in **Norman Wells** incorporating a retail store as well as the usual lounge, restaurant and dining room. Other examples of ATCO providing a viable alternative to on-site construction include the recently installed airport terminals at **Whitecourt, Rocky Mountain House and Hinton**, as well as the 275-seat church supplied to the **Roman Catholic diocese of Calgary**.



Upper left: A 300-ton crane to be barged in
for Denwood Motel

Left: Motel in Norman Wells, Alberta

Opposite page upper left: Motel super drugs at
Fort McMurray, Alberta

Opposite page upper right: Park Canada
washrooms at Wainwright National Park, Alberta

Opposite page centre: Airport terminal at
Rocky Mountain House, Alberta

Right: Church supplied to the Roman Catholic
diocese of Calgary



Again this past year, ATCO provided the solution to educational facilities with portable classrooms including over 30 such units for the Richmond School District in British Columbia and a 6-classroom cluster in Pine Point, North West Territories. The Pine Point installation is one of which ATCO is justly proud. When the existing school was destroyed by fire, ATCO reacted immediately and within 30 days the students were continuing their education in ATCO facilities.



Leasing

During fiscal 1978, ATCO Structures Ltd. continued to upgrade and expand its industrial housing lease fleet, already the largest in the world. Contracts filled by the lease fleet included the 420-man camp provided to West Coast Transmission for a 2½ month period during the construction of the Silver Dahl Pipeline and the camp provided for the Delta Project's heavy oil upgrading test plant developed for Shell Canada.



ATCO Eastern Ltd.

Industrials Group



D. O. Dye, Vice President & General Manager

With the exception of the government segment, the Eastern Canadian industrial housing market was very sluggish in fiscal 1978. Because of this situation, the industry was highly competitive, however, ATCO Eastern Ltd. was successful in obtaining a number of important contracts.

The company supplied dormitories to the James Bay project as well as laboratories, first aid units, and an office complex. In addition, six cafeterias were provided to Quebec Hydro to complement existing housing facilities.

For the sixth time, ATCO was chosen to provide the CNR with flatcar-mounted

accommodation for their right-of-way maintenance crews. ATCO was also successful in obtaining a contract for the supply of 87 similar units to the CPR. This was the initial purchase of this type of housing by the CPR.

During the past year, a number of new uses were developed for ATCO's commercial structures. Most significant of these was the Local Community Service Centre erected in Senneterre for the Province of Quebec. This 14,000 sq. ft. structure, the first of a series planned across the Province, features a site-installed brick exterior. The centre contains administration, social service and doctors' offices and is equipped with laboratories, dental and surgical theatres and pharmacological facilities.

The company also provided airport terminals for Northwest Territories settlements at Lake Harbour, Pond Inlet, Igloolik and Sanikiluaq. These terminals incorporate waiting rooms, ticket counters, baggage areas, washrooms, and complete mechanical systems.

In a move to broaden their market, the metal fabrication division introduced the "Panelway", a prefabricated steel building. This building, especially designed for ease of erection and relocatability, lends itself to urban applications and is particularly suited to the Eastern Canadian market.



While the short term outlook for the Eastern Canadian market is not encouraging, the company is structured to maximize its competitive position while awaiting a return to more normal market conditions.



Left: Local Community Service Centre for Senneterre in the Province of Quebec features ATCO modules positioned under a pitched roof.

Above: Interiors of the Senneterre Community Service Centre.

Opposite page above left: ATCO folding metal building is shipped flat and erected on site in a few hours.

Opposite page above right: Bell Telephone mobiles.

Right: CN units being loaded on railway cars.



ATCO Metal Ltd.

Industrials Group



J. L. Barrett, General Manager

A growth strategy based upon the production of pre-engineered metal buildings and related components allowed ATCO Metal Ltd. to record improved sales and earnings during fiscal 1978 despite increased competition.

The most buoyant of the company's markets was the industrial cladding market. The continued strong performance of the Alberta economy combined with improved market penetration resulted in record sales of roll-formed products for industrial applications. The most significant contract received during the year called for the supply of approximately 140,000 sq. ft. of steel cladding for a major coal processing plant in Byron Creek, British Columbia.

In contrast to the industrial market place, the agricultural market was somewhat flat as a result of unseasonable weather conditions combined with low prices for farm products. Initial indications are that this market will be much improved in the coming year.

The Western Canadian mobile home market was again soft with an overall decline in industry shipments. This situation, combined with reduced demand for metal roofs and siding, resulted in lower sales in this market. ATCO Metal Ltd. anticipates maintaining its position as leading supplier to the industry through increased market penetration.

During the last quarter of the year, ATCO Metal Ltd. became more involved in the manufacture of miscellaneous metal components for primary industrial requirements. With continued emphasis on the establishment of a manufacturing base in Alberta, this area of business represents significant growth potential. Major projects such as the Alcan Pipeline and planned capital spending programs in the tar sands and heavy oil areas should ensure a strong demand for the company's products for many years to come.





Opposite page: A.T.C. building a new processing plant in the town of Columbia, Columbia

Top left: Seated: General Manager Barrett; Standing: General Manager Barrett; General Manager Barrett; General Manager Barrett; General Manager Barrett

Top centre: A.T.C. mobile grain elevator

Top right: A welder working on a large metal structure in Calgary, Alberta, some of the many projects completed by A.T.C. in Canada

Centre: A.T.C. building a new processing plant

Right: A large blue industrial building fabricated out of metal components

ATCO Components Ltd.

Industrials Group



H. Reynolds, General Manager



Above right: ATCO Components' new multi-station double end tenoner in operation in the Calgary plant

Right: One of ATCO's cabinet lines

Opposite page upper left: L to R — T. Thorpe, Manager Sales; H. Reynolds, General Manager; P. Hausermann, Manager Production; B. Klay, Manager Interiors

Opposite page upper right: Casework in the Burnaby General Hospital, British Columbia

Opposite page centre: Capri Convention Centre, Red Deer

Right: Restaurant in the new Shell Resources Building, Calgary

The emphasis placed on the modular kitchen cabinet product line in previous years was continued with major inroads being made in providing products to the new home construction market in Calgary and vicinity. Coincident with this emphasis on the residential construction market, ATCO Components Ltd. expanded its product range from traditional mid-line models to include lower cost cabinetry for multi-family housing projects. This move parallels a shift to higher density dwellings in Calgary and should result in further increases in the sales of kitchen cabinets and related services



The Interiors Division experienced another successful year in providing high quality, custom designed interiors for discriminating clients. Among those Calgary-based firms selecting ATCO for interior finishing were Jones, Black & Company, Peat Marwick Mitchell and Company, Dome Petroleum Limited and Shell Resources Canada Limited. In Red Deer, ATCO Components Ltd. worked in conjunction with ATCO Development Corporation in the supply of millwork and interiors for the recently completed Capri Convention Center.



The reduction of capital expenditure funding by the Provincial Government to hospitals and universities resulted in reduced sales of institutional casework. It is expected that with the continuing population growth in Alberta several major capital programs will be undertaken in this area in the next few years. As a result, the market for institutional casework will again be a significant contributor to the company's success.



ATCO Structures Pty. Ltd.

Australian Group



R. D. Strachan, Vice President & General Manager

An improved Australian economy during fiscal 1978 led to increased industrial housing activity, particularly in the States of Victoria and New South Wales.

While the number of opportunities for large domestic sales was limited, the rental picture strengthened significantly. Large rental projects undertaken by the company included workforce accommodation for the expansion of iron ore mines at Mt. Newman and Mt. Tom Price as well as housing for Eglo Engineering in support of their construction of offshore drilling rigs at Barry Beach, Victoria.



Top centre: Two bedroom mobile home on display demonstrating the strength of construction.

Top right: ATCO portable offices on the site of a major development in Adelaide, South Australia.

Centre: ATCO offices and change facilities on the site of the Port Noarlunga regional shopping centre project in South Australia.

Right: Mt. Price expansion of permanent iron mines camp.



In addition to these large projects, a major expansion of office rental activity took place with the addition of new Agency outlets in Perth, Western Australia, MacKay Gladstone and Brisbane in Queensland, Mt. Gambier, South Australia and in Morwell, Victoria.

Field operations continued to be an important source of revenue through contracts for the upgrading and relocation of existing housing complexes. At the same time, the company enhanced its customer services through increased participation in the engineering and design phase of camp planning. Planned extensions of this service and others like it are expected to materially contribute to the company's future success.



A dramatic increase in offshore contracts highlighted the past year's activities. Chiyoda Chemical & Engineering Construction Company of Japan purchased a 1400-man camp in support of their oil refinery construction project in Kaduna, Nigeria as well as housing for some 800 men involved in refinery expansion in Saudi Arabia. In addition, similar contracts were received from Indian contracting firms engaged in the construction of a transmission line and power station at Wadi Jizan, Saudi Arabia.



Top left: Pest eradication laboratory for supplied to the Department of Agriculture, Adelaide, South Australia

Top right: School designed for "live in teaching" of students at Cockatoo Valley north of Adelaide, South Australia

Centre: Facilities for workers building a polypropylene plant at Matraville, New South Wales

Left: Loading units on one of two charter vessels for a 1500-man camp for workers constructing a transmission line and power station in Saudi Arabia

ATCO Constructions Pty. Ltd.

Australian Group



General Manager

Despite modest capital spending in Australia, improved operating results for ATCO Constructions Pty. Ltd. justified the "Master Plan" approach to the design, manufacture, and construction of commercial buildings. Specialist sales teams were established in support of the "Master Plan" concept and ATCO is now firmly entrenched as market leader in the supply of recreation and community facilities.

Offshore building sales were a significant factor in the company's activities with deliveries to Vietnam, Nigeria, Saudi Arabia, and the Gilbert Islands. The Australian Government chose ATCO to supply three separate buildings as part of a milk powder plant given to the

Vietnamese people as a gift from all Australians. The company also worked in conjunction with other ATCO subsidiaries in the supply of various buildings for Chiyoda Chemical & Engineering Construction Company in Nigeria and Saudi Arabia as well as providing community buildings to the Jubail location on the East Coast of Saudi Arabia where a Government Royal Commission has been established to oversee a massive industrial development.

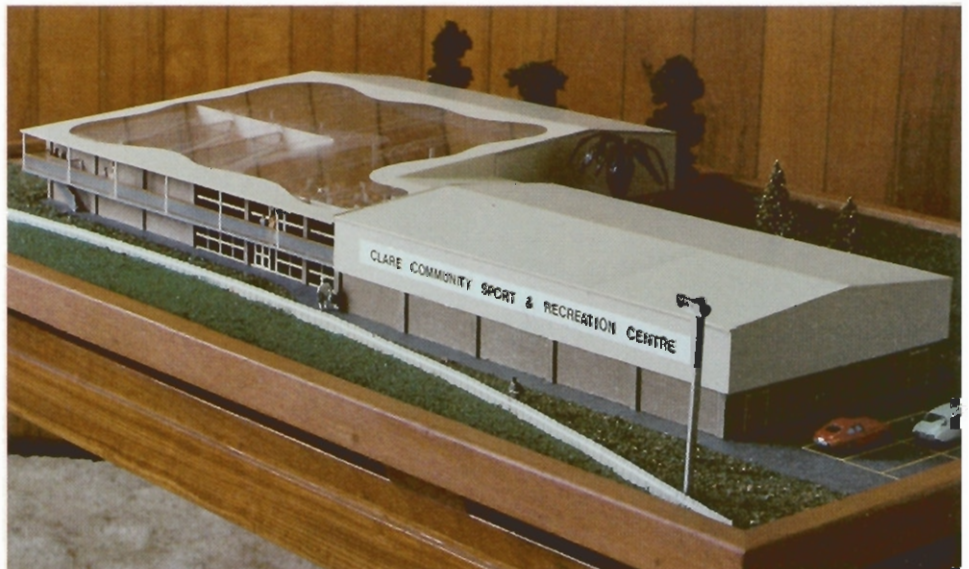
With further improvement expected in the Australian economy and a product proven in the offshore markets, the prospects for continued growth of ATCO Constructions Pty. Ltd. appear excellent.



Above: ATCO buildings masterplanned to provide performing arts complex for the Victorian College of the Arts.

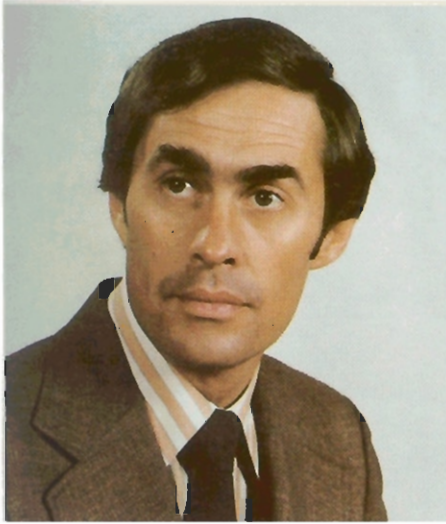
Above right: ATCO modular componentry used to advantage in attractive new sales and distribution headquarters for Rank Industries Australia Pty. Ltd.

Right: Standardized ATCO system demonstrated in scale model.



ATCO Homes (Aust.)

Australian Group



ATCO's premium model, the split-level Barwon was awarded the prestigious "Certificate of Merit" by the Timber Development Association of South Australia. This is the first time a transportable housing manufacturer has been so honored.

An interesting project completed during the year was the supply of three ranger houses to the Wilpena Pound in the Flinders Range, 225 miles north of Adelaide. In conjunction with the state government, the houses were especially designed to complement their environment of native pines, sugar gums and acacias, all of which grow in the area.



ATCO Homes

In Australia, ATCO Homes' traditional rural markets were adversely affected by continued drought conditions, however, improved cost controls resulted in increased margins. At the same time, broader sales coverage, especially in government markets, enabled ATCO Homes to increase its market share.

A highlight of the year was the official opening of the Gepps Cross display village in Adelaide by the Premier of South Australia, the Honorable D. A. Dunstan.



Top right: Barwon split-level model, awarded Certificate of Merit by the Timber Development Association of South Australia.

Centre: Gepps Cross display village, Adelaide, South Australia.

