1984 Annual Report Bralorne Resources Limited

The Company

Bralorne Resources Limited is a diversified North American energy company with headquarters in Calgary, Alberta.

The Company explores for and produces oil and natural gas in Western Canada, and has oil and gas interests in the United States and Australia. Bralorne is also a major manufacturer and supplier of products and services to energy-related industries world-wide.

At year-end 1984 Bralorne, through its subsidiaries and divisions, employed 1,670 people at more than 30 offices and plants around the world. Total wages, salaries and benefits paid to employees in 1984 amounted to $45.4 million. Comparable figures for 1983 are 1,490 employees and $40.5 million.

Contents

Cover: Bralorne's Donnelly Gas Plant

Corporate Information

Officers

F. William Fitzpatrick
Chairman, President and Chief Executive Officer

Donald H. Claughton
Group Vice President, Service

William F. Limin
Group Vice President, Manufacturing and Oil and Gas

William G. Crossley, C.A.
Vice President, Finance and Treasurer

Peter G. Wiseman
Secretary

G. Brent Rusk, C.A.
Assistant Treasurer

Executive Office

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Registered and Records Office

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Auditors

Price Waterhouse
Calgary, Alberta

Bankers

The Royal Bank of Canada
and the Bank of Montreal
Calgary, Alberta

First City National Bank of Houston
Houston, Texas

Transfer Agent and Registrar

Common Shares:
The Royal Trust Company
Vancouver, Calgary, Toronto, Montreal and Regina

Preferred Shares:
The Royal Trust Company
Vancouver, Calgary and Toronto

Co-Transfer Agent

Common Shares:
The First Jersey National Bank
Jersey City, New Jersey

Directors

†Arthur F. Armstrong
Colorado Springs, Colorado
Vice-Chairman and Chief Executive Officer
Velcro Industries, N.V.

*Douglas A. Berlis, Q.C.
Toronto, Ontario
Senior Partner, Aird & Berlis

†Ronald L. Cliff, C.A.
Vancouver, British Columbia
Chairman of the Board
Inland Natural Gas Co. Ltd.

*F. William Fitzpatrick
Calgary, Alberta
Chairman, President and Chief Executive Officer
Bralorne Resources Limited

*John L. Kemmerer, Jr.
New York, New York
Chairman, Kemmerer Resources Corp.

†J. Ronald Longstaffe
Vancouver, British Columbia
Executive Vice President
Canfor Corporation

Clifford S. Malone
Toronto, Ontario
President and Chief Executive Officer
Wabasso, Inc.

George B. McKeen
Vancouver, British Columbia
Chairman, McKeen & Wilson Ltd.

*Peter Paul Saunders
Vancouver, British Columbia
Chairman and President
Versatile Corporation

**Member, Executive Committee*
†Member, Audit Committee

Annual Meeting

The annual meeting of shareholders will be held in the Bow Valley Square Auditorium, third floor, 205 - 5th Ave. S.W., Calgary, Alberta at 10 a.m., Friday, April 12, 1985.

1984 Highlights

(in thousands of dollars)

	1984	1983
Gross revenue	**$157,651**	$138,357
Cash flow from operations	**$ 17,698**	$ 12,544
Per share	**$ .63**	$ .48
Net income (loss) before unusual items	**$ 108**	$ (5,929)
Net income (loss) for the year	**$ 108**	$ (10,327)
Per share — before unusual items	**$(.11)**	$(.40)
— including unusual items	**$(.11)**	$(.61)
Shareholders' equity	**$121,802**	$121,609
Per common share	**$3.82**	$3.81
Dividends — preferred	**$ 2,800**	$ 2,450
— common	**$ 1,174**	—
Per share — preferred	**$1.75**	$1.53
— common	**$0.05**	—

Directors' Report to the Shareholders

To the Shareholders:

There was some overall improvement in the markets in which the Company participates, conditions in 1984 did not match the expectations we had at the time of writing last year's report.

Continuing volatility of world oil prices and uncertainty in respect to U.S. tax legislation were the key factors which curtailed U.S. drilling activity, particularly in the second half of the year. On the other hand, Canadian activity gradually improved throughout the year. Further improvements can be forecast for 1985 provided that a reasonable political and economic environment is forthcoming.

Despite a rather disappointing market environment the Company made real progress in 1984 in eliminating the losses suffered in 1983 and further gains are expected in 1985.

At the risk of being repetitive, we would point out again that drilling activity in the United States in both 1983 and 1984 has not been sufficient to replace either natural gas or oil production declines and it therefore follows that the longer the industry goes without increasing drilling activity, the sharper must be the growth curve once natural gas productive capacity and demand come into balance. 1986 should be the key year and we would anticipate that some improvement will be evident in the second half of 1985.

Financial Highlights

The Company's gross revenue in 1984 was $157,651,000, up 14% from $138,357,000 in 1983. Cash flow from operations in 1984 was $17,698,000 or 63¢ per share after preferred dividends, up 41% from $12,544,000 in the previous year. The Company reported a 1984 net income of $108,000 or an 11¢ per share loss after preferred dividend which compares with a $5,929,000 net loss or 40¢ per share before unusual items in the previous year. The final 1983 net loss was $10,327,000 or 61¢ per share.

