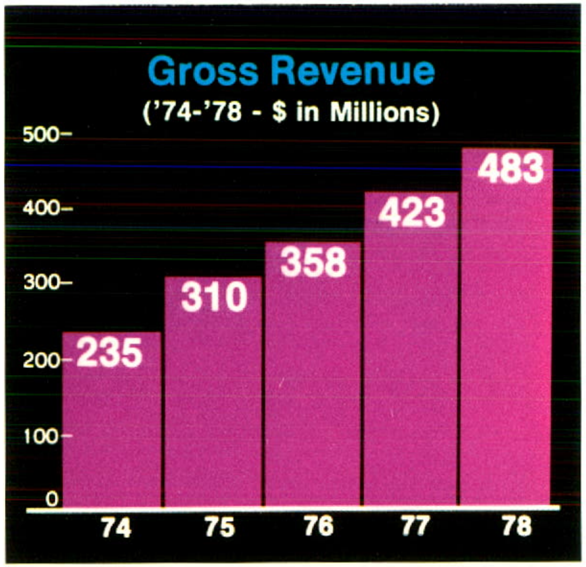
Profile

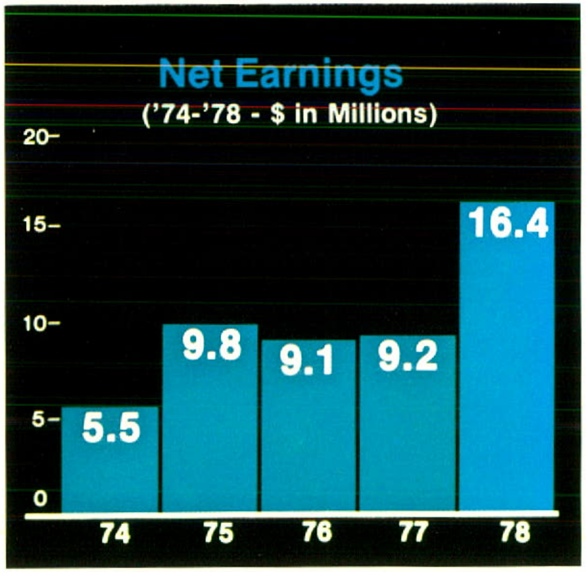
WESTBURNE

Westburne International Industries Ltd. is a uniquely-diversified company combining the largest Canadian-based contract oil and gas well drilling operation and the largest wholesale distribution of plumbing, heating and electrical supplies.

The company was formed in 1969 from corporate roots extending back into the oil and gas discovery days in Turner Valley, Alberta and from the merging under United Westburne Industries Ltd., a 93% controlled subsidiary, of a number of small companies engaged in the wholesale plumbing, heating and electrical supply business.

The company also operates its own oil and gas production and exploration division with producing properties in western Canada and United States as well as interests in substantial undeveloped acreage in Canada and elsewhere. We view the prospects of this division as being particularly bright. We plan to step up our exploration and development program to a level where results from our own oil and gas production will be in line with those from our drilling and distribution operations.





Westburne has developed into a dynamic and rapidly-growing concern whose wholesale distribution business extends from coast to coast in Canada and whose contract drilling operations extend to many countries around the world.

Since its formation the company has achieved a 21% average compound growth in sales and earnings and an average rate of return on equity of 19%.

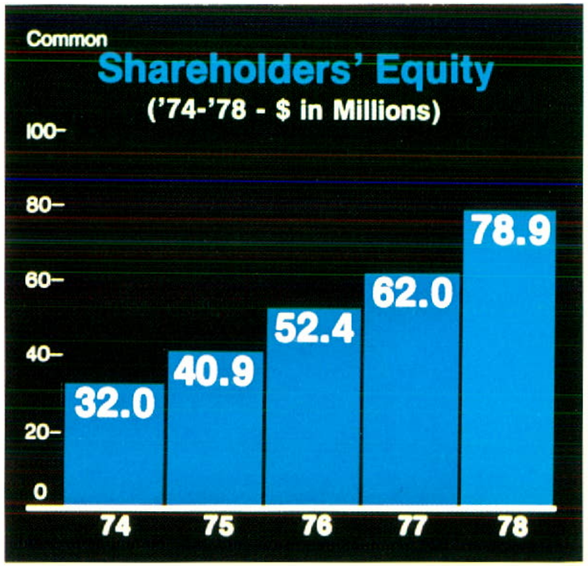
Net earnings in the latest fiscal year ended March 31, 1978 were a record $16.4 million, equal to fully-diluted common share earnings of $4.20, a 79% increase from the previous year.

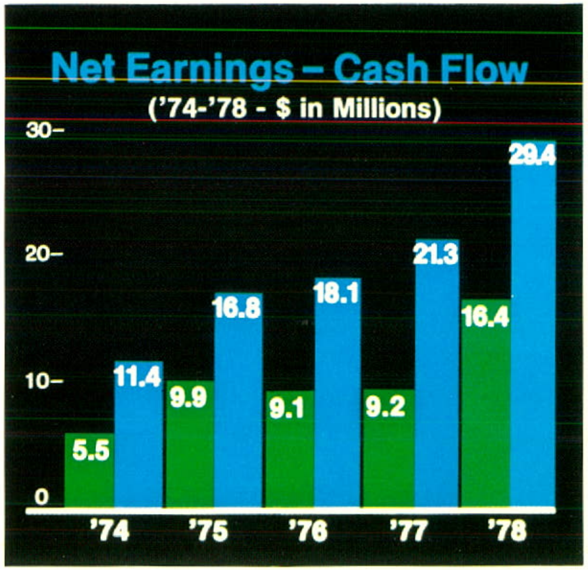
Each of the three major operating divisions is contributing to the company growth with contract drilling providing the most dramatic gains over the past two years.