Right: Ranger house, Wilpena Pound, Flinders Range, South Australia.

ATCO Development Corporation

Housing & Development Group



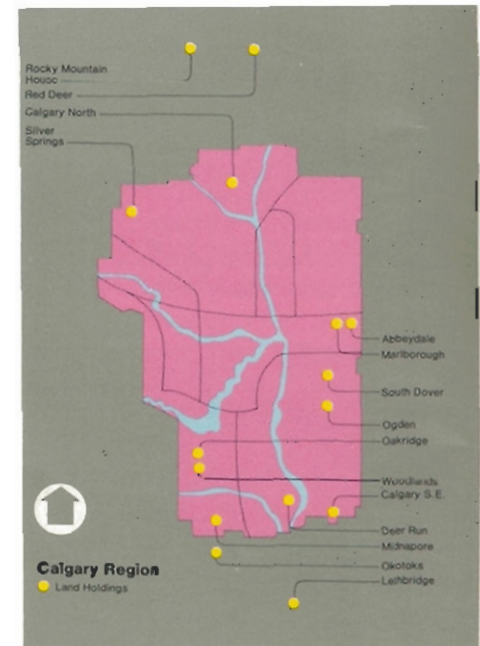
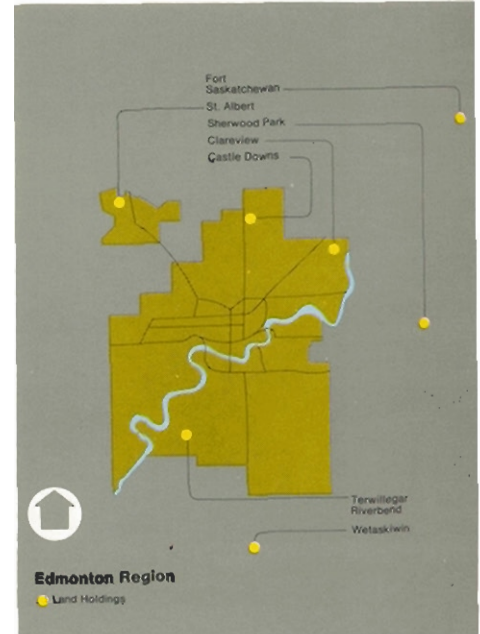
O. Steiner, President, Housing & Development Group

From a modest beginning in 1975, ATCO Development Corporation has progressed to the point where it is now a significant contributor to the overall success of the ATCO Group.

Undoubtedly, the most significant development during the year was the formation of Alberta Land Development Company, a land development partnership including ATCO, Genstar, the Mercantile Bank of Canada, and The Toronto Dominion Bank. The partnership holds in excess of 13,000 acres of prime developable land in the Province of Alberta with the greatest concentration in Calgary and Edmonton. The two fastest growing cities in Canada.

This partnership will not only enable ATCO's building division to ensure itself of a continuing supply of residential, commercial, and industrial land, but will also enable the company to participate in the land development industry on an assured long-term basis. The partnership will, undoubtedly, be a major force in the industry in Alberta for many years to come.

An 18-storey office structure is now underway in downtown Calgary with completion scheduled for the fall of 1979. This building will feature energy-saving solar bronze windows, 500-foot per minute elevators, underground parking and air conditioning. Inlaid paving stones highlight the plaza area, while the exterior will be precast concrete panels with bronze trim. The complex is receiving an excellent reception with the majority of the building already leased. It is expected that the total complex will be leased prior to the completion of construction. Also under construction is the Airdrie Town Center, a 35,000 sq. ft. retail/office complex slated for completion in late 1978. It is expected that these two properties will become the initial real estate investment portfolio holdings for the ATCO Group.





Top left: Construction begins on an 18-storey office complex in downtown Calgary.

Above: Airdrie Meadows subdivision, developed by ATCO and consisting of 244 single-family lots, is nearly completed and sold out.

Right: Artist's rendering of the downtown Calgary office complex.

ATCO Development Corporation

Housing & Development Group



During the year, the 60,000 sq. ft. convention centre addition to the Capri Hotel in Red Deer was completed on schedule and within budget. Projects in the advanced stage of completion include the 7-unit Vista Industrial Center warehouse complex and the 500-lot land development project located a few miles north of Calgary in the Town of Airdrie.



Above: l to r — F. Parr, Chief Manager, Construction; D. Steiner, General Manager & Group President, Housing & Development; F. Bingider, Accounting Manager; G. Brookman, Manager, Property Management & Leasing; S. Haroy, Senior Project Manager.

Above right: Airdrie Town & Country Centre.

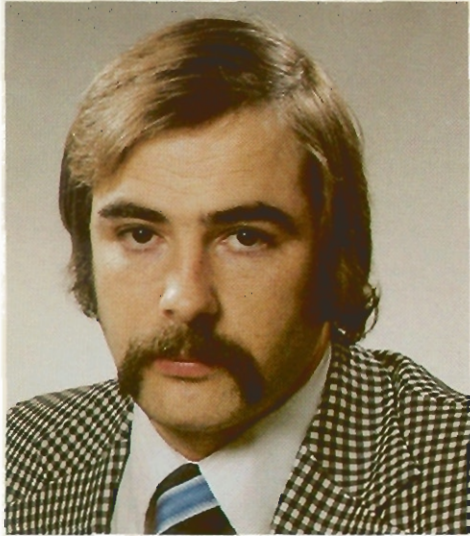
Right: Vista Industrial Center, a new housing development in Calgary.

Opposite page: Capri Convention Centre, Red Deer.



ATCO Housing Corp. (Alberta South)

Housing & Development Group



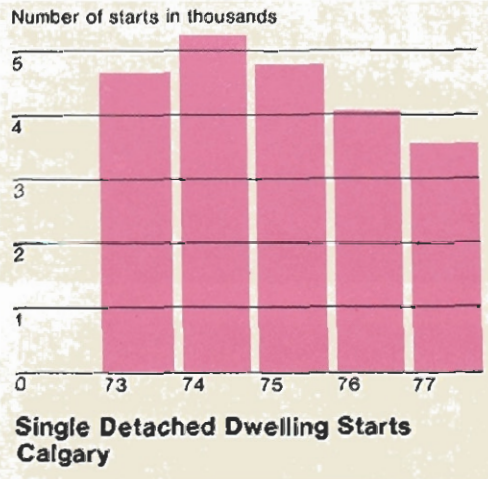
R. S. Hegan, General Manager

With ATCO's entry into partnership with Genstar Limited in the Alberta Land Development Company, ATCO Housing Corp. has acquired access to a continuing supply of strategically located land in Calgary and Edmonton for both single and multi-family housing. The partnership owns approximately 13,000 acres and this assured land supply will enable the company to plan its housing programs well into the future. This will be reflected in larger, more diversified housing divisions better equipped to meet changing market conditions.

The Southern Division of ATCO Housing Corp., with headquarters in Calgary, experienced a most successful year

during fiscal 1978. A good deal of this success came from the enthusiastic public acceptance of the Airdrie Meadows development in the Town of Airdrie which is located a few miles north of Calgary.

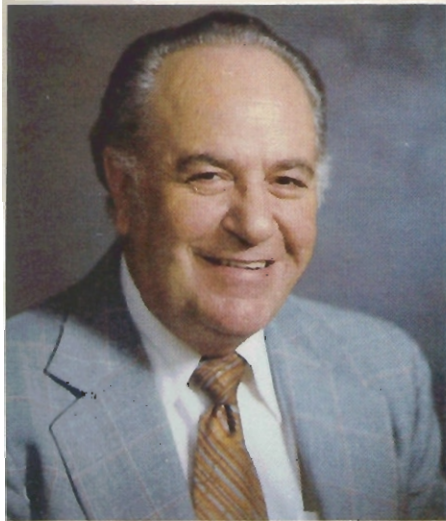
The division has entered the multi-family market with the commencement of "Georgian Village", a high quality 234-unit condominium development in Calgary. Completion is scheduled for late 1978.



Top: (l-r) R. S. Hegan, General Manager; Rodal, Construction Manager; A. Christ, & J. ...
Centre: "Georgian Village", a high quality 234-unit condominium development in Calgary.
Right: One of ATCO's affordable but quality housing examples.

ATCO Housing Corp. (Alberta North)

Housing & Development Group

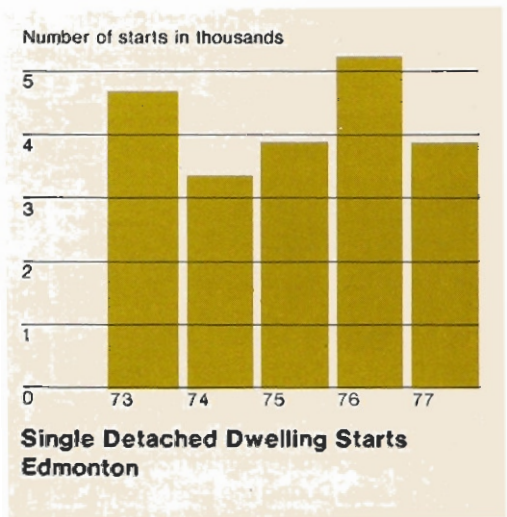


H. D. Robberstad General Manager



ATCO Housing Corp.'s Northern Division, headquartered in Edmonton, has constructed houses in Innisfail, Sylvan Lake, Lacombe, Morinville and Gibbons as well as Edmonton, while plans call for starts in Fort Saskatchewan, Blackfalds, and Ponoka within the next year.

The emphasis has been on efficiently designed, modestly priced single-family homes, however, the aforementioned Alberta Land Development Company will facilitate a planned entrance into a broader range of single-family homes and multi-family developments.



Above: Show home in Edmonton
Left: ATCO homes under construction in Edmonton's new subdivisions

ATCO Homes (Calgary)

Mobile & Modular Homes Group



The Western Canadian mobile home market slumped badly during the past year with shipments down approximately 30% from the previous year. The primary causes of this decline were threefold; the Assisted Home Ownership Plan (AHOP) available to purchasers of conventional homes, the inability of mobile home owners to obtain long-term financing, and a general lack of suitable mobile home subdivision developments. The immediate future looks more promising with mobile home subdivisions underway in Alberta at Airdrie, Strathmore, and Sylvan Lake. During the past year, ATCO introduced new doublewide models specifically designed to meet requirements of these subdivisions and others like them.

As a further counter to the weak consumer market, ATCO Homes, working in cooperation with ATCO Structures Ltd., increased its penetration in the industrial

market and supplied housing to such diverse locations as Saudi Arabia and Northern Alberta. In the latter case, native housing was provided under a Provincial Government program managed by Alberta Housing Corporation.

The continuing ability of the mobile home industry to provide low-cost housing is beginning to attract government attention. Since many of the industry's problems relate to policies at all levels of government, there is considerable optimism that shipments will improve in the upcoming years.



Above: An attractive ATCO home in a rural setting.

Centre: L to R - D. A. Bullock, Vice President Mobile & Modular Homes Group, G. Walters, Controller, J. Clark, Manager Manufacturing, J. Burns, Manager Materials, B. Montgomery, Manager Sales.

Left: R. D. Southern, President & Chief Executive Officer of ATCO presenting the 1977 Dealer Lot Sales award to Mr. Frank Cripps, Town and Country Homes, Red Deer, Alberta.

ATCO Homes (B.C.)

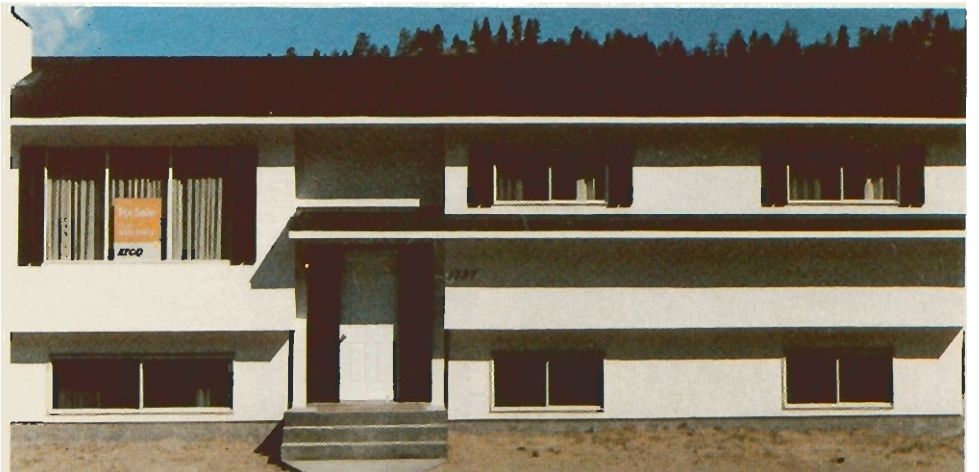
Mobile & Modular Homes Group



Alexander, President



The British Columbia economy remained soft throughout fiscal 1978, however, ATCO's Penticton plant was successful in partially offsetting this situation by dramatically increasing its market share. At the same time, production levels were boosted through the receipt of a number of orders for classrooms for delivery in British Columbia



Above:
Living Room
Right
Exterior

ATCO Gas & Oil Ltd.

Gas & Oil Group (Canada)



W. A. Eiser, President

ATCO, through joint participation in the Western Canadian oil and gas industry, has expended, since inception of its oil and gas activities, a total of \$5,000,000 in exploration and development of petroleum and natural gas reserves. In that time, the company has participated in the drilling of 95 wells within the Province of Alberta and has acquired an interest in over 200,000 acres of petroleum and natural gas rights.

Capital expenditures totalled \$2,100,000 in fiscal 1978 while production income for the year, after deducting royalties and operating expenses, was \$674,000. Comparative figures for the previous year were \$2,200,000 in expenditures and \$119,000 of production income.

During the year, ATCO participated in the drilling of 10 exploratory and 17 development wells. This program resulted in 6 oil wells, 9 gas wells, and 12 dry and abandoned wells. At the year end, ATCO had an interest in 72 wells producing or capable of producing petroleum or natural gas.