While the Company's revenue gain occurred almost totally in the United States, the net income improvement was split almost evenly between the United States and Canada. As reflected in the tables accompanying the financial section of this report, further volume and price improvements are required before our U.S. operations are again profitable. With respect to Canadian operations, 1984 was a relatively improved year with operating income exceeding the results of each of the last three years.

The cost containment program which has been in progress over the past two years plus the additional financing undertaken in 1983 have strengthened significantly the Company's current financial position and its ability to participate in the inevitable recovery of the North American energy sector. Nothing demonstrates this better than a comparison of 1984 and 1982 operations. In both years the Company basically broke even but it did so in 1984 on 31% less gross revenues despite increased price pressure on its key product lines.

Strategically the Company in 1984 continued its policy of living within its means with internally generated cash flow sufficient to meet all capital requirements including oil and gas exploration expenditures. During the year all preferred dividends were met and a common stock cash dividend of 5¢ per share was paid at mid-year in order that the Company's common stock would retain eligibility for purchase by life insurance companies, pension funds and trusts.

The Company's balance sheet continued strong with net working capital of $65,428,000, a current ratio of 2.8:1, and unutilized bank operating lines of approximately $27,000,000. At year end the debt/equity ratio stood at .8 to 1 which was comparable to the previous year end position.

Operating Highlights

Details on individual profit centre activities are included in other sections of this report. The one common thread is that without exception our units were operating in a highly competitive environment and we owe a very real debt of gratitude to our employees for the enthusiastic and effective way in which they continue to meet the challenge.

As in 1983, a considerable amount of effort has gone into improving efficiency, consolidating facilities where feasible and generally becoming more cost effective in a dramatically shrunken market.

The activity has not all been defensive in nature. When possible units have expanded market coverage, both in geographic terms and industry coverage, and we anticipate that there will be a pay-off for these efforts in 1985 and beyond.

Excess manufacturing capacity will be a fact of life for some time and our profit centres have been making progress in improving machine utilization both through additional internally developed products and through acquisition of externally developed products which fit with our manufacturing and distribution capability.

A conscious effort to reduce inventories continues to be a day-to-day prime objective of our operating units. Inventories in the past two years have been reduced by approximately $23,000,000 or almost one-third. Despite this improvement, there is work to be done particularly in two key product areas to bring us in line with current market conditions. Hopefully, a stronger market in 1985-86 will assist in this endeavour.

Outlook

In addition to the so-called natural gas bubble or productivity surplus which currently exists in both Canada and the United States, the Petroleum Industry labors under a serious uncertainty created by the current oil demand/supply imbalance and the resulting downward price pressure in North America on both oil and natural gas wellhead revenues.

It is clear from our comments in last year's report that we have no special short term forecasting tool more accurate than others, as the U.S. drilling recovery which we anticipated would begin in the second half of 1984 has not yet materialized. In fact, we enter 1985 with current drilling and seismic activity running approximately 15% behind the same point in 1984.

The Canadian situation is quite different with operations during the current winter season substantially exceeding the 1984 experience. This increased activity not only reflects success on recent oil exploration programs but it also reflects some anticipation as to the level of relief which will be contained in the Federal budget due in April.

Therefore, 1985 starts out with a mixed bag for the Company with further gains anticipated in Canada and a difficult first half forecast for our U.S. units.

After a very detailed planning exercise last summer the Board of Directors approved a strategic plan for the Company which might be summarized as follows:

1. With minor exceptions the medium to longer term outlook for our existing business is acceptable and therefore major divestitures are not anticipated.
2. The short term outlook for our industrial units (1985-86) anticipates modest improvements in 1985, accelerating as the U.S. recovery takes hold.
3. In view of this outlook, an industrial acquisition of size will only be undertaken where a demonstrated short term favorable net income can be reasonably forecast.
4. The one exception to this principle would be the Company's investment in Mark Products, Inc. where a divestiture or acquisition decision was required in view of possible future conflicts of interest.
5. The Company is committed to a judicious expansion of its Canadian oil and gas exploration programs in the short term.

In regard to the implementation of this plan we are pleased to report that at a February 22, 1985 meeting the minority shareholders of Mark Products, Inc. overwhelmingly voted in favor of Bralorne's $5.25 per share cash offer and accordingly Mark Products, Inc. is now a wholly-owned subsidiary of the Company. The total cost of this acquisition was approximately $19,000,000 U.S. and while the long term outlook is excellent no significant impact on current year earnings is forecast.

Also, our Oil and Gas Division acquired several interesting land parcels in late 1984 which we propose to drill during 1985 as an initial step in our exploration expansion.