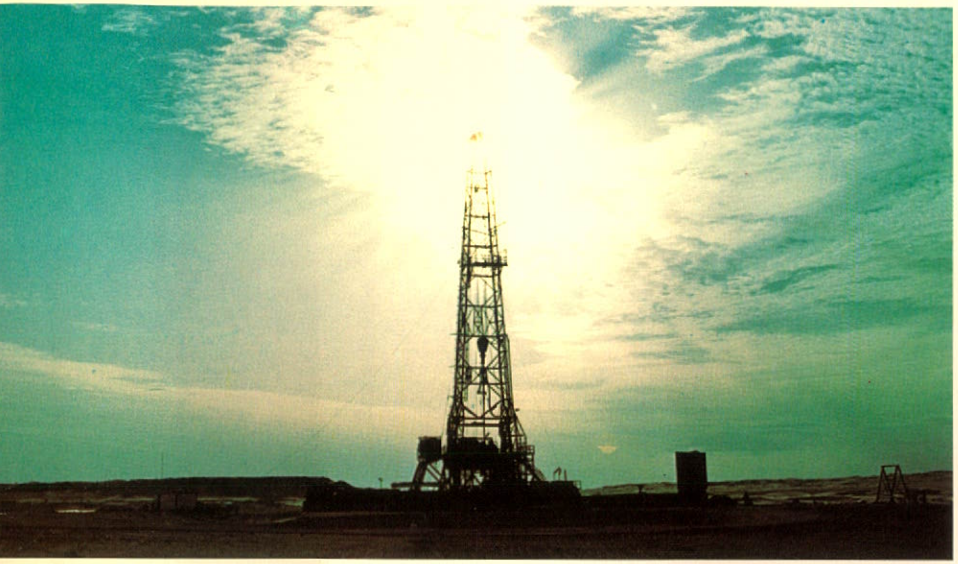
We believe that positive development over the past two years assure a continuation of this rising growth trend over the foreseeable future.

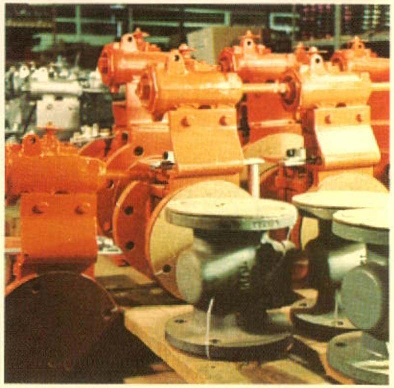
Each of the divisions operates independently under the guidance of its own board of directors freeing parent company management to concentrate on over-all policy, financial controls and future development and expansion planning.

Westburne has over 4,500 employees in its world-wide operations.

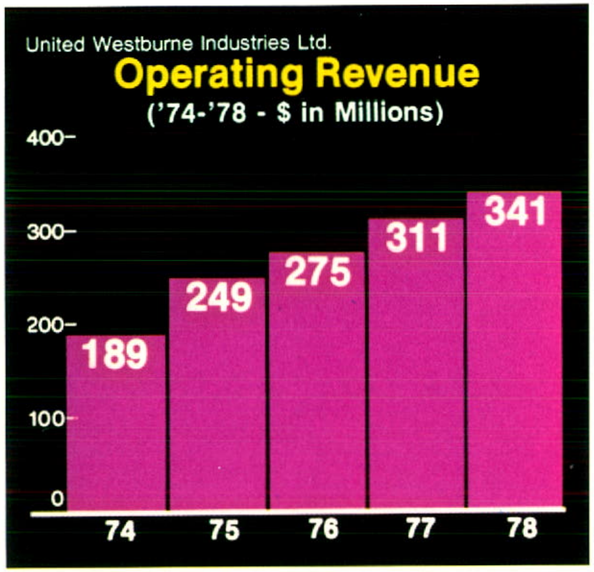


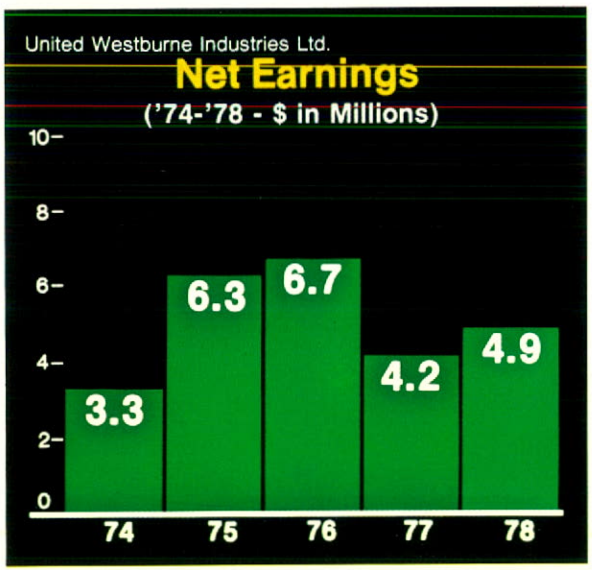






United Westburne Industries Ltd.





United is the successor company to Westburne Oil Co. Ltd. which was incorporated in 1952 and operated initially as a closed-end investment trust in oil, gas and related shares, shifting gradually into an oil and gas producing concern.