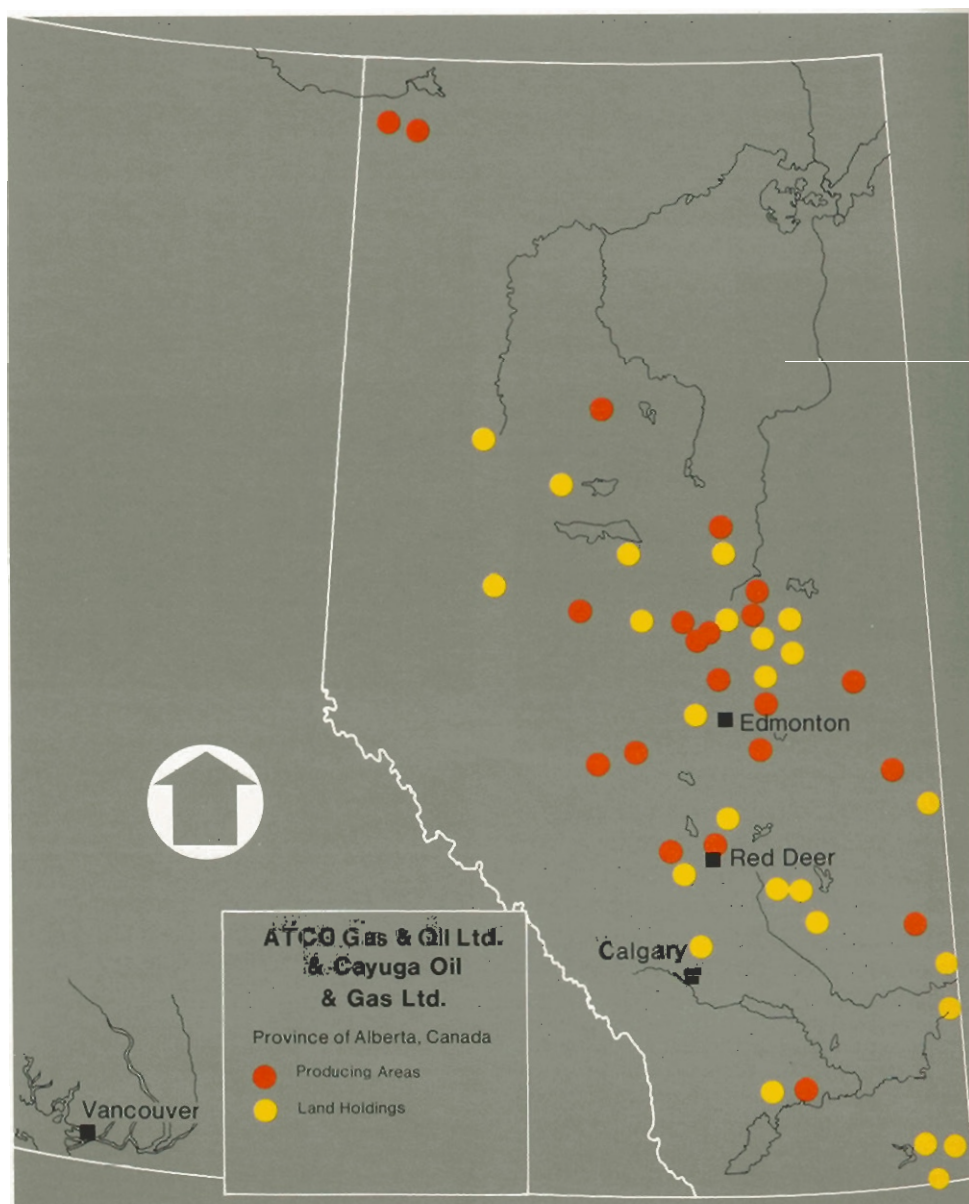
The company's share of crude oil and natural gas reserves, as established by McDaniel Consultants Ltd., is outlined on page 37. Reserves and production are

ATCO's net share after deducting lessor and overriding royalties. Proven reserves are forecast to generate future net revenue of some \$11,000,000 over the life of the properties.

Gross and net acreage interests in petroleum and natural gas rights is shown on page 37. Approximately 24,000 gross acres are productive with the remaining

acreage classified as non-productive. These non-productive petroleum and natural gas rights have an original cost of approximately \$710,000.

In addition to the foregoing narrative and statistical tables, ATCO Gas & Oil Ltd. has assumed the management of Thomson's Canadian exploration and development activities which are carried



	<u>Proven</u>	<u>Probable</u>	<u>Total</u>
Gas Reserves (millions of cubic feet)			
Beginning Reserves	3,690	2,550	6,240
Additions	1,480	180	1,660
Production	360	—	360
Year End Reserves	4,810	2,730	7,540
Crude Oil Reserves (thousands of barrels)			
Beginning Reserves	170	210	380
Additions	18	80	98
Production	18	—	18
Year End Reserves	170	290	460

	<u>Gross Acres</u>	<u>Net Acres</u>
Freehold Leases	34,575	7,489
Crown Leases	163,593	36,008
Permits and Reservations	37,920	7,386
	<u>236,088</u>	<u>50,833</u>

out by Thomson Resources Ltd. and Cayuga Oil & Gas Ltd. Fiscal 1978 oil and gas revenues, after royalties, were approximately \$655,000. The companies own varying interests in 122,000 gross or 22,000 net undeveloped acres in Alberta. At present, market conditions for natural gas are unfavourable due to a surplus of supply for which markets are available but not accessible because of government policy covering the sale of

oil and natural gas reserves. The present gas surplus is small in relation to future requirements and demand will most certainly increase in the future. Because of this, ATCO is optimistic regarding the long-term outlook for oil and gas and intends to continue investing in the development of Canadian reserves.



Right: L to R: Doris Bicknell, Accounting Clerk; A. Ralston, Geologist; W. Eiser, President; Nancy Read, Geologist; Shirley Mickey, Secretary; Land Records; R. Pratt, Controller.



Cayuga Exploration Inc.

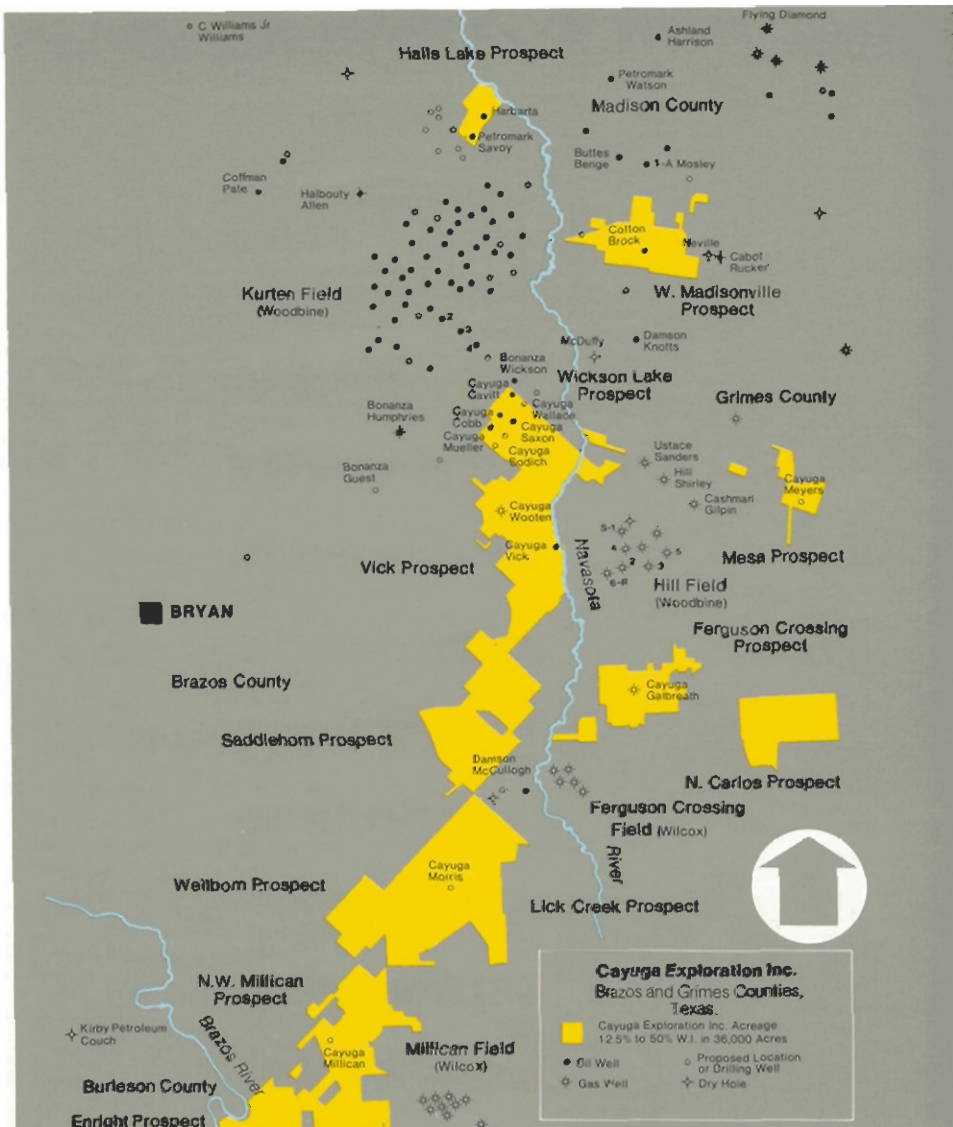
Gas & Oil Group (U.S.A.)



D. B. Dunn, President

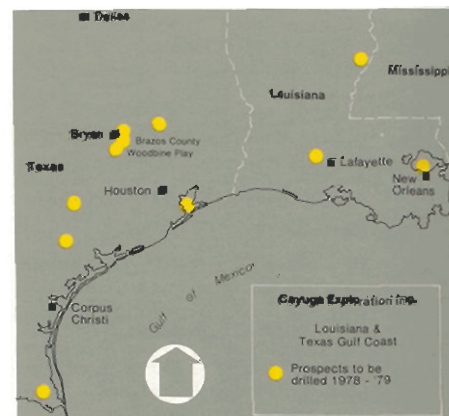
Cayuga Exploration Inc., operating out of Houston, Texas, invested a total of \$1,170,000 in oil and gas exploration and production during the past year and now controls varying interests in 79,000 gross and 24,000 net acres in Texas and Louisiana. The company participated in the drilling of 15 wells (9 at no cost to the company) resulting in 8 oil wells, 1 gas well, 1 potential oil well and 2 potential gas wells. The majority of these wells were completed late in the year and as a result did not contribute significant revenue for the past year. Oil and gas revenue after royalties totalled \$82,000.

The company participated in 8 oil well completions, 1 gas well and 2 potential gas wells in the active Woodbine play in Brazos and Grimes Counties, Texas where Cayuga controls 10,000 net acres with varying interests in 36,000 gross acres. Results to date are encouraging, however, more production history is required to evaluate the economic significance of this play. Plans are to participate in at least 5 additional wildcats and an active development program in this area during the coming year. Anticipated heavy industry drilling activity will also evaluate the deeper

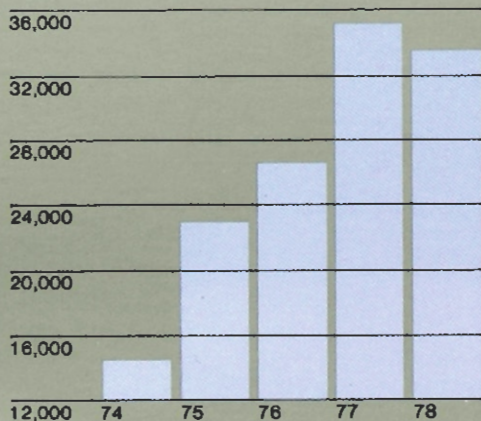


potential of the company's Brazos land holdings.

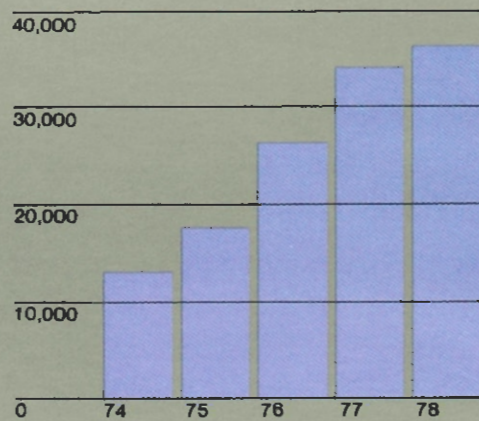
The company plans to continue its recent policy of originating oil and gas prospects with an experienced staff of geologists and landmen and selling these to the industry. Exploration efforts will be focused on land acquisitions over quality-type prospects along the Gulf Coast in a balanced risk program with a strong emphasis on immediate cash flow.