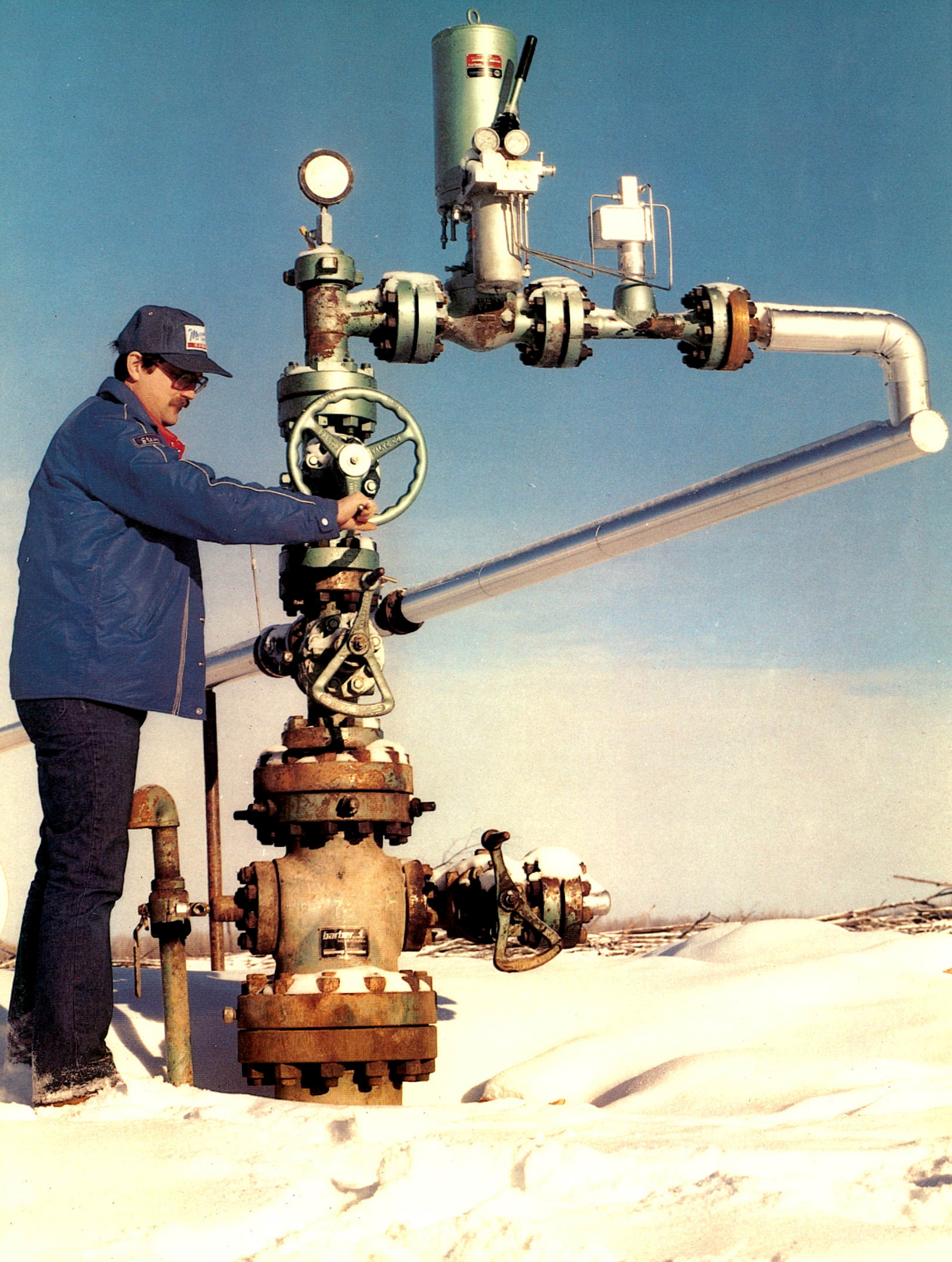
On behalf of the Board of Directors, I would like to thank our shareholders for their continued support and once again to express to our employees on behalf of the Board and all shareholders our very sincere thanks for their contribution towards the improved fortunes of the Company.

On behalf of the Board

F. W. Fitzpatrick
Chairman, President and Chief Executive Officer

February 27, 1985

Donnelly natural gas production was enhanced during 1984.



Industry Overview

Bralorne's activities as an oil and gas service and supply company in the United States and as an oil and gas explorer and as service and supply company in Canada have been impacted by changes in natural gas markets in the United States. The deliverability surplus of United States natural gas that has existed since the early 1980's combined with deregulation of natural gas prices has resulted in a slowdown in natural gas exploration. Deep drilling (below 15,000 ft) has been particularly hard hit by the slowdown. Since deep drilling requires more services such as camps and catering and products such as drill collars than shallow wells, Bralorne's sales and rentals of products related to deep drilling have been affected. This section of the Annual Report provides some background information regarding forces affecting the markets into which Bralorne's products are sold.

Natural Gas Markets

The relative share of natural gas to total energy consumption in the United States has declined in the past decade and has declined recently due to reduced economic activity. Natural gas consumption peaked in 1973 at slightly over 22 trillion cubic feet (TCF). This accounted for approximately one-third of total energy usage. In 1983 U.S. natural gas consumption at approximately 17.5 TCF accounted for approximately one-quarter of total energy usage. During the peak consumption period of the mid 1970's concerns over supply shortages resulted in regulated prices for various types of natural gas production. The price for deep gas in particular was set at a level which encouraged exploration as a means of ensuring security of supply.

As a result of this artificial price, natural gas exploration continued and supply surpluses developed into the U.S. "Natural Gas Bubble". This bubble or surplus deliverability has recently been estimated at anywhere from 1 to 4 TCF with consensus forming around the 2 TCF figure. Current forecasts anticipate the marketplace will reach equilibrium during the 1985-86 or 1986-87 heating season.