In 1963, after the acquisition of a controlling interest by Commonwealth Petroleum Services, a diversification program was initiated resulting in the first acquisition in the plumbing and heating wholesale business. Subsequently, most of the oil and gas properties were sold profitably and the balance transferred to a sister company, Westburne Petroleum and Minerals.

In a little over a decade United Westburne has grown to one of the major companies of its kind in the world.

It is a full-service wholesaler specializing in the three product fields of plumbing, heating and electrical supplies.

It operates 106 branches across Canada and employs approximately 2,500 persons.

It has over 30,000 active accounts. Although it sells mainly to contractors, it also sells to industrial users such as oil refineries, paper mills and chemical plants and to such institutional customers as hospitals and schools.

It maintains inventories of over 50,000 items with a current value of around $65 million.

Products are purchased from several hundred suppliers none of which accounted for more than 7% of purchases in the latest fiscal year.

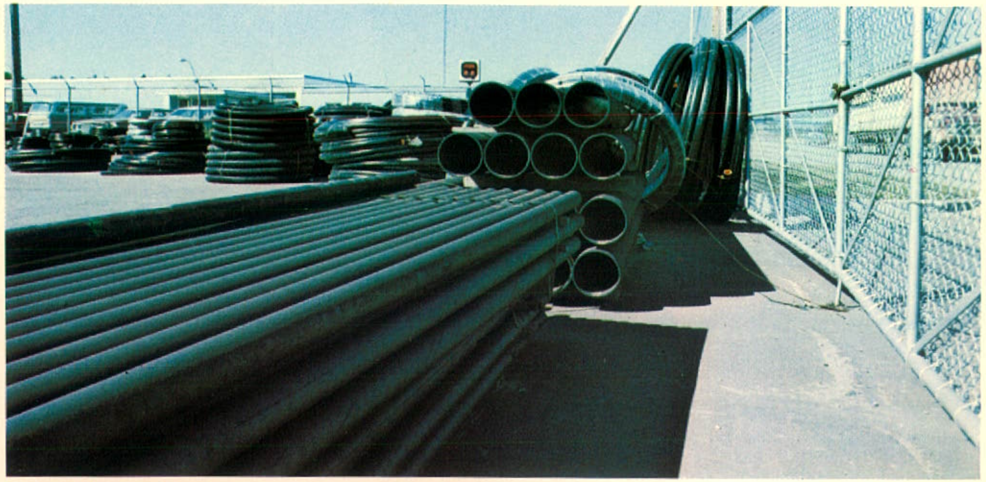
Operating revenue of this division has shown a consistent improvement and over the last five fiscal years has increased by 80% to $346 million in the latest year.

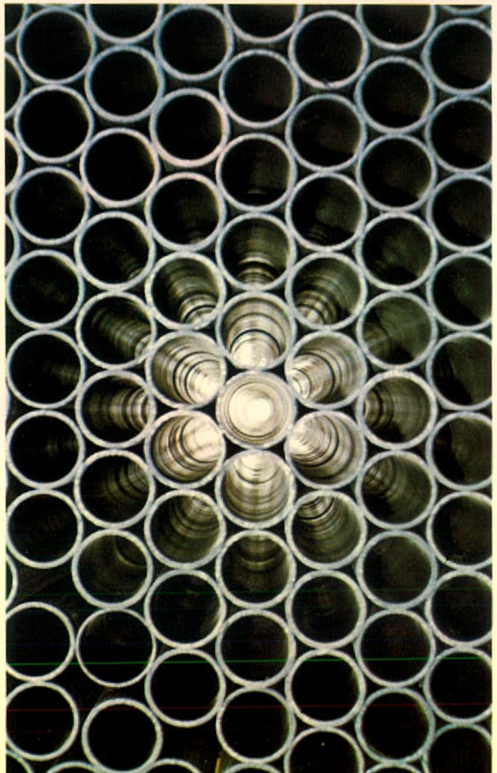
Since an estimated 50% of total sales is to the new residential construction market company sales and earnings performance reflects to a considerable degree the annual changes in the new housing market in Canada.

However, through increasing diversification management is gradually reducing the dependence on new housing. Residential modernization and remodelling, for instance, already accounts for an estimated additional 10% of sales volume and commercial building construction some 15% to 20%.

Total revenue in the latest fiscal year represented a 9.6% increase from the previous year.

Pre-tax earnings for the last five-year period have varied considerably and reached $8,151,000 in the latest fiscal year.





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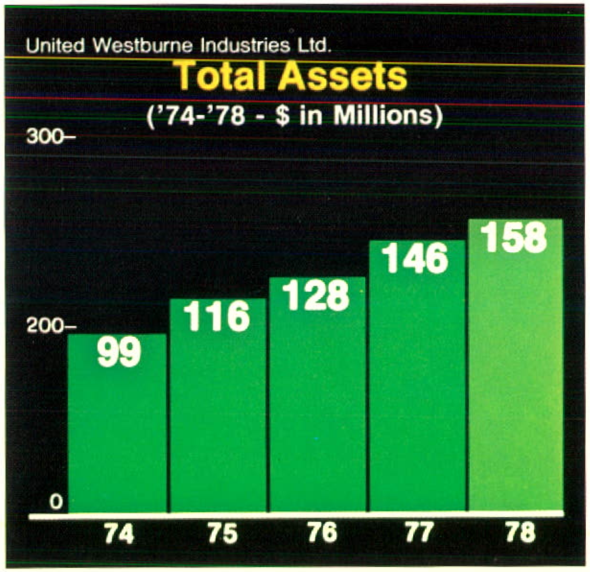

United's Net profit of $4,876,838 in the last fiscal year represents a healthy 16.7% increase from the previous year and is the equivalent of $2.59 per share.