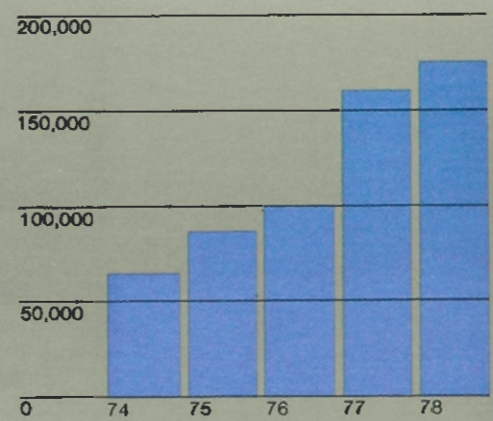
Financial Review



Working Capital
(\$ in Thousands)

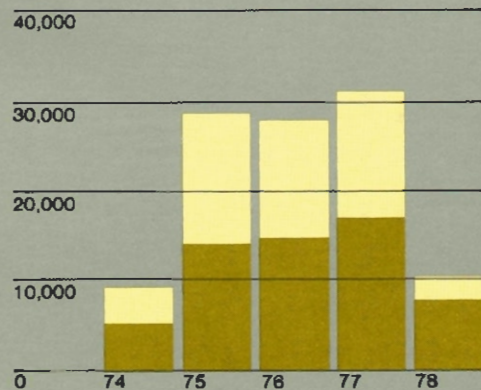


Rental Fleet Assets
(\$ in Thousands)

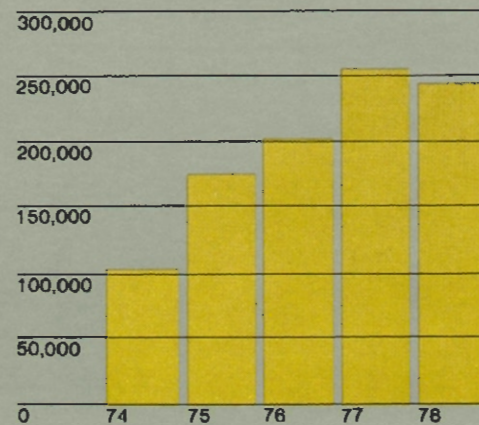


Total Assets
(\$ in Thousands)

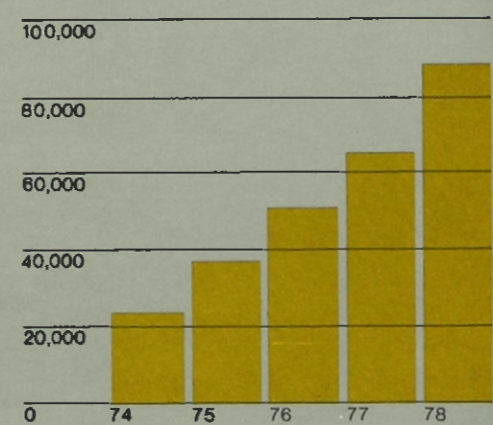
Earnings Before Income Taxes
 Net Earnings from Operations



Earnings from Operations
(\$ in Thousands)



Revenue
(\$ in Thousands)



Shareholders' Equity
(\$ in Thousands)

Consolidated Summary of Earnings

(Thousands of dollars)

	Year ended March 31				
	1974	1975	1976	1977	1978
Sales, rentals and service revenue	\$105,726	\$177,456	\$205,602	\$258,432	\$242,546
Other revenue	1,104	2,599	3,197	2,724	6,525
Operating costs	106,830	180,055	208,799	261,156	249,071
	80,295	127,192	150,131	188,110	190,330
Selling and administrative expense	26,535	52,863	58,668	73,046	58,741
	12,931	19,144	24,974	30,037	35,848
Interest expense	13,604	33,719	33,694	43,009	22,893
	1,206	1,576	1,334	1,986	2,759
Depreciation and amortization	12,398	32,143	32,360	41,023	20,134
	2,866	3,177	4,191	8,938	9,821
Income taxes	9,532	28,966	28,169	32,085	10,313
	4,276	14,301	13,180	15,103	1,672
Minority interests	5,256	14,665	14,989	16,982	8,641
	32	298	199	216	721
NET EARNINGS	\$ 5,224	\$ 14,367	\$ 14,790	\$ 16,766	\$ 7,920

To the Shareholders of ATCO Industries Ltd.

We have examined the consolidated statement of financial position of ATCO Industries Ltd. as at March 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the accompanying pro forma consolidated statement of financial position and in our opinion, it presents fairly the pro forma consolidated financial position of ATCO Industries Ltd. as at March 31, 1978, as it would have appeared had the acquisition of Thomson Industries Limited been completed at that date, in accordance with generally accepted accounting principles. With respect to our opinion on the pro forma consolidated statement of financial position, insofar as it relates to the amounts included for Thomson Industries Limited, we have relied on the report of other auditors who examined the consolidated financial statements of that company.

Calgary, Alberta
June 14, 1978



PRICE WATERHOUSE & CO.
Chartered Accountants

Consolidated Statement of Earnings and Retained Earnings

(Thousands of dollars)

	Year ended March 31	
	1978	1977 (Note 9)
Revenue:		
Sales, rentals and service	\$242,546	\$258,432
Other (Note 10)	6,525	2,724
	249,071	261,156
Costs and expenses:		
Operating	190,330	188,110
Selling and administrative (Note 10)	35,848	30,037
Depreciation, depletion and amortization	9,821	8,938
Interest — long term debt	2,167	1,668
— other	592	318
	238,758	229,071
Earnings before income taxes and minority interests	10,313	32,085
Provision for income taxes — current	1,210	12,531
— deferred	462	2,572
	1,672	15,103
Earnings before minority interests	8,641	16,982
Minority interests	721	216
Net earnings for the year	7,920	16,766
Retained earnings at beginning of year		
As previously reported	61,750	46,205
Adjustment of prior year's earnings (Note 9)	937	—
As restated	60,813	46,205
	68,733	62,971
Dividends paid (per share: 1978 - 44¢; 1977 - 41¢)	2,320	2,158
Retained earnings at end of year	\$ 66,413	\$ 60,813
Earnings per share	\$1.50	\$3.19

Consolidated Statement of Changes in Financial Position

(Thousands of dollars)

	Year ended March 31	
	1978	1977
		(Note 9)
Source of working capital:		
Working capital provided by operations including proceeds on disposal of rental assets of \$8,585 (1977 - \$6,660).....	\$26,441	\$35,578
Proceeds of long term debt	5,892	12,185
Proceeds on disposal of property, plant and equipment	1,190	2,017
Issue of shares	16,346	56
	49,869	49,836
 Application of working capital:		
Additions to rental assets	14,190	16,521
Additions to property, plant and equipment	7,813	20,409
Reduction in long term debt	2,499	2,637
Deposits — Thomson Industries Limited	21,300	—
Dividends paid	2,320	2,158
Investment in joint ventures	1,710	—
Other	766	298
	50,598	42,023
Increase (decrease) in working capital	(729)	7,813
Working capital at beginning of year	34,415	26,602
Working capital at end of year	\$33,686	\$34,415

Consolidated Statement of Financial Position

(Thousands of dollars)

ASSETS

		March 31	
	Pro forma (Note 1)	1978	1977
Current assets:			
Cash	\$ 4,642	\$ 1,859	\$ 4,375
Accounts receivable	55,334	30,036	26,632
Claims and recoverable costs	2,377	2,377	4,045
Estimated recovery of income taxes	364	2,363	—
Accrued revenue on contracts, less payments to date	12,543	12,543	25,123
Inventories (Note 3)	34,786	33,858	37,691
Prepaid expenses and deposits	1,628	1,342	844
Installment notes receivable due within one year	643	643	475
	112,317	85,021	99,185
Installment notes receivable, less amounts due within one year	2,288	1,652	1,369
Deposits — Investment in Thomson Industries Limited (Note 2)	—	21,300	—
Rental assets, at cost less accumulated depreciation of \$7,126 (1977 - \$5,630)	31,650	31,650	28,587
Property, plant and equipment, at cost less accumulated depreciation and depletion (Note 4)	110,386	32,102	30,748
Goodwill, net of amortization (Note 2)	22,107	368	368
Other	3,156	2,951	910
	\$281,904	\$175,044	\$161,167

LIABILITIES

	March 31		
	Pro forma (Note 1)	1978	1977
Current liabilities:			
Outstanding cheques, less related bank balances	\$ 7,169	\$ 4,668	\$ 3,030
Current bank loans (Note 5)	19,178	14,120	10,377
Accounts payable and accrued	48,089	29,915	40,035
Income taxes payable	—	—	9,200
Long term debt due within one year	2,932	2,632	2,128
	77,368	51,335	64,770
Unearned revenue	656	656	266
Long term debt, less amounts due within one year (Note 6)	99,778	23,379	19,986
Deferred income taxes	13,985	9,557	9,095
Minority interests	1,891	1,891	770
Shareholders' equity			
Share capital: (Note 7)			
Common shares	5,513	5,513	5,467
Preferred shares	15,000	15,000	—
Contributed surplus	1,300	1,300	—
Retained earnings	66,413	66,413	60,813
	88,226	88,226	66,280
	\$281,904	\$175,044	\$161,167

Approved by the Board:

Director:



Director:



March 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES:**Consolidation:**

The pro forma Consolidated Statement of Financial Position as at March 31, 1978 comprises the accounts of ATCO Industries Ltd. and all of its subsidiaries ("ATCO") including the accounts of Thomson Industries Limited and all of its subsidiaries ("Thomson") (see Note 2).

The consolidated financial statements as at March 31, 1978 and March 31, 1977 and for the years then ended do not include the accounts of Thomson since the acquisition was completed subsequent to March 31, 1978.

The subsidiaries of ATCO are wholly owned with the exception of two which are 70% owned and one which is 75% owned. In addition, the President of the principal Australian subsidiary has been granted an option, exercisable in the 1980 fiscal year or earlier in certain events, to acquire 10% of the outstanding shares of that subsidiary for a consideration based upon its net book value at March 31, 1973. In anticipation that the option will be exercised (having regard for certain buy-back arrangements included in the option agreement), provision for the potential charge has been made and accounted for as a 10% minority interest.

Foreign currency translation:

Unless otherwise indicated all dollar amounts are in Canadian funds.

Accounts in foreign currencies have been expressed in terms of Canadian dollars as follows:

Current assets and liabilities — at the approximate rates prevailing at the year end.

Other assets and liabilities — at historical rates.

Earnings — at the approximate average rates for the year except for the provisions for depreciation and amortization which have been converted at historical rates.

Gains and losses resulting from translation of foreign currency accounts into Canadian dollars are included in earnings.

The countries in which ATCO and Thomson operate do not have, at this time, foreign exchange controls or restrictions which would materially affect the companies' ability to repatriate funds in the normal course of business.

Revenue:

Revenues are recognized in the accounts as follows:

- Industrial units:
 - Sales from inventory or the rental fleet are recorded when two of the following conditions have been met: units are (i) shipped, (ii) invoiced, or (iii) paid for.
 - Sales resulting from the supply of units to the customer's order are recorded by the percentage of completion method as each unit is manufactured or supplied and, when major on site installation contracts are involved, as identifiable stages of the work are completed. Revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts which require the revision become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.
- Mobile home sales are recorded upon payment or guarantee of financing, which generally coincide with shipment.
- Residential home sales are recorded at the time of possession.
- Rental contracts with purchase options are recorded either as sales or rentals depending on the amount of guaranteed rentals.
- Day rate drilling contract revenues are recorded as the work progresses while revenues from footage drilling contracts are recorded when contract depths are attained.
- Other sales are generally recorded as goods are shipped or services performed.

Inventories:

Inventories are carried at the lower of cost or estimated net realizable value. Land held for development includes capitalized carrying costs.

Depreciation:

Industrial rental units are depreciated by the straight line method at 10% per annum. Leasehold improvements and structures located on leased property are depreciated by the straight line method over the term of the lease. Other buildings, fixtures and equipment are depreciated by the declining balance method at rates ranging from 5% to 30% per annum. Assets used outside North America and Australia are depreciated at double the above rates.

Drilling rigs and related equipment are depreciated by the straight line method at rates ranging from 6% to 10% per annum.

Well servicing rigs and equipment are depreciated by the straight line method at rates ranging from 10% to 20% per annum.

Rental assets:

Proceeds on disposal of rental assets are included in "Sales" and in "Working capital provided by operations".

Gas and oil:

The successful efforts method of accounting is followed for gas and oil exploration and development activities. Under this method, acquisition and development costs identifiable with specific leases are capitalized as gas and oil properties. Exploratory dry hole, lease rental and geophysical and geological costs are charged to expense as incurred. When it is determined that a property is not capable of production, the capitalized costs are charged to expense. Costs associated with a producing property are depleted by the unit of production method over the estimated remaining proven reserves of the property.

Investment in joint ventures:

ATCO's investment in unincorporated real estate development joint ventures is accounted for by the equity method and included in "Other" assets.

ATCO's share of joint venture earnings, which is not significant in fiscal 1978, is included in "Other" revenue.

Amortization:

Plant start up costs are amortized by the straight line method over periods not exceeding five years.

Goodwill resulting from the acquisition of Thomson will be amortized by the straight line method over 30 years.

Warranty:

Provision is made for estimated warranty obligations.

Income taxes:

The tax allocation method of accounting for income taxes is followed whereby tax provisions are based on the income shown in the accounts and taxes relating to timing differences (mainly depreciation and warranty) between accounting income and taxable income are deferred.

The effective rate of income tax in the Consolidated Statement of Earnings is less than would otherwise be expected because of:

- non taxable foreign earnings.
- investment tax credits (the flow-through method is followed).
- Canadian 3% inventory allowance.
- Canadian manufacturing and processing tax deduction.
- unrealized foreign currency translation gains.

The earnings of certain foreign subsidiaries are subject to withholding taxes if repatriated to Canada in the form of dividends. Provision has been made for such potential taxes only to the extent that such dividends are anticipated.

The companies carry on business in certain foreign countries where taxation laws and regulations are complex and uncertain. It is Management's opinion that adequate provisions have been made for income taxes related to such business.

Earnings per share:

Earnings per share are calculated on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not significantly different.

The Companies Act of British Columbia:

These financial statements comply with the disclosure requirements of the Alberta Companies Act and the securities legislation of certain Canadian provinces, but do not purport to comply with all the disclosure requirements unique to the Companies Act of British Columbia.

Reclassification:

Certain fiscal 1977 figures have been reclassified to conform with fiscal 1978 presentation.

2. ACQUISITION OF THOMSON INDUSTRIES LIMITED:

On March 3, 1978 ATCO offered to purchase, for cash, all shares of Thomson at U.S. \$20 per share. At March 27, 1978 approximately 87% of the Thomson shares had been tendered; these shares were paid for on April 3, 1978. At May 31, 1978 approximately 97% of the shares had been acquired. ATCO intends to acquire the remaining 3% at U.S. \$20 per share and the resulting approximate amount payable has been included in long term debt in the Pro forma Consolidated Statement of Financial Position.

Thomson is an oil and gas well drilling and well servicing contractor in Canada and the United States with limited drilling activities carried on overseas. Thomson is also involved in oil and gas exploration and development in Canada and the United States and sells and rents oilfield equipment in Canada.