Recent natural gas price deregulation in the United States has encouraged gas purchasers to seek lower cost gas versus high price supplies. The surplus of high price natural gas has left many producers with shut-in gas and few markets in which to sell their gas. With no market outlet for their production, natural gas exploration ground to a standstill. Producers have attempted to develop new marketing strategies for sale of their shut-in gas.

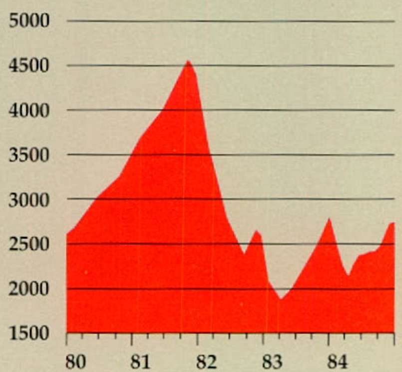
One marketing development growing out of the surplus supply situation is the birth of spot markets for natural gas. Those markets are short term contracts between producers and purchasers with pipelines acting as common carriers. Some industry observers suggest that these spot markets may account for up to 25% of the natural gas market in the near future.

In Canada sales of natural gas to the United States were curtailed by a restrictive one-price system which made Canadian gas non-competitive. However, recent revisions to government regulations allowing a negotiated price for natural gas have made Canadian natural gas more competitive and have stimulated increased sales to Canada's major export market. However, these changes occurred late in 1984 and exports are expected to show a moderate increase for the year.

Drilling and Seismic Activity

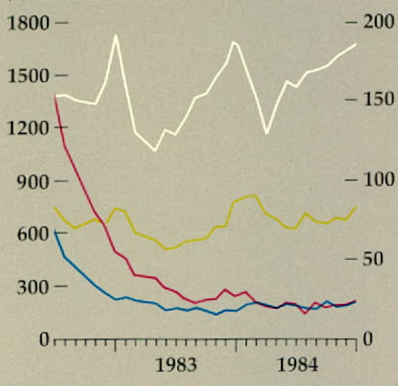
United States drilling activity in 1984 resulted in slightly lower activity than in 1983. Rotary drilling rigs working as reported by Hughes Tool peaked in mid-December at just below 2,800 rigs. In 1983, the rig count peaked in late December at slightly over 2,800 rigs.

U.S. Rotary Rig Count



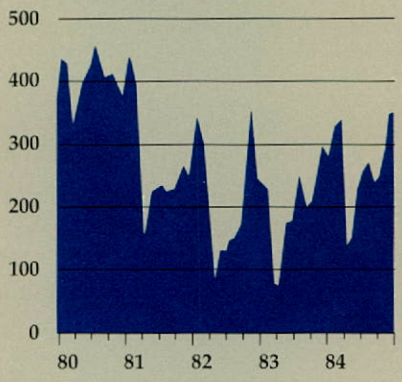
However, the total rig count does not give a clear picture of the types of rigs working. Comparison of utilization rates by proposed total depth and by rig depth rating reveals that drilling proposed to the depths between 2,501 - 5,000 ft. potentially could occupy 96.6% of rigs rated to drill at that depth, but since many rigs rated to drill at greater depths were working in this shallower depth range, only 31.1% of the rigs rated at 2,501 - 5,000 ft. were active. In contrast, wells intended at depths of 15,000 ft. or more could occupy 14.3% of the rig fleet rated to drill at their appropriate depths but 42.8% of this segment of the rig fleet were active. This means that rigs were generally drilling at levels below their rating. Overall only 44.8% of the total rig fleet were active. With such a low level of rig activity competition for the available work was keen. Rig operators were prepared to work their more expensive deep rated rigs on shallow wells to keep rigs at work and maintain cash flow. The competition for the available work kept prices for products supplied to drilling contractors under constant pressure.

Number of U.S. Rigs Working by Projected Total Depth
(in thousands of feet)



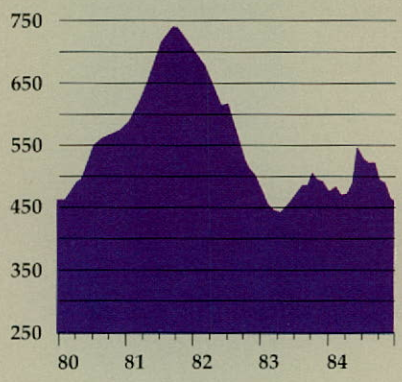
In Canada peak drilling activity in the 1983-84 drilling season was slightly lower than the 1982-1983 season (339 vs 346). The 1984-1985 drilling season is expected to be stronger with a peak above 345.

Canadian Rig Activity



Seismic activity reflected the relatively flat exploration activity in the United States. In July of 1984 the seismic crew count peaked at 529 crews active but has since declined to 466 crews at December 1984.