Management feels that the latest year's performance is encouraging since the Canadian economy was not overly buoyant and new housing starts were off 11%.

Assets have grown steadily over the past five years. Of the total $158.3 million at the end of the latest fiscal year 17% was made up of fixed assets. The balance represented receivables and readily disposable assets, mainly inventories.

United's diversified product line, markets and the geographic locations of its branches have enabled it to achieve a more consistent performance than its main competitors. The company is particularly strong in the relatively small cities where price competition is less intense and in the more dynamically growing market regions of western Canada.

Management sees plenty of opportunities for further expansion. These include growth opportunities in the electrical market; further penetration into the industrial market; increased sales to direct-to-user outlets and the addition of new products.

Of particular importance over the longer term are plans for expansion into the U.S.


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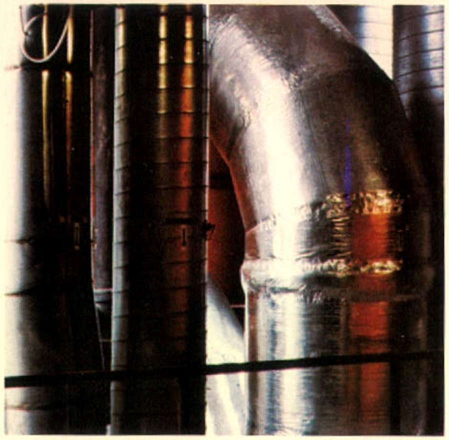


Westburne Petroleum Services Ltd.

This wholly-owned petroleum industry service division is the largest Canadian-based contract oil and gas driller and has substantial contract operations in the U.S., Algeria, Iran and other international markets.

It's corporate history dates back into the 1920's when the discovery of oil and natural gas in Turner Valley launched western Canada into the oil era.

Drilling expertise and range of drilling equipment have expanded steadily over the years. The company is now operating 61 drilling rigs around the world, most of which are wholly-owned.

The drilling equipment covers the full range of depth capabilities currently required in the world's active petroleum areas. There has been a steady re-investment of earnings into upgrading the equipment.

The 32 rigs operating in Canada supply approximately 10% of the total Canadian drilling market. In the latest fiscal year Canadian drilling operations accounted for approximately 42% of total revenues from company's world-wide drilling operations.

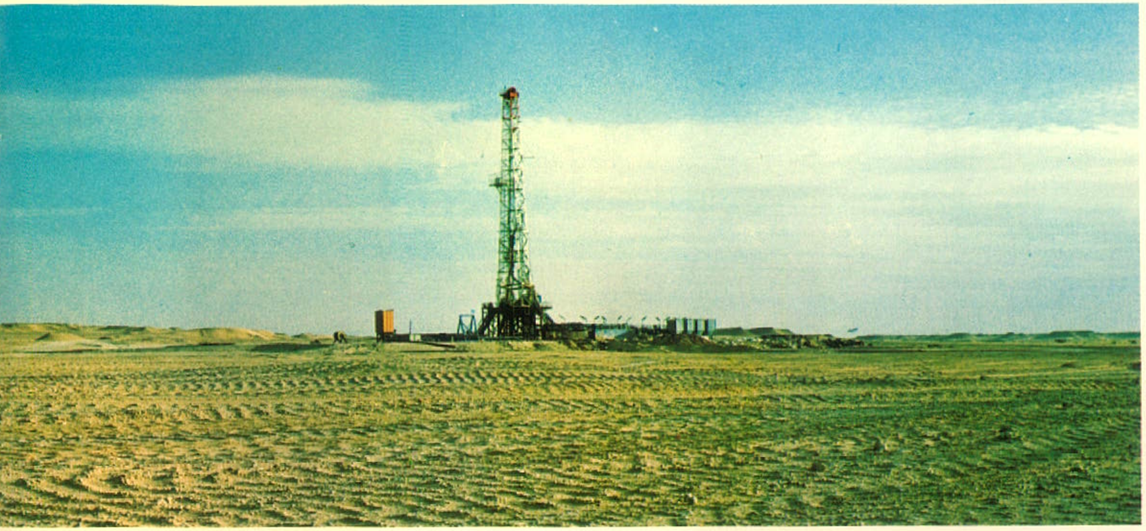
The heaviest concentration of company rigs is in Alberta, the largest Canadian oil and gas producing province.

The company also operates four Arctic rigs in equal partnership with another drilling company.

The Canadian drilling market began to improve in 1976 after several years of unstable conditions. Higher oil and gas prices, improved drilling incentives and several recent discoveries have combined to spark a record demand for drilling services.

National concern over depleting petroleum reserves and a growing adverse balance of payments on energy have been contributing to a healthier industry-government relationship over the past year and a half. This is being reflected in the provision of more exploration incentives through more generous tax write-offs and more direct government participation in the financing of new high-cost petroleum developments.

We expect the Canadian drilling market to remain favorable for a sustained period. Important oil and gas field discoveries in Alberta and British Columbia have been accelerating the already expanding demand for drilling services. Interest also remains high in the still largely-untapped potential of the Canadian Arctic.