The acquisition has been accounted for by the purchase method. The assets and liabilities of Thomson have been consolidated with those of ATCO as of March 31, 1978 in the Pro forma Consolidated Statement of Financial Position on the basis outlined below.

The total purchase price, including estimated costs related to the acquisition (\$1,047,000), amounted to \$70,770,000.

Based on preliminary estimates of the fair market value of the property and equipment of Thomson, the excess of the purchase price over the net book value of Thomson as at March 31, 1978 has been allocated as follows:

	(Thousands of dollars)		
	Book Value	Allocation of Excess	Purchase Price
Current assets	\$29,295	—	\$29,295
Current liabilities	28,032	—	28,032
Working capital	1,263	—	1,263
Property and equipment:			
Drilling rigs and related equipment	33,163	28,091	61,254
Well servicing rigs and related equipment	8,023	1,819	9,842
Gas and oil properties	3,754	1,296	5,050
Other	2,138	—	2,138
	47,078	31,206	78,284
Other assets	841	—	841
Goodwill	250	21,489	21,739
	49,432	52,695	102,127
Long term debt	26,929	—	26,929
Deferred income taxes	4,428	—	4,428
	31,357	—	31,357
	\$18,075	52,695	\$70,770

In connection with the acquisition, ATCO agreed to advance \$11,300,000 to Thomson as subordinated debt. Arrangements were made to finance the acquisition, through Canadian lending institutions, in the amount of \$84,200,000, as follows:

	(Thousands of dollars)
Acquisition of Thomson:	
Cost of acquisition	\$70,770
Purchase of Thomson subordinated debt	11,300
	82,070
Balance	2,130
	\$84,200
 Financing to March 31, 1978:	
Issue of preferred shares and resulting contributed surplus (Note 7)	\$16,300
Issue of long term debt (Note 6)	5,000
	21,300
Balance of approved long term debt	62,900
	\$84,200

Concurrently ATCO arranged for Thomson to borrow up to approximately \$67,800,000 to assist in the financing of the future purchase of 13 new drilling rigs, 11 new service rigs and rental equipment, the upgrading of existing rigs, as well as the costs of retiring certain existing Thomson U.S. long term debt (the Pro forma Consolidated Statement of Financial Position includes such existing debt converted at the March 31, 1978 exchange rate) as follows:

	(Thousands of dollars)
Required for Thomson operations:	
Future purchase of drilling and service rigs and rental equipment and upgrading existing rigs	\$61,000
Retirement of certain existing long term debt	25,729
	\$86,729
 Financing:	
From ATCO purchase of Thomson subordinated debt	\$11,300
From new long term debt, reflected in the Pro forma Consolidated Statement of Financial Position only to the extent of \$25,729 (Note 6)	67,800
	79,100
Funds required from Thomson future operations	7,629
	\$86,729

3. INVENTORIES:

(Thousands of dollars)

	Pro forma	1978	1977
Materials, parts and supplies	\$ 9,342	\$ 8,414	\$ 9,747
Work in progress	11,684	11,684	14,908
Finished units	10,863	10,863	9,779
Land for development	2,897	2,897	3,257
	\$34,786	\$33,858	\$37,691

4. PROPERTY, PLANT AND EQUIPMENT:

(Thousands of dollars)

	Pro forma	1978	1977
Land and improvements	\$ 2,507	\$ 2,246	\$ 3,069
Leasehold improvements including buildings on leased property	11,430	11,245	10,625
Buildings, furniture and fixtures	17,139	16,121	13,609
Plant and automotive equipment	14,917	13,418	12,068
Drilling rigs and related equipment	66,887	—	—
Well servicing rigs and related equipment	11,792	—	—
Gas and oil properties	10,569	4,983	2,928
	135,241	48,013	42,299
Less: Accumulated depreciation and depletion	24,855	15,911	11,551
	\$110,386	\$32,102	\$30,748

5. CURRENT BANK LOANS:

A majority of the current bank loans are secured by one or more of accounts receivable, inventories, property, plant and equipment and a floating charge on the assets of the applicable subsidiaries.

6. LONG TERM DEBT:

(Thousands of dollars)

Title	Summary of Certain Security (ii)	Approximate Interest Rate (i)	Repayment Terms	Pro forma	1978	1977
ATCO Term Bank Loan (Note 2) Due March 31, 1990	Floating charge debenture of \$72,000 by ATCO Industries Ltd. and the majority of its subsidiaries (excluding Thomson). hypothecation of Thomson shares, all subject to certain permitted encumbrances.	Prime plus 4½% on \$5,000 and prime plus 2% on the balance.	40 equal quarterly installments of \$850 commencing June 30, 1980.	\$ 34,000	\$ 5,000	\$ —
ATCO Term Bank Loan (Note 2) Due March 31, 1990		Prime plus 1¾% on total loan of U.S. \$30,000	40 equal quarterly installments of U.S. \$750 commencing June 30, 1980.	33,900	—	—
				67,900		
Less: Amounts not yet drawn				15,606		
				52,294		
Estimated amount owing with respect to future purchases of remaining 3% of Thomson (Note 2)			Payable as shares become available (U.S. \$1,925).	2,176	—	—
Thomson Term Bank Loans (Note 2) (approved amount up to U.S. \$60,000) Due January 1, 1987	Chattel mortgages and fixed and floating charges on Thomson's assets subject to certain permitted encumbrances	At prime plus 1¾% to 1½% U.S.	Minimum quarterly installments aggregating U.S. \$1,500 in fiscal 1980 and U.S. \$8,080 in fiscal 1981 to 1987 with balance of U.S. \$1,940 due January 1, 1987. Additional payments may be required based on a formula related to funds generated by operations.	25,729	—	—
Term Bank Loan (approved amount up to \$20,000) Due December 31, 1993	First fixed charge on Alberta properties and a floating charge on all assets of ATCO Industries Ltd.	Prime plus 2% to a maximum of 11¾%.	60 quarterly installments commencing the first quarter of the year following each draw. With respect to amount drawn at March 31, 1978, quarterly installment is \$125.	7,364	7,364	7,489
Term Bank Loan Debenture Due March 31, 1985	These two debentures rank equally and are secured by a fixed charge on real estate and a floating charge on all assets of ATCO Industries Ltd	8% on the first \$3,000 and prime plus 2% on the balance.	Annual installments of \$250, increasing to \$833 from March 31, 1983 to 1985.	3,500	3,500	3,750
Term Bank Loan Debenture Due March 26, 1982		Prime plus 1¼%.	Quarterly installments of \$125.	2,000	2,000	2,500

6. LONG TERM DEBT: (Continued)

Title	Summary of Certain Security (iii)	Approximate Interest Rate (i)	Repayment Terms	Pro forma	1978	1977
Term Bank Loan Due December 31, 1979	Assignment of specific rental contracts, specific charge on certain rental units and a floating charge on the assets of a subsidiary.	Prime plus ¾%.	Monthly installments of \$77 including interest.	1,440	1,440	2,197
Demand Mortgage (ii) Due March 31, 1993	Specific charge on Penticton, B.C. plant.	12% to March 31, 1981 plus prime plus ¼%.	Monthly installments commencing April 1, 1978.	2,429	2,429	2,037
Mortgages and other loans	Mainly charges on specific operating assets.	Averaging 9.68%	Various	5,778	4,278	4,141
				102,710	26,011	22,114
Less: Amounts due within one year (iv)				2,932	2,632	2,128
				\$ 99,778	\$23,379	\$19,986

(i) The term "prime" has been used to describe rates which may actually be Canadian prime, the bank's best commercial lending rate, the bank's best U.S. lending rate, the U.S. base rate to Canadian borrowers, the London Interbank Offering Rate, etc.

(ii) The Penticton plant is to be sold to, and leased back from, the lender, with ATCO having an option to repurchase.

(iii) The terms of the above debt include covenants and restrictions (which may not be varied without the lenders' written consent) limiting payments of dividends by ATCO to 50% of the prior year's consolidated earnings, and restrictions relating to capital expenditures, new debt, inter company loans and dividends, and performance bonds and letters of credit. The companies must also maintain certain working capital and debt to equity ratios.

(iv) The minimum annual repayments of long term debt over each of the next five fiscal years are as follows (based on the March 31, 1978 U.S. exchange rate):

	1979	1980	1981	1982	1983
Pro forma	\$2,932	\$4,349	\$18,586	\$18,609	\$18,434
March 31, 1978.	\$2,632	\$2,354	\$ 2,366	\$ 2,389	\$ 2,214

7. SHARE CAPITAL:

Common Shares:

Common shares without nominal or par value, which may be issued for a maximum consideration not to exceed \$10,000,000.

	Number of shares	
	Authorized	Issued
Class A shares	7,000,000	3,822,936
Class B shares	7,000,000	1,457,404
		5,280,340

The two classes of shares are convertible into an equal number of the other class at the option of the shareholder. Each class of shares ranks equally in all respects except that cash dividends declared on Class B shares shall be paid out of "tax-paid" surpluses in an amount equivalent to that paid on Class A shares.

Changes in issued common shares during the year are as follows:

	Number of Shares	Share Capital
Outstanding at March 31, 1977	5,269,680	\$5,467,000
Issued for cash upon exercise of options	10,660	46,000
Outstanding at March 31, 1978	5,280,340	\$5,513,000

Share option plan:

The Company has reserved 264,000 Class A Common shares for purchase by certain officers, directors and key employees.

Options have been granted, exercisable cumulatively over five years from April 17, 1978, to certain officers and key employees to purchase a total of 213,600 such shares at a price of \$12.15 per share.

Share option equivalents:

In addition to the above share options, 254,400 share option equivalents (at a deemed base value of \$12.15) have been granted to certain officers, directors and key employees. The equivalents provide, on redemption, five years after exercise of the option pertaining to the optioned shares, for payment equal to the equivalent of the appreciation of the closing trade price on the Toronto Stock Exchange over the deemed base value, plus the deemed dividends related thereto.

Preferred shares:

Authorized:

3,000,000 Preferred shares with a par value of \$25.00 each

Issued:

200,000 Series 1, cumulative redeemable	\$ 5,000,000
400,000 Series 2, cumulative redeemable	10,000,000
	\$15,000,000

On July 27, 1977, 3,000,000 preferred shares with a par value of \$25.00 each were authorized.

On March 23, 1978, two series of preferred shares were issued as follows (Note 2):

Series 1, Cumulative redeemable

These preferred shares, which were issued at par, are to be redeemed in ten equal annual installments commencing in March 1981. Dividends shall be paid annually at a rate of 8%.

Series 2, Cumulative redeemable

These preferred shares were issued for U.S. \$25.00 each, creating contributed surplus of \$1,300,000. They are to be redeemed in ten equal annual installments commencing June 30, 1984, at a redemption price of U.S. \$25.00 each. Dividends shall be paid monthly at one half of the bank's prime (Note 6 (i)) rate plus 2%.

Both series of preferred shares may be redeemed in advance under certain circumstances.

Failure to pay dividends or redeem such shares constitute events of default under the provisions of the related term bank loans.

8. ANTI-INFLATION LEGISLATION:

The Canadian operations remain subject to controls on prices, profits, compensation and dividends until December 31, 1978 under terms of the Anti-Inflation Act effective October 14, 1975.

Provision was made in the accounts in fiscal 1977 for the estimated effects of actions then considered to be required with respect to "apparent excess revenues". During fiscal 1978, those uncertainties were resolved, mainly on a basis favourable to ATCO.

9. ADJUSTMENT OF PRIOR YEAR'S EARNINGS:

In fiscal 1978 ATCO was assessed a net amount of \$937,000 for foreign income tax related penalties with respect to fiscal 1977 operations. This charge has been accounted for as a prior period adjustment and the 1977 provision for income taxes and earnings per share restated accordingly.

10. SUPPLEMENTARY INFORMATION:

- The aggregate direct remuneration paid by ATCO to directors and senior officers amounted to \$1,244,000 (\$944,000 in 1977).
- Foreign currency gains (mainly on translation) of \$2,662,000 (\$193,000 in 1977) are included in "Other" revenue.
- Included in 1978 "selling and administrative" expenses are costs of approximately \$1,100,000 related to the relocation of employees during the corporate reorganization.

11. COMMITMENTS AND CONTINGENCIES:

ATCO has contractual obligations in respect of long term leases for manufacturing facilities, office premises and equipment. The rentals amounted to \$1,124,000 for fiscal 1978. The minimum rentals during the five year period ending March 31, 1983 aggregate \$3,996,000 (\$5,447,000 including Thomson).

As referred to in Note 2, agreement has been reached with suppliers in connection with the construction of 13 drilling rigs and related equipment at an estimated purchase price of \$49,000,000 and for 11 service rigs at an estimated purchase price of \$6,000,000. The rigs are scheduled for delivery through to June 1979 and will be paid for as the equipment is delivered.

United States treasury officials are investigating the basis followed by ATCO in determining United States customs and duty payments since fiscal 1969. These investigations are still in progress and the officials have not indicated whether they intend to issue assessments. In the opinion of counsel, claims will probably be asserted. Management is of the opinion that no material amount will ultimately be payable.

A subsidiary has been named one of 124 defendants in an action, claiming unspecified damages for trespass, by the United States of America in its own right and on behalf of Eskimos inhabiting the Arctic Slope of Alaska. In the opinion of counsel, ATCO should have no liability.

ATCO is a defendant in an action brought by a customer seeking approximately \$1,100,000 in damages. As the pleadings are incomplete, counsel advises it is not possible to give any assessment of the validity of the claim at this time. In the opinion of Management no material amount will ultimately be payable.

ATCO is contingently liable under the terms of repurchase agreements by which it assists its dealers in financing mobile home purchases. The risk of loss which is spread over numerous dealers and financing institutions is limited to the originally financed principal balance and declines as scheduled reductions or dealer curtailments take place. No material losses are anticipated.

ATCO has the usual liabilities of contractors for completion of contracts and is contingently liable with respect to letters of credit and guarantees for approximately \$23,000,000. The letters of credit are issued in the normal course of business in lieu of performance bonds and guarantees under the terms of certain foreign contracts.