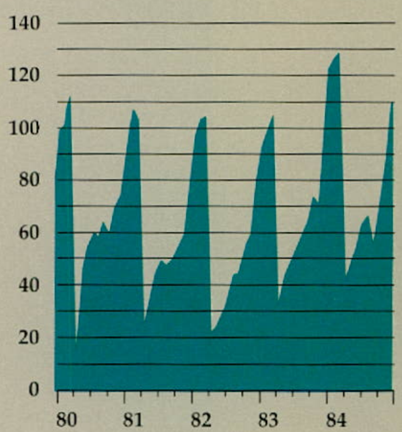
U.S. Seismic Crew Count



In Canada seismic activity has made a significant recovery. The crew count reached an all time high in the spring of 1984 with 129 crews in the field. Since that time a new record has been set in early 1985 with 148 crews in the field.

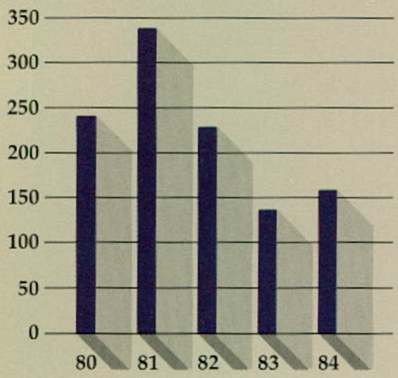
Seismic crew counts are leading indicators of rig activity. The relatively flat activity level of seismic activity in the United States points toward 1985 drilling activity at levels similar to 1984. In Canada, the high level of seismic activity indicates a strong 1985-86 drilling season.

Canadian Seismic Crew Count

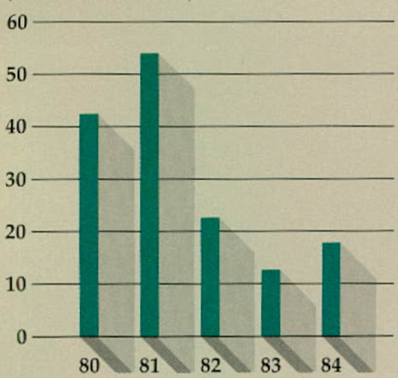


Financial Review

Gross Revenue
(in millions of dollars)



Cash Flow
(in millions of dollars)



Income

Gross revenue in 1984 increased 14% to $157,651,000 from $138,357,000 in 1983 and cash flow from operations increased 41% to $17,698,000 (63¢ per share) from $12,544,000 (48¢ per share) in 1983. Net income for the year was $108,000 for 1984 compared with a loss before unusual items of $5,929,000 and a loss of $10,327,000 in 1983. On a per share basis, after provisions for preferred dividends, a loss of 11¢ per share was recorded in 1984 compared with a 40¢ loss per share before unusual items and a 61¢ loss per share including unusual items for 1983.

In the United States the significant liquidation of field inventories and the increased drilling activity resulted in stronger demand for products and services provided by the Company's United States operations. Revenue was 37% ahead of 1983 and a positive operating cash flow was shown for the first time since early 1982. The impact of this increase on cash flow and net income was reduced by continued price pressures and the resulting low margins.

Although revenue from Canadian operations in 1984 was comparable to the prior year, operating results were significantly improved due to increased oil and gas production income, better margins in some units and reduced financing costs.

Changes in results are shown by business segments in the table Comparative Results By Operating Segments and by geographic location in the table Comparative Results By Geographic Area. For 1984, the Company's operations have been separated into two operating segments, Oil and Gas and Industrial.

The cost restraint program implemented in 1983 was continued in 1984 resulting in selling, general and administration expenses remaining basically at the 1983 level.

Interest on long-term debt was reduced due to the use of the proceeds from the issue of equity in November 1983 toward the reduction in long-term debt. Working capital loan interest is less than in 1983 because the United States federal income tax refund received in mid 1984 was applied on the working capital loan.

During 1984, the Company adopted the Canadian Institute of Chartered Accountants' new recommendation for financial statement treatment of foreign exchange. Notes 1(i) and 2 to the financial statements provide further information concerning this change. As a result of this new accounting policy, unrealized gains or losses are no longer recognized in the Consolidated Statement of Operations. The impact of currency fluctuations on net assets outside of Canada is now shown as a part of Shareholders' Equity, resulting in a $4,057,000 upward valuation.

Operating losses incurred in the United States and the ongoing investment in equipment and Canadian oil and gas ventures resulted in the Company recovering $1,039,000 of income tax paid in prior years and recovering $2,440,000 of deferred income tax recorded in prior years. In addition, the Company receives an Alberta

Comparative Results by Operating Segments

(in thousands of dollars)

	Gross Revenue		Segmented Cash Flow		Segmented Operating Profit (Loss)	
	1984	1983	**1984**	1983	**1984**	1983
Industrial						
Manufacturing Group	**89,183**	71,357	**10,579**	7,679	**3,663**	1,973
Service Group	**33,725**	35,431	**5,184**	2,622	**1,251**	(1,860)
Supply Group	**14,519**	12,821	**1,856**	653	**229**	(1,541)
Oil and Gas Division	**19,340**	18,050	**13,637**	12,750	**8,060**	7,312
Other	**884**	698	**884**	698	**883**	698
	157,651	138,357	**32,140**	24,402	**14,086**	6,582
General corporate expenses					**4,465**	4,326
Interest expense					**14,530**	17,460
Gain on foreign exchange					**—**	(453)
Income tax recovery					**(5,375)**	(9,312)
Minority interest					**358**	490
Unusual items, net of deferred income taxes and minority interest					**—**	4,398
					13,978	16,909
Net income (loss)					**108**	(10,327)