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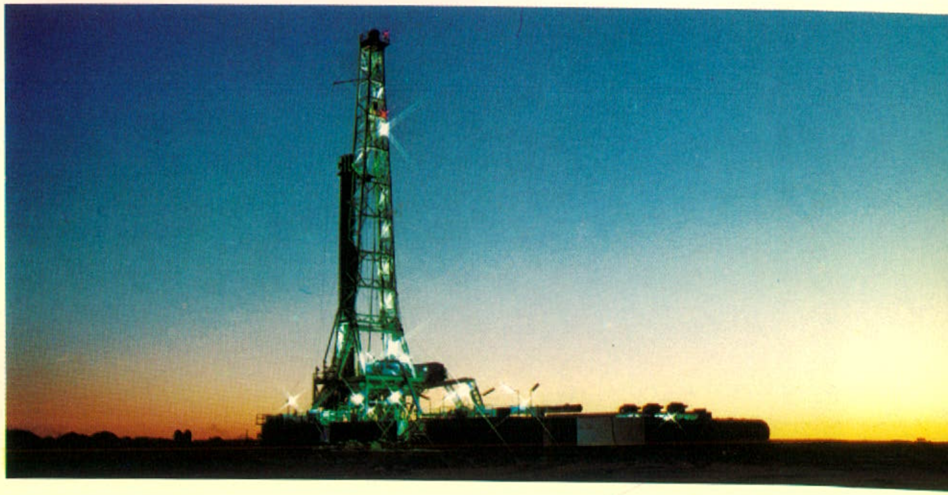
WESTBURNE
INTERNATIONAL
DRILLING LIMITED



We operate 10 rigs in the **United States,** six of which are owned and four of which are leased. Operations are primarily in North Dakota and Wyoming and range from medium to deep-well drilling.

Increases in interstate natural gas prices and new discoveries in the Rocky Mountain states have improved the drilling market during the last two years. Present rig utilization is high and provides attractive market conditions for us to expand further into the U.S. Such expansion could take the form of acquisition of one or more well-established U.S. land drillers, the purchase of additional drilling equipment, or a combination of both.

We are not new in the international drilling business having operated more than 10 years ago in **Papua, Australia, Portuguese Timor** and **Mexico**. But the big thrust in our international operations came in the early 1970's when we sought to maintain a high utilization of our skilled personnel and equipment in the face of a spotty drilling market in Canada. In contract drilling skilled personnel is the key asset; one that is difficult to replace.

We own and operate four rigs, each with a drilling capacity of 15,000 feet, in **Algeria**. The contracts there are with the state-owned oil company, Sonatrach, and run to late 1979. Under these contracts we are paid a set price per foot drilled plus special day rates when applicable.

Under the Algerian contracts we provide all our own back-up services — transportation, warehousing, maintenance and repair, administration and catering. Our total capital investment including finance costs, infrastructure and moving costs, is \$30-\$35 million.

We are drilling mainly development wells in Algeria's largest oilfield, the Hassi-Messaoud field, some 500 miles south of Algiers in the Sahara Desert.

We anticipate that the Algerian contracts will be renewed and that we will maintain present or higher levels of activity in that country over the intermediate term.

We also own and operate four diesel-electric rigs in **Iran**, each with a depth capacity of 16,000 feet. Our total capital investment in this area is approximately the same as in Algeria, \$30-\$35 million.

We are operating under a three-and-one-half year contract with the Oil Services Co. of Iran, a government-controlled company. The drilling is being done in the country's two largest oilfields, the Marun and the Ahwaz fields, some 100 miles inland from Abadan on the Persian Gulf.

We think we have built up a creditable performance reputation with the government-owned oil services company and expect to maintain our present, or higher, levels of activity in the country over the indefinite future.

We own and operate six rigs in other international markets including four in **Indonesia,** one in **South Africa** and one in **Zaire.**

We have operated profitably in southeast Asia for over five years under a wide variety of contracts.

Two of our rigs in Indonesia are working in West Irian, formerly Dutch New Guinea. One is under contract to Pertamina, the state-owned oil company; the other to a private U.S. oil company. The two other rigs are contracted to major international oil companies and are operating in western Indonesia.

We expect to continue a significant and profitable presence in the southeast Asian market.

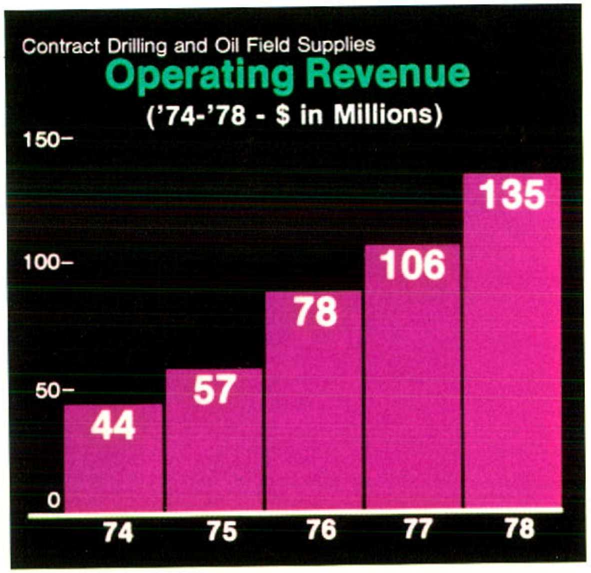
Two additional rigs are operating in Africa under contract to private oil companies; one in western Zaire and the other in the Zululand region of South Africa.