12. SUBSEQUENT EVENT:

On May 4, 1978, ATCO became a limited partner in a partnership which was formed to acquire, develop and market approximately 13,000 acres of land in Alberta. On a non recourse basis (but subject to the contingency referred to below), ATCO borrowed \$10,000,000 from a Canadian bank and advanced that amount to the partnership. ATCO is entitled to receive annual interest on the advance at a rate in excess of the rate payable to the bank on the loan, has the annual right to purchase (at the then fair value) a percentage of the available developed land, and is entitled to receive that percentage of the annual development profits of the partnership as determined after deducting the agreed January 1978 retail value of the land. Such percentages are significantly less than the entitlements of the majority partner.

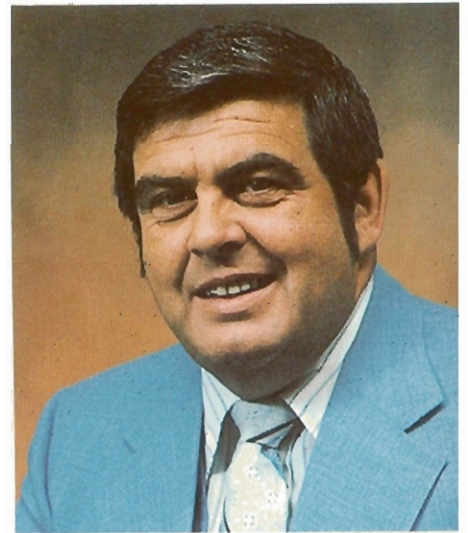
Subject to the contingency, the advances, together with interest, are to be paid to ATCO only to the extent that the partnership has available cash and ATCO is only required to pay the bank loan and interest from cash received from the partnership.

Under certain limited circumstances, ATCO is contingently liable for direct repayment of the loan (plus interest) from the bank.

Drilling Division



A. Garret, President, A-1000 Drilling Co.



W. J. ...

Mustang Drilling

Drilling Group (Canada)

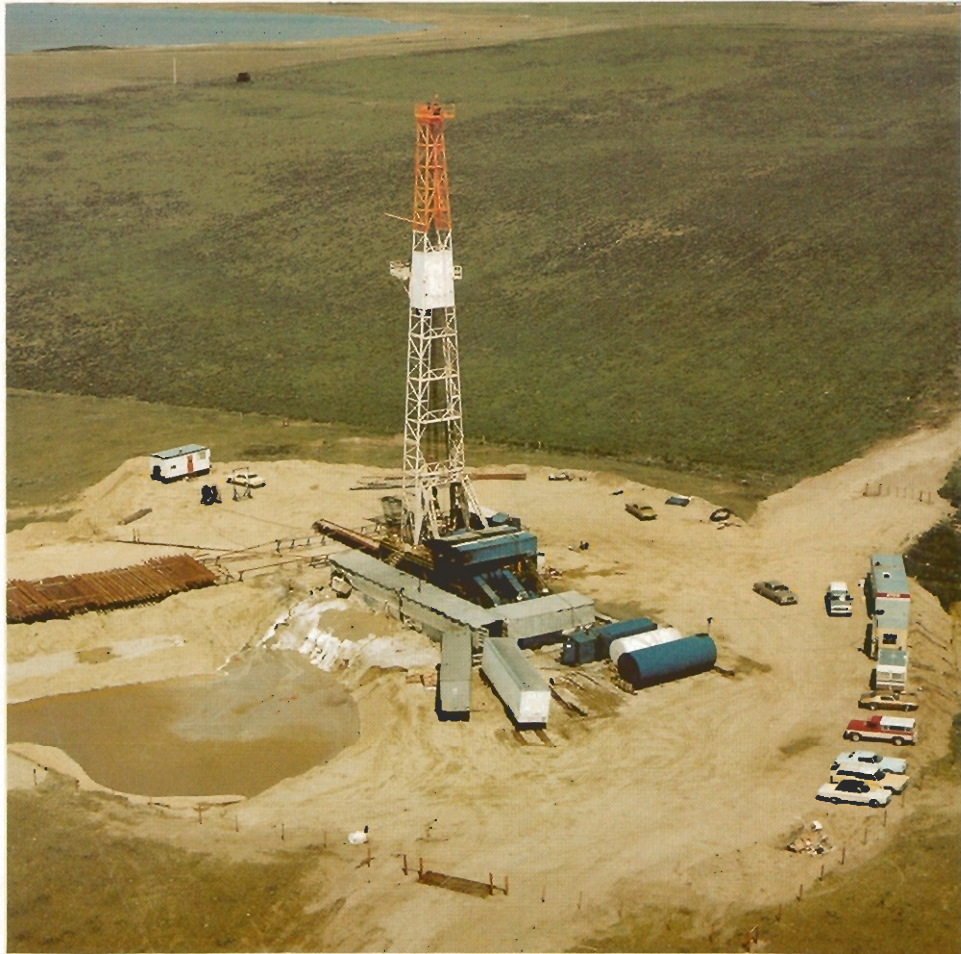


R. Bills, General Manager

Mustang Drilling was formed in July 1977 with the purchase of drilling rigs, related equipment and inventory from Gustavson International Drilling Co. Ltd. and GADC Holdings Ltd. Mustang currently operates 10 rigs with depth capacities ranging from 9,000 ft. to 22,000 ft.

During the up-coming year, Mustang will undertake a major expansion with the addition of 6 new electric rigs. Three of these rigs will be National 610E's with capabilities in the 9,000 - 12,000 ft. range, one will be a National 80UE rated in the 12,000 - 14,000 ft. range, while the remaining 2 rigs will be National 110UE's with 16,000 - 18,000 ft. depth capacities. All of these rigs will commence work on long-term contracts as soon as they are delivered. Training programs are presently underway to ensure that qualified crews will be available to operate the rigs as they are phased into service.

A major asset of Mustang is a nucleus of highly experienced operating personnel, many of whom have over twenty years experience with Mustang and the predecessor organization, Gustavson. This combination of experienced staff and reliable, efficient equipment



promises to keep Mustang in the forefront of Western Canadian drilling activities, especially as depths increase and the operating environment becomes more complex.

Above: Rig 6 near Swift Current, Saskatchewan

Sarcee Drilling

Drilling Group (Canada)



J. Westerman, General Manager

Serving a market area that covers Western Canada, the Sarcee Drilling Division which was established in 1972 operated 8 rigs until mid-year. Because Sarcee participates in what is presently the most active segment of the drilling market, the decision was made to incorporate three of the newly acquired Gustavson rigs into Sarcee. The rig count was further increased to 12, all capable of drilling in the 3,000 ft. to 6,500 ft. range with the recent transfer to Sarcee of a rig from ATCO Drilling Inc. in Texas.

As a result of a recently completed modernization program, Sarcee's equipment is among the most efficient in the industry. The rigs incorporate such features as automatic drillers and



spinners as well as low pressure mud mixers.

The majority of the Division's rigs are contracted through the balance of the fiscal year and with the trend toward increased drilling in the 6,000 ft. area, cash flow should continue to improve as revenue days increase because of a reduction in time lost due to moving and inclement weather.

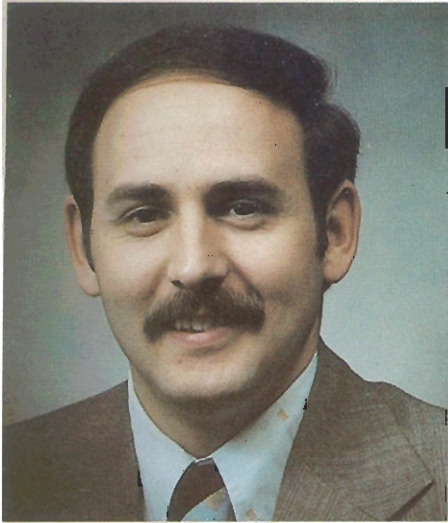


Above: Sarcee's rigs are especially suited for mid depth drilling.

Left: Rig 7 near Swift Current, Saskatchewan.

Bow Island Drilling

Drilling Group (Canada)



M. Clifton, General Manager

Bow Island Drilling, specializing in shallow depth drilling, was established in 1973 in response to the increased demand for shallow rigs searching for natural gas. Bow Island's 10 drilling rigs, rated to a maximum depth capability of 3,000 ft. were constructed specifically for this task and the company is the Western Canadian leader in this market. The identification of and concentration on this market has been most successful to date. The company drills a large number of wells each year and its equipment is constantly on the move. An individual rig in full operation will drill up to 135 wells, comprising approximately 200,000 ft., in a one year period.

While there is some concern in the industry regarding the future of shallow well drilling because of the current surplus of marketable natural gas, drilling activity is continuing at an unprecedented rate. Further optimism regarding the future of shallow well drilling arises from interest expressed by several producers in the construction of heavy oil upgrading plants in Alberta and Saskatchewan. The oil deposits to supply these plants lie at a depth of less than 3,000 ft. and indications are that several thousand wells will be required to supply these plants.

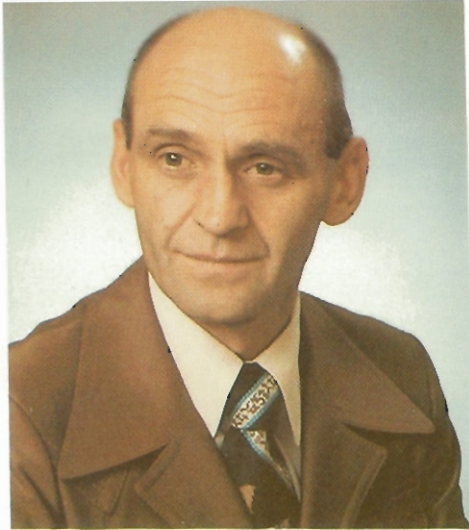


Left: Bow Island specializes in shallow depth drilling

Above: Rig B-11, one of the 10 rigs owned by Bow Island Drilling

ATCO Drilling Inc. (Rocky Mountain Division)

Drilling Group (U.S.A.)



J. Hlavka, General Manager

The Rocky Mountain Division of ATCO Drilling Inc. is headquartered in Denver, Colorado while field operations are managed from Casper, Wyoming, supported by a satellite office in Vernal, Utah.

The division currently operates 7 rigs with depth capabilities ranging from 7,500 ft. to 11,000 ft. in a market area encompassing Wyoming, Colorado, Utah and Montana. Three new SCR electric rigs are scheduled for delivery in the next few months. Two of these rigs will be National 80UE's while the third will be a National 610E. This equipment, which is already under long-term contract, will increase depth capability to 15,000 ft. enhancing the division's future potential as the search for gas and oil reserves penetrates deeper geological formations.

The Rocky Mountain area is attracting a great deal of attention from the exploration and development segment of the petroleum industry. Because of this, the very high rig utilization rates now being experienced are expected to continue.



ATCO Drilling Inc. (Southern Division)

Drilling Group (U.S.A.)

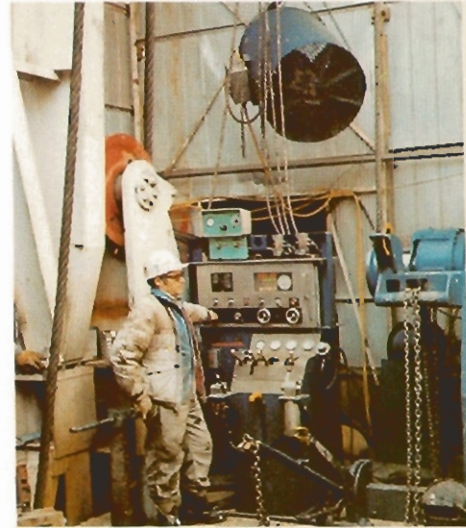


J. Winters, General Manager

With its head office in Houston, Texas and field offices in Laredo and Bryan, Texas, the Southern Division of ATCO Drilling Inc. presently operates 11 drilling rigs with depth capacities from 9,000 ft. to 15,000 ft. Rig utilization exceeded 80% in the past year exclusive of moving and rigging time.

Four new SCR electric rigs have been ordered for delivery during the next year. Two of these new rigs, National 610E's, will have depth capacities of 12,000 ft. while the other two, National 80UE's, will be able to drill to 15,000 ft. The new rigs, two of which are already under contract, incorporate all the latest features which provide for energy efficiency and economical operations.

The division's market area is one of the prime centres of the search for gas and oil reserves in the United States with an average of 220 rigs operating on a year-round basis. With this activity expected to accelerate as a firm United States energy policy is formulated, the division anticipates even greater success in the coming years.



ATCO Drilling International Ltd.

Drilling Group (Overseas)



P. Brachmann, General Manager, UK Operations

In Great Britain, the National Coal Board is involved in a ten-year program involving estimated expenditures of approximately \$1 billion to define and develop the country's coal resources. In 1975, this group signed its first contract with the Coal Board and this initial contract has been renewed twice. The company commenced operation with 2 rigs, each with 2,000 ft. capacity. This was subsequently increased to 6,000 ft. for each rig. Ninety-two core holes have been successfully completed and the company is presently in the midst of a 25-hole contract.

Because of government policy, opportunities for land drilling of oil and gas prospects in the United Kingdom have been restricted in recent years. However, indications are that there may be changes in these policies which opens up the possibility of expansion of ATCO's United Kingdom drilling activities in this market area.

With its most successful year just completed and the opening of new markets a distinct possibility, the company looks forward with confidence to the future of its operations in the United Kingdom.



In Libya, the company is managing, on a no risk profit participation basis, the drilling of 27 water wells for the Libyan Government. Further endeavours in this field will hinge on the success of this initial project.