Comparative Results by Geographic Area

(in thousands of dollars)

	Sales to Customers Outside the Enterprise		Segmented Operating Profit (Loss)	
	1984	1983	**1984**	1983
Canada	**75,150**	74,226	**11,500**	8,888
United States	**78,678**	57,197	**2,449**	(3,519)
Other	**3,823**	6,934	**137**	1,213
Consolidated	**157,651**	138,357	**14,086**	6,582

royalty tax credit which is calculated as a percentage of the royalties paid to the Province of Alberta. Note 9 to the Financial Statements provides an analysis of the income tax recovery shown in the financial statements.

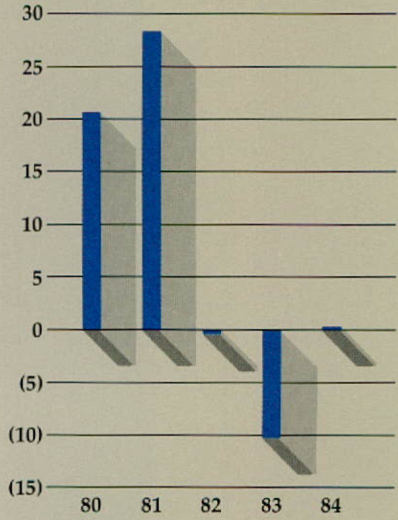
The minority interest shown on the Consolidated Statement of Operations relates to the minority shareholders' position in Mark Products, Inc. and Mobile Homes Limited.

Changes in Financial Position

To improve the reporting of information on the Company's liquidity and asset and liability management, the Statement of Changes in Financial Position has been revised to report changes in cash rather than working capital. This statement shows the changes in cash resulting from operating, investing and financing activities for the year.

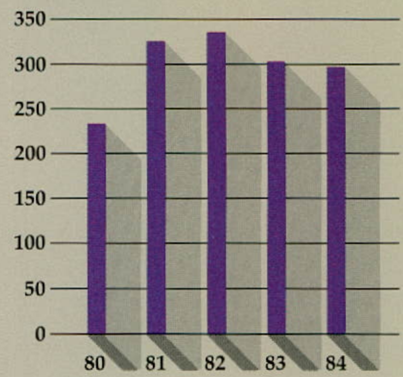
Net Income (Loss)

(in millions of dollars)



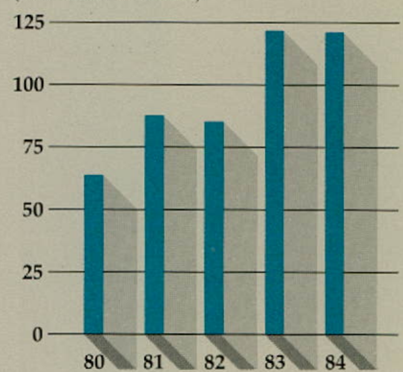
Assets

(in millions of dollars)



Shareholders' Equity

(in millions of dollars)



Bralorne Resources Limited Ten-Year Financial Summary

(thousands of dollars except per share)

	1984	1983	1982	1981	1980	1979	1978	1977*	1976*	1975*
INCOME										
Gross revenue	**157,651**	138,357	228,281	337,340	239,964	140,700	86,408	58,488	46,743	33,147
Cash flow from operations	**17,698**	12,544	22,726	53,811	42,227	20,396	12,619	7,657	5,671	4,533
Net income (loss)	**108**	(10,327) (1)	(829)	26,630	20,520	10,726	6,808	3,880	2,926	1,199
BALANCE SHEET										
Working capital	**65,428**	70,784	46,619	65,283	52,284	25,875	11,826	10,505	1,432	6,162
Total assets	**297,604**	302,771	335,036	324,385	234,423	148,694	86,908	64,263	54,662	33,737
Long-term debt	**94,893**	95,419	122,782	104,375	83,700	41,124	19,532	25,557	15,544	9,498
Shareholders' equity	**121,802**	121,609	84,976	87,666	63,560	41,883	32,402	20,126	16,041	12,943
CAPITAL EXPENDITURES										
Property, plant and equipment	**11,573**	5,404	18,922	33,755	25,025	11,434	7,620	3,926	1,960	4,508
Oil and gas interests	**6,803**	4,146	19,054	16,999	17,008	7,619	2,794	3,636	15,153	1,419
	18,376	9,550	37,976	50,754	42,033	19,053	10,414	7,562	17,113	5,927
PER SHARE (in dollars)										
Cash flow	**0.63**	0.48	1.11	2.62	2.07	1.02	0.71	0.50	0.37	0.30
Net income (loss)	**(0.11)**	(0.61) (1)	(0.04)	1.30	1.01	0.54	0.38	0.25	0.19	0.14
Shareholders' equity	**3.82**	3.81	4.14	4.26	3.10	2.09	1.62	1.30	1.05	0.85
DIVIDENDS										
Common	**0.05**	—	0.075	0.15	0.10	0.07	0.03	—	—	—
Preferred	**1.75**	1.53	—	—	—	—	—	—	—	—

* *Restated for 1978 prior period adjustment. All per share figures reflect 1980 three-for-one stock split.*

(1) *Includes unusual items of $4,398 or 21¢ per common share.*

In 1984 the Company continued its restraint programs to ensure that operating cash flows, along with cash provided from inventory and receivable reductions, could provide for all capital programs, debt servicing and dividends.