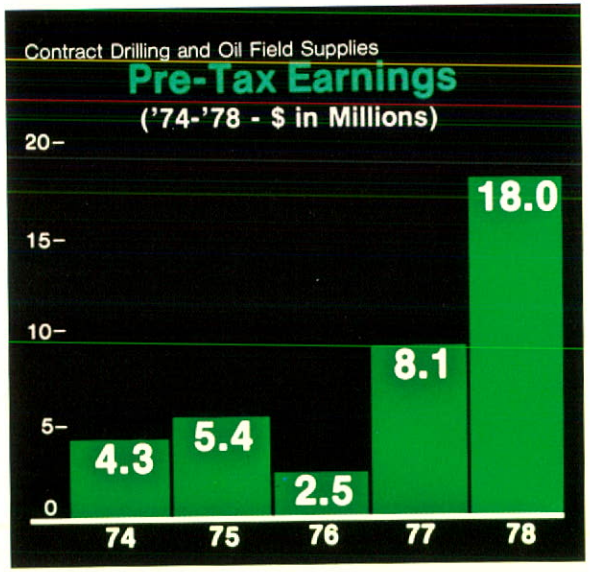
Finally, the company's one off-shore drilling rig, a jack-up rig which had been operating in Gabon, West Africa, has been towed to the U.S. for refitting and is now operating in the Gulf Coast area under a bare-boat charter arrangement.

We are also carrying out special drilling operations under two management-labor contracts. Here we provide the drilling expertise and drilling crew personnel. The contracting company provides the drilling equipment.

One of the management jobs is on a production platform in the British sector of the **North Sea** and the other is on a land-based rig on Leyte Island in the **Philippines.**

In the North Sea we are under contract to the Shell-Esso team that is developing the big Brent oilfield east of the Shetland Islands. We are operating a specially-designed rig that can be moved on skid rails





and can drill up to 48 deviated wells from the one platform. Our drilling team is becoming highly skilled in this specialized operation and we are planning to expand our participation in the North Sea play.

On Leyte Island we are drilling for steam rather than oil or gas in the country's first commercial geothermal venture. With more than 50 geothermal occurrences already spotted throughout the 7,000-island chain, the Philippines is the biggest potential producer of geothermal power in the world. We are drilling under contract to the Philippines state-owned oil company.

An accompanying chart shows the growth in annual revenue from the petroleum industry service division over the past five-year period. The revenue has more than tripled with the biggest annual percentage gain — 27% — in the latest fiscal year. Of the latest year's record operating revenue of $106.5 million more than 56% came from North American operations and the remainder from foreign-based operations.

Another chart shows the pre-tax earnings from this division over the five-year period. You may notice the very substantial improvement over the latest fiscal year. This reflects the strong Canadian and U.S. drilling market which has increased rig utilization rates and profit margins, and the expanded revenue from the Algerian and Iranian operations.

The adverse 1976 performance reflects to a considerable degree the heavy mobilization costs incurred in establishing drilling operations in Algeria and Iran.

Dominion Oilfield Supply Co. Ltd.

Dominion Oilfield Supply Company Limited has been established for thirty years as a supplier of hardware equipment and supplies to oil and gas producers, processors and drilling contractors in Western Canada. The company maintains its own branch outlets in key oil producing areas of Western Canada and in Houston. Products distributed include tubular products, valves, fittings, drilling rig components and a wide variety of other oil and gas production equipment.

Dominion has achieved a fourfold increase in sales in the five years fiscal 1973 through fiscal 1978, reflecting sharp expansion of drilling activity and gas processing plant construction in western Canada.

The outlook for Dominion appears to be excellent, not only in western Canada, but also potentially in the Rocky Mountain region and other oil and gas producing areas of the United States.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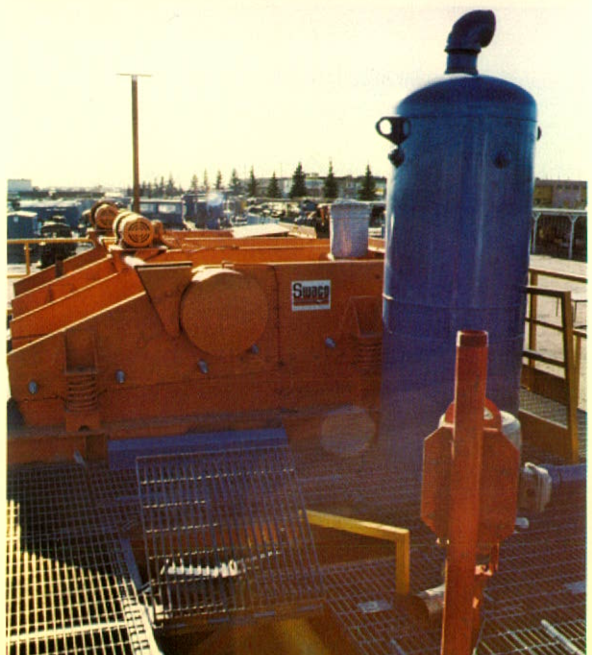
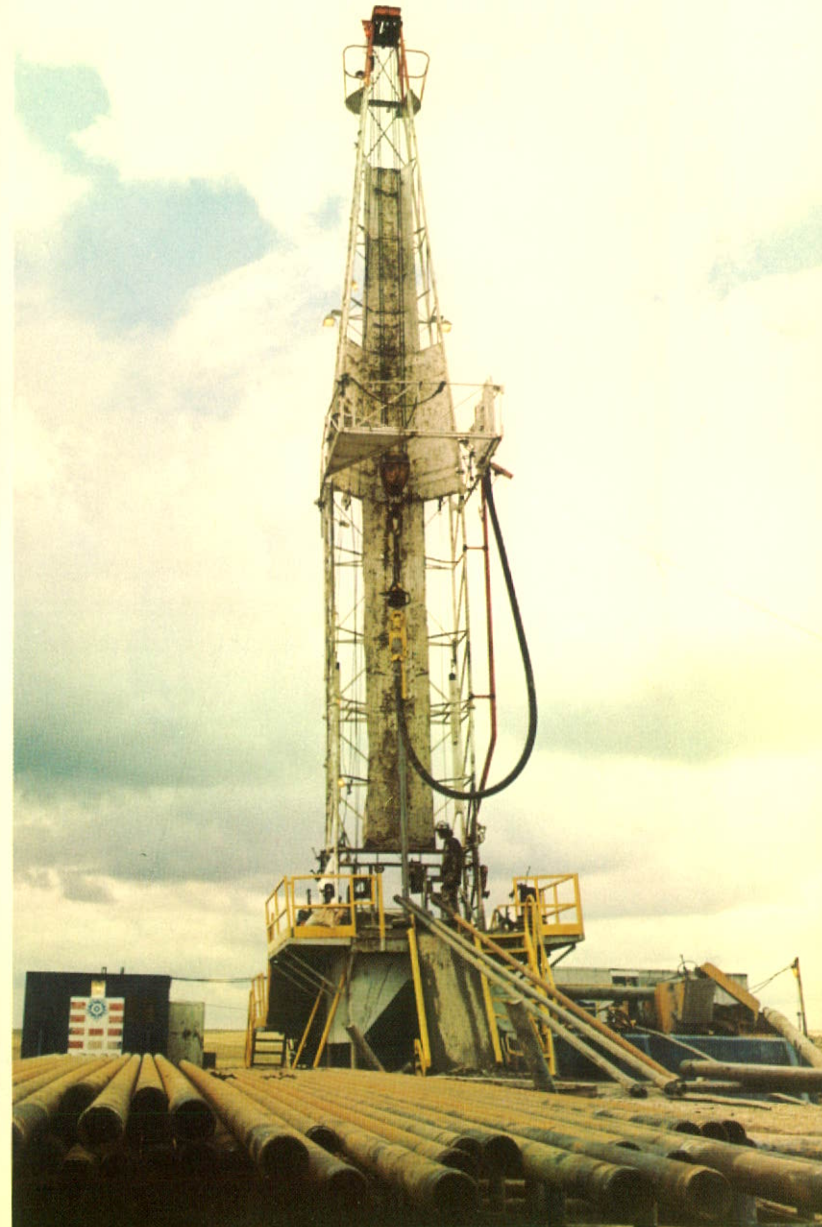