Above: ATCO Drilling International Ltd. rig in Libya
Left: ATCO Drilling International Ltd. rig in Britain

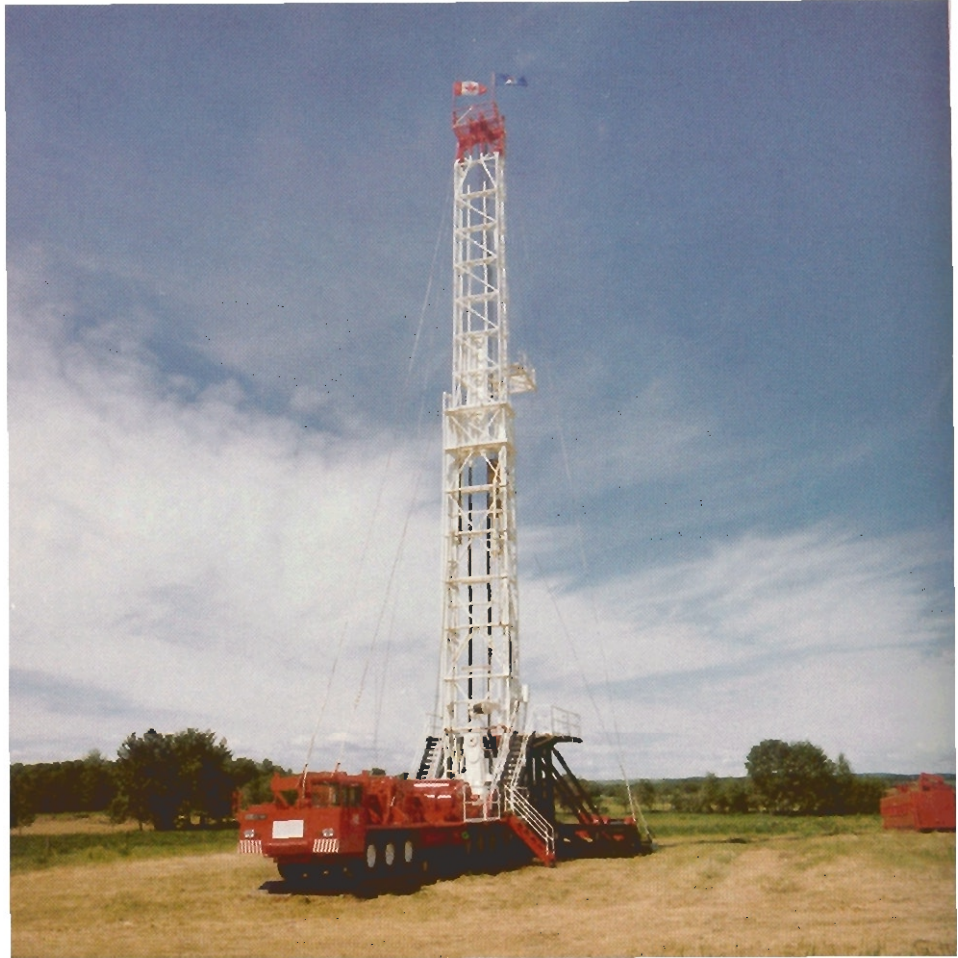


Left: The first rig, a National 80 UE, of Mustang Drilling's major expansion program on the rig up with Edmonton, Alberta

Oilfield Services Division



Mr. George Goruk, President of ATCO Oilfield Services Ltd.



The oilfield servicing group reports to the President of ATCO Oilfield Services Ltd., Mr. George Goruk. These operating units are:

- Target Well Servicing,
Red Deer, Alberta
- Target Well Servicing Inc.,
Corpus Christi, Texas
- L & M Oilfield Equipment,
Edmonton, Alberta
- Nitrogas Services,
Calgary, Alberta

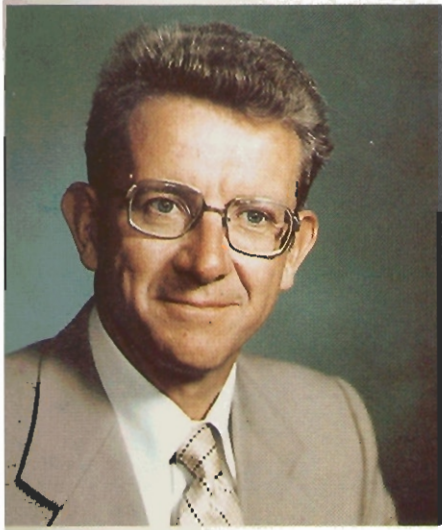
These units provide a complete range of services to the oil and gas industry, becoming involved in all phases of oil and

gas well development from the supply of specialized drilling equipment, through well completion and stimulation services to final abandonments.

Above: A 2000 tonne mobile unit of the ATCO oilfield servicing group in Canada

Target Well Servicing Inc.

Oilfield Services Group (U.S.A.)



G. Griffiths, General Manager

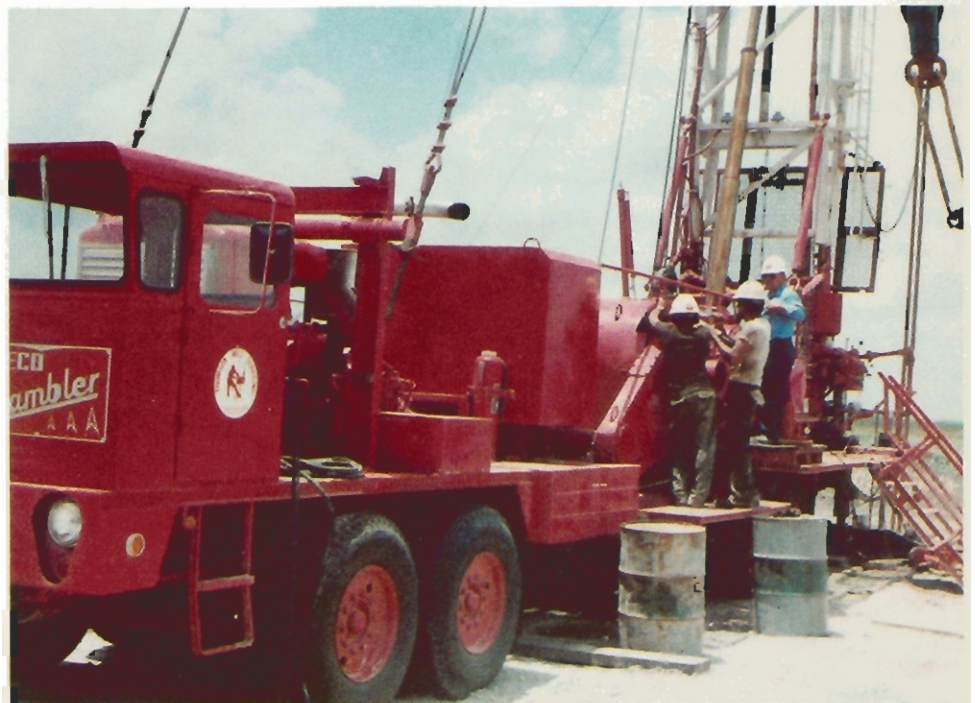
Target Well Servicing Inc., with office and yard facilities in Corpus Christi, Texas, commenced operations in October 1977. Corpus Christi is the center of the South Texas oil and gas producing and exploration area which runs along the Gulf Coast and extends north to Bryan. This particular area accounts for approximately 20% of all Texas oil production.

Specializing in workovers and well completions, the company was operating 4 service rigs at the end of the fiscal year. Equipment is now on order to expand this fleet to 12 rigs with depth capabilities to 18,000 ft. The new equipment is being rigged up to facilitate easy movement while maintaining efficient operations. New office, yard and shop facilities are planned for the coming year.

As a new supplier entering an existing market, the company is faced with the task of penetrating the market in the face of established competitors. Because they



operate the newest, most reliable equipment in the industry, Target Well Servicing personnel are approaching this challenge with enthusiasm and confidence in their ability to obtain sufficient market share to achieve profitable operations.



Above right: Servicing a well in Texas oilfield
Right: Rig 6 near Corpus Christi, Texas.

Target Well Servicing

Oilfield Services Group (Canada)



W. Thomas, General Manager



Target Well Servicing has been a familiar name in the Western Canadian oil and gas industry since its inception in 1962. Target's endeavours include completion work on newly drilled wells and repairs to pumps and production casing on producing wells. In addition to production maintenance, the company's rigs drill water source or injection wells to facilitate increased production and deepen existing wells to open new producing formations.

The rigs Target operates range in depth capacity to 25,000 ft. The addition of 3 rigs in the upcoming year will increase to 17 the number of rigs in service throughout the company's market area, which ranges from Rainbow Lake in the north to the United States border in the south. Rigs have recently been moved to Fort St. John, British Columbia to meet the increased demand in that area.

With activity continuing at record levels, Target management is confident the growth pattern of the past 15 years will be maintained.





Depth capacity of Target rigs

Number	Type	Depth capacity in feet
6	Ideco	10,000
7	Cardwell KB200B	10,000
8	Cardwell KB210	18,000
9	Cardwell KB250	18,000
10	Cooper 42-10	15,000
11	Franks 111	18,000
14	Franks 111	18,000
15	Cooper 42-10	15,000
16	Ideco B1R 3084	15,000
18	Cooper 42-10-38	18,000
19	Franks 111	18,000
20	Franks 900	25,000
21	Franks 400	20,000
22	Franks 300	10,000
23	Cooper 250	8,000
24	Cooper 750	25,000



Opposite page top: Target Well Servicing office and maintenance facilities at Red Deer, Alberta.

Left: Servicing wells in Central Alberta.

L & M Oilfield Equipment

Oilfield Services Group (Canada)



R. Klarenbach, General Manager

L & M Oilfield Equipment, with office and warehouse facilities in Edmonton, supply oilfield equipment on a rental basis to contract drillers, service contractors, and exploration companies. Through this rental program, the company is able to provide savings to operators who may not wish to purchase specialized equipment, such as blowout preventors, until their degree of success in a particular area has been determined.

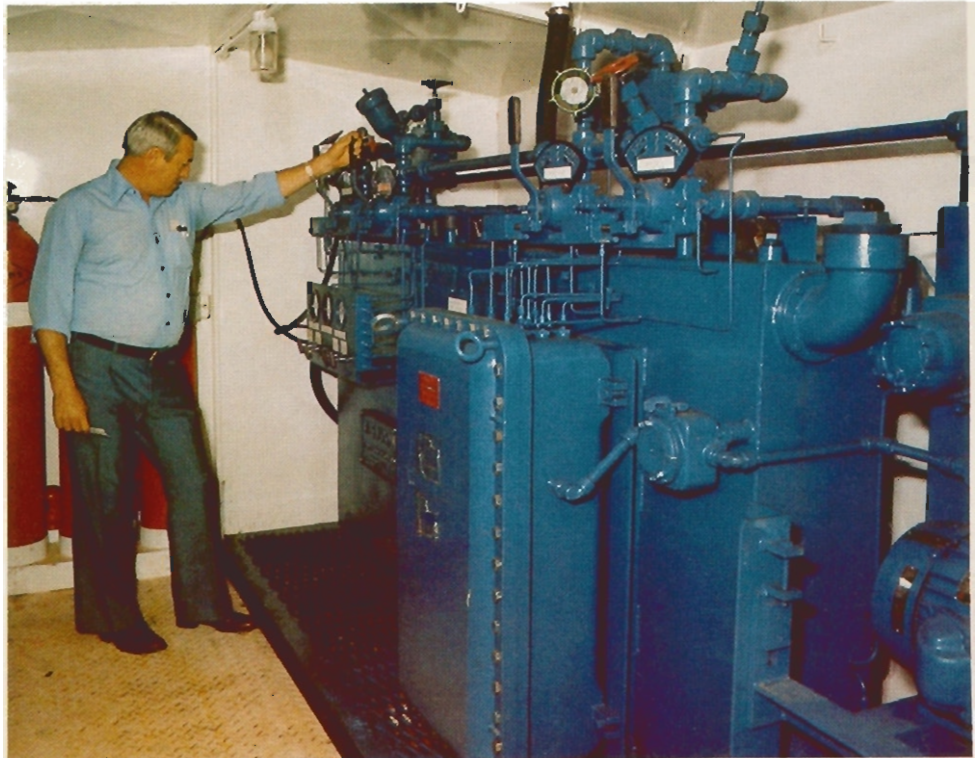
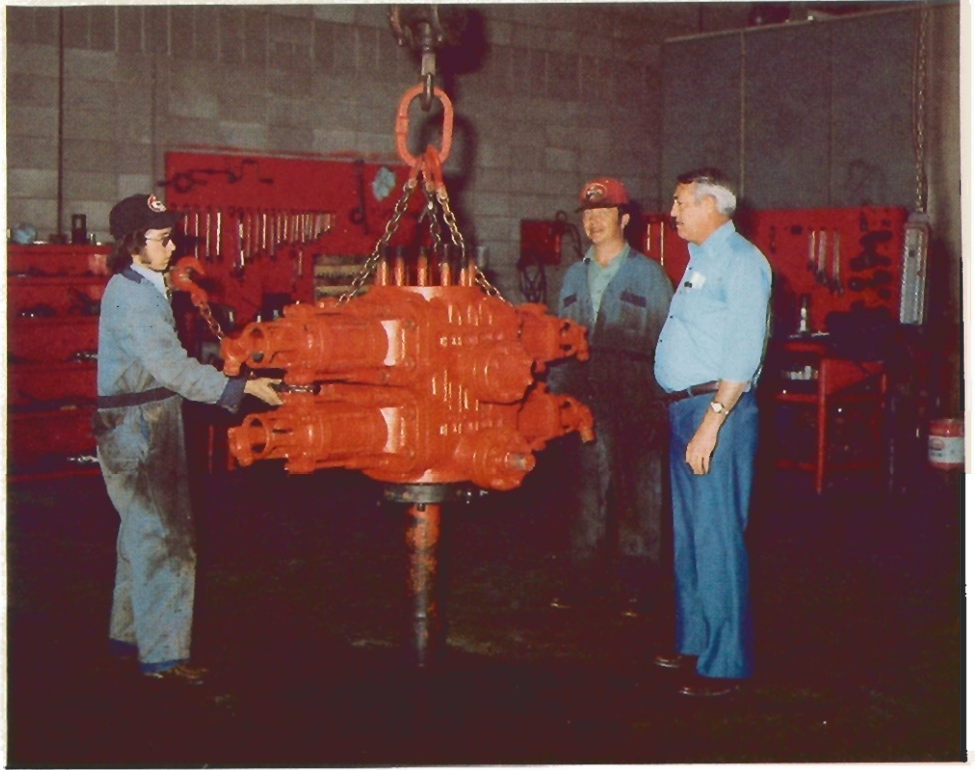
Skilled maintenance personnel service the rental equipment before it is delivered to the field. The company also sends trained personnel into the field to supervise installation or operation of the equipment to ensure maximum efficiency and safety.