The table of Capital Expenditures summarizes the Oil and Gas and Industrial expenditures and compares them to 1983. In 1984, the majority of oil and gas expenditures were made in areas where there was the prospect of new or improved sales volumes. The increase in expenditures over 1983 was the result of land purchases and geophysical work carried out after the exploration program was expanded in the latter part of 1984. Exploration on these prospects will continue in 1985.

Virtually all industrial operating units continued restricting capital expenditure programs. The only exceptions were increases in the geophysical equipment manufactured for use as rental assets and by Mark Products, Inc. and purchases of boardroad lumber used by Supreme Contractors in Louisiana. The only expansionary capital addition occurred at OMSCO where equipment used in the threading and welding of tool joints on tubular products was purchased to provide a new product line.

Dividends aggregating $2,800,000 were declared on the Preferred Shares during the year and were paid on April 1, July 1, October 1 and January 1, 1985. A dividend on the Common Shares of $1,174,000 or 5¢ per share was declared and paid in 1984. This Common Share dividend was paid to ensure that the Company's shares remain as an eligible investment for life insurance companies, pension funds and trusts.

As discussed above, the new method for foreign currency translations results in unrealized gains or losses being carried on the Balance Sheet rather than being recognized in the Statement of Operations. Therefore, the $4,057,000 item Effects of Exchange Rate Changes is the unrealized gain on conversion of the United States companies' net assets to Canadian dollars.

Balance Sheet

The Company's Balance Sheet continues to reflect a strong financial position. Long term debt payments have been rescheduled so that the payments on bank loans which were to begin in 1985 are now due over four or six year periods beginning in 1986. Inventory levels declined again in 1984 as sales volumes improved.

Capital Expenditures

(millions of dollars)

	Canada 1984	Canada 1983	United States 1984	United States 1983	Australia 1984	Australia 1983	Total 1984	Total 1983
Oil and Gas								
Land acquisition	1.7	.5	—	—	—	—	1.7	.5
Exploration and development	4.5	2.6	.5	.7	.1	.3	5.1	3.6
	6.2	3.1	.5	.7	.1	.3	6.8	4.1

	Canada 1984	Canada 1983	United States 1984	United States 1983	Total 1984	Total 1983
Industrial						
Property, plant and equipment:						
Maintenance of business	.8	.3	1.3	—	2.1	.3
Expansion of business	.6	2.1	2.5	.4	3.1	2.5
Board road lumber	—	—	3.4	1.5	3.4	1.5
Rental assets	3.0	1.1	—	—	3.0	1.1
	4.4	3.5	7.2	1.9	11.6	5.4

Comparative Revenue Analysis by Products and Services

(millions of dollars)

Products and Service	Canada 1984	Canada 1983	United States 1984	United States 1983	Total 1984	Total 1983
Seismic	9.8	6.8	28.5	22.4	38.3	29.2
Drilling	11.7	20.6	50.8	34.0	62.5	54.6
Production	24.3	21.9	.3	.1	24.6	22.0
	45.8	49.3	79.6	56.5	125.4	105.8
Oil & Gas					19.3	18.1
Other					13.0	14.5
Total revenue					157.7	138.4

The strong financial base that was in place at December 31, 1983 has been maintained throughout 1984. The Company's working capital position is $65,428,000, the working capital ratio (current asset to current liabilities) is 2.8 to 1 and the debt/equity ratio (long-term debt to shareholders' equity) is .8 to 1. This strong financial base plus unused lines of credit at December 31, 1984 in excess of $27,000,000 will enable the Company to respond quickly as the energy sector recovers.

Subsequent Event

The purchase of the minority interest in Mark Products, Inc. which was originally announced in October 1984, was completed on February 22, 1985 when the shareholders of Mark Products, Inc. approved the transaction. The total purchase price of U.S. $18,668,000 ($5.25 per share) was provided by new bank financing. Note 12 to the financial statements provides further details on this transaction.

Shareholder Information

(at December 31, 1984)

Shares Authorized

60,000,000 Common Shares without par value
10,000,000 First Preferred Shares without par value

Shares and Warrants Issued and Outstanding

23,489,730 Common Shares
1,600,000 8.75% Cumulative Redeemable Convertible First Preferred Shares, Series A
999,700 Warrants

Listings

Common Shares: Montreal, Toronto and Vancouver Stock Exchanges (symbol "BR") and NASDAQ (symbol "BRALF").
Preferred Shares: Toronto Stock Exchange (symbol "BR.PR.A")
Warrants: Montreal, Toronto and Vancouver Stock Exchanges (symbol "BR.WT")

Shareholder Distribution — Common Shares

	Share-holders	Share-holdings	Per Cent
Canada	2,002	20,639,095	87.86
United States	2,290	2,829,837	12.05
Other	34	20,798	.09
	4,326	23,489,730	100.00

8.75% Preferred

	Share-holders	Share-holdings	Per Cent
Canada	895	1,593,943	99.62
United States	6	5,557	.35
Other	1	500	.03
	902	1,600,000	100.00

1984 Trading Activity

	Volume	High	Low	Close
TSE Common	3,691,553	7½	5	5⅜
MSE Common	180,355	7⅜	5	5⅜
TSE Preferred	619,259	24⅞	19⅝	20⅛
TSE Warrants	858,721	2.00	.95	1.05
MSE Warrants	5,000	1.85	1.85	1.85
NASDAQ Common	581,303	5¾	3¾	4

Review of Operations

United States

In 1984, revenue from the Company's United States operations increased 37% over the prior year and, after recording operating losses in 1983, most units show operating profits.