Westburne Petroleum and Minerals Ltd.

The company's own oil and gas production and exploration operations are carried on by wholly-owned Westburne Petroleum & Minerals Ltd. This division has developed a net interest in 125 wells, primarily in Alberta, but also in Saskatchewan and British Columbia.

Currently, production is averaging around 1,800 barrels of crude oil daily and 960 thousand cubic feet of natural gas daily.

Proven and recoverable net reserves of oil and gas as of January 1, 1978 have been estimated by independent engineering consultants to be 7.7 million barrels of crude oil and liquids and 8 billion cubic feet of gas.

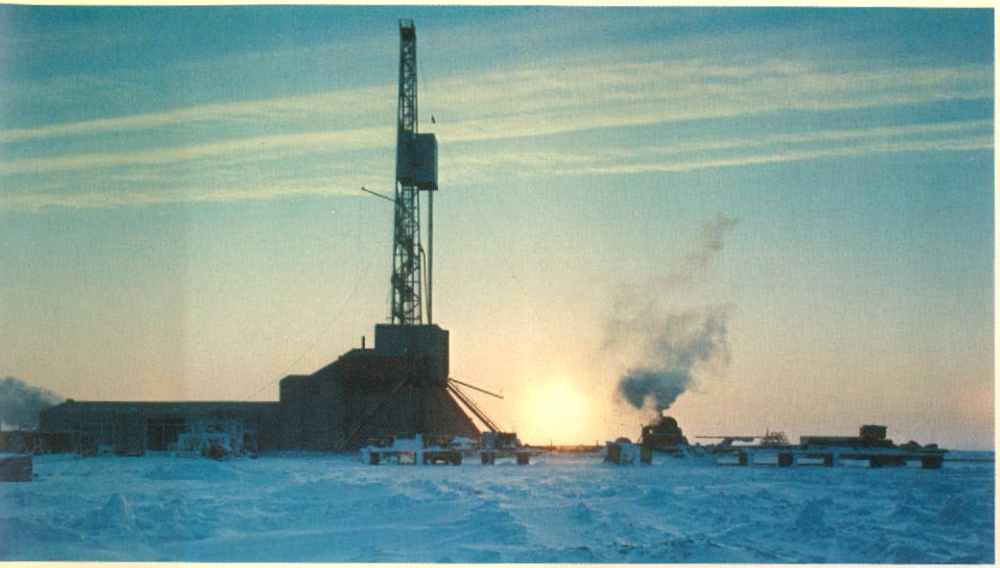
The present value of future revenue from production from these reserves has been estimated at $34 million, discounted at 9% or $25 million, discounted at 15%.

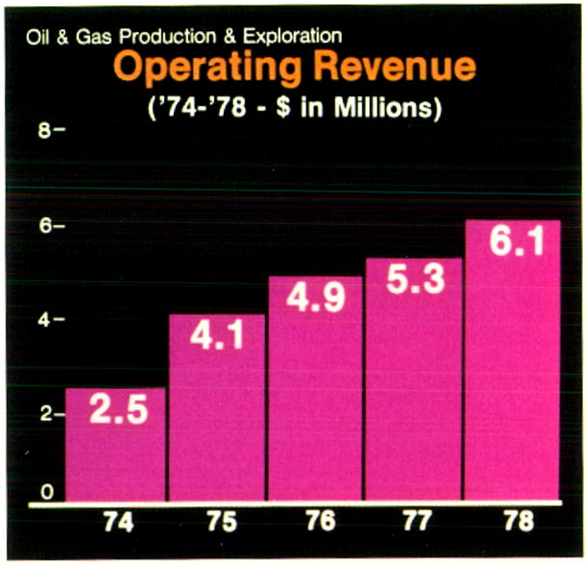
The company has interests in undeveloped acreage in Canada's three western provinces equivalent to 5,264 net acres. It also holds interests in the Canadian Arctic Islands through a 1.6% participation in Panartic Oils Ltd., the major Arctic exploration company owned by a consortium of privately-owned companies and the government-owned oil company.