In addition to rentals, L & M Oilfield Equipment sells and services various lines of equipment including the popular Franks service rig which is manufactured by the Cabot Corporation.



Above right: Skilled maintenance personnel service the rental equipment before it is delivered to the field

Right: L & M's office and warehouse facilities in Edmonton.



Top left: *John Combs*

Above: *Oilfield equipment is supplied to contract drillers, service contractors, and exploration companies on a rental basis.*

Right: *Trained personnel are sent into the field to supervise the installation or operation of the equipment.*

Nitrogas Services

Oilfield Services Group (Canada)



J. Cutler, General Manager

Nitrogas Services, located in Calgary, provides well stimulation services to the oil industry in Western Canada through the supply of nitrogen, pressure pump trucks and coiled tubing units. The company was purchased in March 1978 and operates a total of 4 nitrogen trucks, 2 acid pumpers, and 4 coiled tubing units.

Nitrogen is employed to displace fluids from a producing well or a well capable of being brought into production. Acid and other well stimulation chemicals are pumped by high pressure pump trucks into producing formations at pressures of up to 10,000 pounds per square inch. In addition to pumping chemicals, these

trucks can be used to test flow lines under pressure, pump cement into oil or gas wells to isolate water producing formations, cement off depleted zones and also set surface and production casing. Since nitrogen is an inert gas, it is often pumped into extraction plant lines to purge those lines before and after the plant is shut down for repairs.

The coiled tubing units have the capability of working to 16,500 ft. and are used in conjunction with the acid and nitrogen trucks to inject nitrogen or chemicals into a producing zone while avoiding the necessity of killing the well. In addition, by running a dyna-drill on the one inch tubing, bottom hole fill can be removed from a well. Coiled tubing units save the producer time and expense by

enabling him to stimulate and return his well to production in minimum time.

As the newest member of the ATCO Group, Nitrogas has capabilities that enable ATCO to provide comprehensive well servicing support to Western Canadian oil and gas producers.



Right: Nitrogen units at a wellsite

Opposite page top: Acid unit servicing a well in Central Alberta

Opposite page bottom: Endless tubing unit



The ATCO Group of Companies Worldwide

ATCO LTD.*

Parent Company

CORPORATE HEAD OFFICE

Chairman: S. D. Southern
President: R. D. Southern
Senior Vice President & Chief Operating Officer: N. W. Robertson
Senior Vice President Finance: C. S. Richardson
Senior Vice President Manufacturing: G. P. Kerfer
Vice President-Controller: K. B. Purdie
Vice President Human Resources: P. G. White
Corporate Secretary: G. A. Freeman

1243 McKnight Blvd N E
Calgary Alberta Canada T2E 5T2
(403) 276-1101
Telex 038-22697

INTERNATIONAL DIVISION

President: J. G. Scott

Head Office
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Calgary, Alberta, Canada
T2E 6J5
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Telex: 038-25763

ATCO International Ltd.

Industrial camps, community structures, offices, metal buildings, schools, houses, construction services

Head Office
615 - 18 Street S.E.
Calgary, Alberta Canada T2E 6J5
Tel: (403) 248-1101
Telex: 038-25763

President: J. G. Scott

Sales Offices
Algiers, Algeria
Calgary, Alberta, Canada
Houston, Texas, U.S.A.
London, England
Paris, France
Los Angeles, California, U.S.A.

Manufacturing
Riverside, California, U.S.A.
Ville LaSalle, Quebec, Canada
Waco, Texas, U.S.A.

ATCO Saudi Arabia Ltd.

Industrial camps, community structures, offices, metal buildings, schools, houses, construction services

Head Office
P.O. Box 5855
Kilo 12, Medina Road
Jeddah, Kingdom of Saudi Arabia
Tel: 021-56292/59780
Telex: 401039
President: R. A. Hoffman

Sales Offices
Sales Offices
Dammam, Kingdom of Saudi Arabia
Jeddah, Kingdom of Saudi Arabia
Riyadh, Kingdom of Saudi Arabia

ATCO INDUSTRIES (N.A.) LTD.**

President: Dr. J. D. Wood

Head Office
5115 Crowchild Trail S.W.
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Telex: 038-22852

Industrials Group

Group Vice-President: A. Schieman
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Calgary, Alberta, Canada T3E 1T9
Tel: (403) 246-6600
Telex: 038-22852

ATCO Structures Ltd.

Industrial camps, commercial offices, construction site offices, community structures, metal buildings, Western Canada's largest industrial & urban space lease fleet

Head Office
5115 Crowchild Trail S.W.
Calgary, Alberta, Canada T3E 1T9
Tel: (403) 246-6200
Telex: 038-22852

Vice-President & General Manager:
W. Kmet

Sales Offices
Anchorage, Alaska, U.S.A.
Calgary, Alberta, Canada
Kelowna, B.C., Canada
Prince George, B.C., Canada
Saskatoon, Saskatchewan, Canada
Spruce Grove, Alberta, Canada
Vancouver, B.C., Canada
Winnipeg, Manitoba, Canada

Service Centres/Manufacturing

Anchorage, Alaska, U.S.A.
Calgary, Alberta, Canada
Prince George, B.C., Canada
Spruce Grove, Alberta, Canada
Surrey, B.C., Canada
Winnipeg, Manitoba, Canada

ATCO Eastern Ltd.

Industrial camps, commercial offices, construction site offices, community structures, metal buildings, Eastern Canada's largest industrial & urban space lease fleet

Head Office
555 Dollard Avenue
Ville LaSalle, Quebec, Canada
H8N 1S4
Tel: (514) 363-4430
Telex: 052-5213

Vice-President & General Manager:
D. Dye

Sales Office/Service Centres
Dartmouth, Nova Scotia, Canada
Quebec City, Quebec, Canada
Toronto, Ontario, Canada
Ville LaSalle, Quebec, Canada

Manufacturing
Ville LaSalle, Quebec, Canada

ATCO Metal Ltd.

Metal fabrication, metal buildings, metal supplies

Head Office
5115 Crowchild Trail S.W.
Calgary, Alberta, Canada T3E 1T9
Tel: (403) 246-1151
Telex: 038-24871

General Manager: J. Barrett

Sales Offices
Calgary, Alberta, Canada
Spruce Grove, Alberta, Canada

Manufacturing
Calgary, Alberta, Canada

ATCO Components Ltd.

Cabinetry and millwork
5115 Crowchild Trail S.W.
Calgary, Alberta, Canada T3E 1T9
Tel: (403) 246-1111

General Manager: H. Reynolds

*Giving effect to a name change to be approved by a special resolution of shareholders to be voted on at the Company's Annual General Meeting to be held in August 1978.

**Giving effect to a name change to be applied for after the Company's Annual General Meeting to be held in August 1978

Australian Group

Group President: E. N. Farch

ATCO Industries (Aust.) Pty. Ltd
147 Ward Street
North Adelaide, South Australia 5006
Tel: (08) 267-3700
Telex: AA 82455

ATCO Structures (Aust.) Pty. Ltd.

Industrial camps, commercial offices, construction site offices, community structures, Australia's largest industrial & urban lease fleet.

Head Office

Barfield Crescent
P.O. Box 103
Elizabeth West, South Australia 5113
Tel: (08) 255-1422
Telex: AA 82308

Vice-President & General Manager:
R. Strachan

Sales Offices

Elizabeth West, South Australia
Melbourne, Victoria, Australia
Perth, Western Australia
Sydney, New South Wales, Australia

Manufacturing

Elizabeth West, South Australia

ATCO Constructions Pty. Ltd.

Metal fabrication, metal buildings, metal supplies

Head Office

15 Fisher Street
Salisbury, South Australia 5108
Tel: (08) 258-1533
Telex: AA 82085

General Manager: B. Tilly

Sales Offices

Melbourne, Victoria, Australia
Salisbury, South Australia
Sydney, New South Wales, Australia

Manufacturing

Salisbury, South Australia

ATCO Homes (Aust.)

Modular homes

Barfield Crescent
Elizabeth West, South Australia 5113
Tel: (08) 255-1422
Telex: AA 82308

General Manager: K. Meek

Sales Offices

Adelaide, South Australia
Elizabeth West, South Australia

Manufacturing

Elizabeth West, South Australia

ATCO Project Consultants

Design, engineering, costing & project management for shelter requirements

Head Office

58 Ord Street
West Perth, Western Australia 6006
Tel: (09) 321-7788
Telex: 92819

Manager: G. Mannion

Housing & Development Group

Group President: O. Steiner

#305 - 902 - 11 Avenue S.W.
Calgary, Alberta, Canada T2R 0E7
Tel: (403) 244-2101

ATCO Development Corporation

Land and property development

#305 - 902 - 11 Avenue S.W.
Calgary, Alberta, Canada T2R 0E7
Tel: (403) 244-2101

General Manager: O. Steiner

ATCO Housing Corp. (Alberta South)

Single and multi family housing

5115 Crowchild Trail S.W.
Calgary, Alberta, Canada T3E 1T9
Tel: (403) 246-3636

General Manager: R. Hegan

ATCO Housing Corp. (Alberta North)

Single and multi-family housing

11562 - 149 Street
Edmonton, Alberta, Canada T5M 1W7
Tel: (403) 452-2480
Telex: 037-41805

General Manager: H. Robberstad

Branch Office

Red Deer, Alberta, Canada

Mobile & Modular Homes Group

Group Vice-President: D. Bullock

3344 - 54 Avenue S.E.
Calgary, Alberta, Canada T2C 0A8
Tel: (403) 273-1141
Telex: 038-26637

ATCO Homes (Calgary)

Mobile and modular homes

3344 - 54 Avenue S.E.
Calgary, Alberta, Canada T2C 0A8
Tel: (403) 273-1141
Telex: 038-26637

General Manager: D. Bullock

ATCO Homes (B.C.)

Mobile and modular homes

1704 Government Street
Penticton, B.C., Canada V2A 7A1
Tel: (604) 493-3303
Telex: 048-88232

General Manager: J. Richter

Gas & Oil Group

ATCO Gas & Oil Ltd.

Oil and gas exploration and development

#920 One Calgary Place
330 - 5 Avenue S.W.
Calgary, Alberta, Canada T2P 0L4
Tel: (403) 264-7642

President: W. Elser

Divisions

Cayuga Oil & Gas Ltd
Thomson Resources Ltd.
Calgary, Alberta, Canada

Cayuga Exploration Inc.

Oil and gas exploration and development

1100 Milam Building
Suite 3080
Houston, Texas 77002, U.S.A.
Tel: (713) 658-8544

President: D. B. Dunn

DRILLING DIVISION

President: A. Gates

Head Office

ATCO Drilling Ltd.
#1001 - 500 - 4 Avenue S.W.
Calgary, Alberta, Canada
T2P 2V6
Tel: (403) 263-1215
Telex: 610-821-1384

Drilling Group (Canada)

Vice President, ATCO Drilling Ltd. Canadian
Operations: E. Melville

Head Office

#1001 - 500 - 4th Ave. S.W.
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T2P 2V6
Tel: (403) 263-1215
Telex: 610-821-1384

Mustang Drilling

Oil and gas (primarily deep) drilling

#1426 - 500 - 4 Avenue S.W.
Calgary, Alberta, Canada T2P 2V6
Tel: (403) 263-8520
Telex: 038-21762

General Manager: R. Bills

Sarcee Drilling

Oil and gas (primarily mid depth) drilling

1417 500 - 4 Avenue S.W.
Calgary, Alberta, Canada T2P 2V6
Tel: (403) 263-5040
Telex: 610 821-1384

General Manager: J. Westerman

Bow Island Drilling

Oil and Gas (primarily shallow) drilling

1417 500 - 4 Avenue S.W.
Calgary, Alberta, Canada T2P 2V6
Tel: (403) 264-5413
Telex: 610 821-1384

General Manager: M. Clifton

Drilling Group (U.S.A.)

ATCO Drilling Inc.

Rocky Mountain Division

Oil and gas drilling

3513 South Tamarac
Suite 230
Denver, Colorado, U.S.A. 80237
Tel: (303) 770-2490
Telex: 910-935-0103

General Manager: J. Hlavka

ATCO Drilling Inc.

Southern Division

Oil and gas drilling

9100 Southwest Freeway
Suite 111
Houston, Texas, U.S.A. 77074
Tel: (713) 777-9199
Telex: 910 881-5454

General Manager: J. Winters

Drilling Group (Overseas)

ATCO Drilling International Ltd.

Coal coring, water well drilling

Head Office

Suite 1, Second Floor
Rodney House
Castlegate, Nottingham NG1 6FG
England
Tel: 0602-582621
Telex: TKUS G 377783
851-377783

General Manager U.K. Operations:
P. Beauchamp

Oilfield Services Group

Group President: G. Goruk

Head Office

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5000 Gaetz Road
Red Deer, Alberta, Canada T4N 6C2
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Target Well Servicing Inc.

Oil and gas well workover and completion rigs

425 Lantana
P.O. Box 9548
Corpus Christi, Texas 78408, U.S.A.
Tel: (512) 855-6688
Telex: 910-876-1485

General Manager: G. Griffiths

Target Well Servicing

Oil and gas well workover and completion rigs

P.O. Box 531
Red Deer, Alberta, Canada T4N 1Y2
Tel: (403) 346-8921
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General Manager: W. Thomas

L & M Oilfield Equipment

Oilfield Equipment rentals and sales

9755 - 51 Avenue
P.O. Box 5567
Station "L"
Edmonton, Alberta, Canada T6E 4W8
Tel: (403) 436-2680

General Manager: R. Klarenbach

Nitrogas Services

Nitrogen, acid and coiled tubing unit services

116 Monument Place S.E.
Calgary, Alberta, Canada T2A 1X3
Tel: (403) 284-4144

General Manager: D. Cutler



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