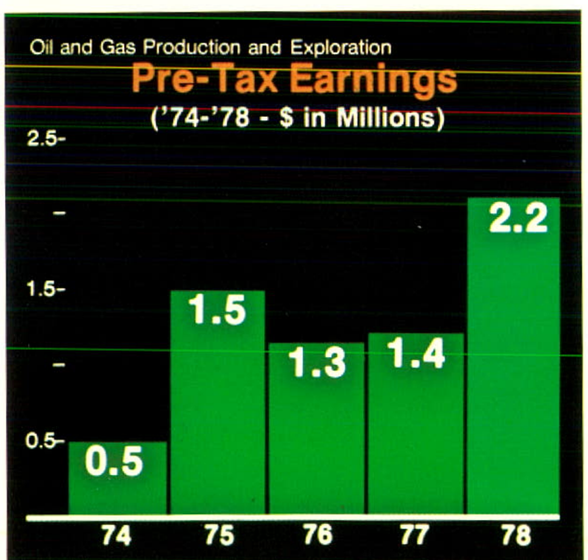
In extensive drilling throughout the islands Panartic has already proven an estimated 12.7 trillion cubic feet of natural gas in seven fields.

In addition to Canadian land interests we hold varied interests in exploratory acreage in the North Sea, the Midlands area of England, in Wyoming in the U.S. and in Bolivia in South America. These interests range from 2% to 37.5% and are being explored and developed through farm-out agreements.

Recently we took a 30% interest in a major exploration program to be conducted in partnership with other Canadian companies offshore Viet Nam in the South China Sea 200 miles south of Ho Chi Minh City. Two blocks — 01 TLD and 02 TLD — were awarded covering some 3,400,000 acres located in an average water depth of 130 feet. Under the terms of a master contract signed with Petrovietnam, the exclusive representative of the Socialist Republic of Viet Nam, the Canadian group of companies (Westburne, Bow Valley, Siebens and Sceptre) is committed to spend $13 million over a three year period. Extensive seismic programs have already been completed and the area is geologically very promising. Drilling of a first exploratory well should commence within six months, pending however on drilling equipment availability.







Management plans to expand its oil and gas exploration and development program but will continue the policy of engaging in conservative programs avoiding high-risk exploration costs through the farming out of wildcat wells.

Our largest oil and gas holdings are in the Provost field in Alberta. We began developing this field in the late 1960's and it now accounts for approximately 50% of our total wells and 60% of our total production and reserves.

The accompanying chart shows the revenues from oil and gas production over the past five years. Revenue has increased every year and has more than doubled over the period.

In the latest fiscal year revenue established a record $6,099,000, a 14% increase from the previous year.

The other chart shows pretax income from the production division over the past five-year period. The major factor in the earnings improvement over the past two years has been the rising price of oil and gas. The latest increases went into effect on August 1 this year.

The planned stepped-up investment in oil and gas exploration and development — made possible by company's progress in its other two divisions — promises considerable further growth of revenues and earnings from oil and gas production.

Summary

Westburne International Industries Ltd. has achieved rapid expansion in its three businesses supported by a very favorable return on capital.

The return on equity has averaged 19% over the last six fiscal years, 1973 through 1978. Revenue increase over the same period has averaged 25% annually.

There has been a threefold increase in fixed assets in the same period and the market value of plant, net property and equipment substantially exceed the book value. For instance, the market value of our drilling equipment exceeds the book value by an estimated $50 million and the market value of our oil and gas properties is estimated to exceed book value by $20 million.

Westburne has utilized substantial capital leverage to support a high growth rate. Equity was 54% of total capitalization at March 31, 1978 and 36.1% of capitalization, including short term debt, at the same date.

The company has financed a major portion of its drilling rig assets with long-term debt and most of its inventory and receivable requirements for the wholesale distribution division with short-term debt and with accounts payable. The company recently completed a $50 million private placement of long-term debt. This will extend maturities of long-term debt and reduce short-term debt.

We view the prospects for continued growth in company revenue and earnings as being particularly bright over both the near and longer terms. The diversification provided by the three different businesses should contribute substantially to consistency of future earnings.

At our latest annual meeting in August we declared the first company dividend at an annual rate of $1 per share payable quarterly at a 25¢ rate. At the same time we declared a special extra dividend of $1.25 per share both payable on Sept. 30, 1978.

Both dividends are being paid out of pre-1972 capital surplus under an incentive policy introduced by the government in a recent budget. Under the provision such payments are granted tax-deferred status. This provision is not expected to be extended beyond the end of this year.

We think the company's future financial position will support a regular dividend payout of 15%-25% of sustainable earnings because of the additional expansion opportunities we see in all three phases of our business.

Directors and Officers

DIRECTORS

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Retired Bank Executive,
Montreal, Quebec

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Contract Oil & Gas Drilling,
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JOHN H. COLEMAN,
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P. D. WILLIAMS,
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