The energy sector activity was slightly ahead of the 1983 level but the effects of the excess of natural gas reserves and the downward pressure on oil prices that the industry has experienced since early 1982 continued to be evident in 1984. Since drilling contractors were turning to the manufacturer in the later part of 1984 to replace product consumed in the drilling process, it is evident that the field inventory surpluses from 1983 have been significantly reduced. However, due to the excess capacity at U.S. manufacturing plants and the large inventories in the hands of the manufacturer, intense price competition continued to impact profitability.

Industrial

The United States Industrial group is Bralorne's largest sector, contributing about 54% of consolidated revenue.

Mark Products, Inc. manufactures and markets a wide range of geophysical data acquisition equipment and specialized cable for the oil and gas exploration industry. Throughout 1984, Bralorne held 53% of Mark's outstanding shares. Mark became a wholly owned subsidiary in February 1985 when Bralorne purchased the minority shareholdings.

In 1984, the average seismic crew count increased slightly resulting in improved demand for products supplied to the United States seismic industry. The improved operating results were offset by the continued pressure on profit margins. Severe competition prevented Mark from increasing prices to keep pace with increasing material costs. Through inventory reductions and strict cash management, Mark continues to build cash reserves.

Ongoing research and development resulted in improvements to existing products and the addition of a new line of geophones. Mark's FiberSeis system, which is a seismic data acquisition system utilizing fiber-optic cable, will be ready for field testing in early 1985. This system, originally planned for 1984, was delayed until all necessary software had been written and tested.

Mark's Canadian operations had improved revenues in 1984 due to higher levels of seismic crew activities. However, price discounting caused by competitive pressures prevented operating profit from increasing at the same rate as revenue.

OMSCO Industries, Inc. manufactures drill collars, heavy weight drill pipe, kellys, kelly valves, inside blowout preventers and associated drill stem equipment. In addition, OMSCO has a tool jointing operation by which tool joints are machined and welded onto lengths of drill pipe. These lengths of jointed pipes are a major portion of the drill string used in drilling in the water well, mining and oil and gas industries.

The excess inventory in the distribution channels in 1983 seems to have been significantly reduced in 1984 and now most of the inventory is in the hands of the manufacturer. At the current level of drilling activity in the United States, there is still a large amount of excess manufacturing capacity. This situation causes intense competition which results in downward pressure on prices.

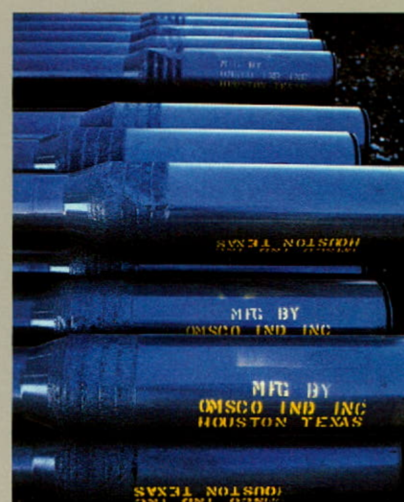
To expand its market and utilize idle plant capacity, OMSCO expanded product lines and entered markets they had not traditionally been in. The lines of valves were expanded and heavy weight drill pipe was added. In December 1984 assets and inventory for the tool jointing operations described above were purchased from a Houston based manufacturer for U.S. $2,500,000.

As a result of the liquidation of field inventories that took place in 1984, it appears that product consumed by the drilling industry in 1985 will have to be replaced through purchases from the manufacturer. OMSCO should see increased demand for its products in 1985 but expects the price competition to continue. Expansion of markets and product lines will continue to be a major thrust of OMSCO activities.

Triangle Grinding, Inc. manufactures and distributes standard and specialty threading and groove cutting tool systems. Prior to 1984, these products were directed primarily into the oilfield equipment manufacturing and repair businesses. Since this market

Mark Products, Inc. manufactures geophones, cables and connectors.

Triangle Grinding, Inc. manufactures cutting tools and tool holders.



Omsco Industries, Inc. manufactures a variety of products including drill collars, heavy weight drill pipe, kellys, upper and lower kelly valves and inside blowout preventers.

declined significantly with the downturn in the oil and gas industry, Triangle moved into other United States and Canadian metal cutting industries. Triangle continues to possess excess plant capacity but, with 60% of 1984 sales coming from non-oil related industries, a solid base has been laid for expansion of markets in 1985.

Supreme Contractors, Inc. of Lafayette, Louisiana provides a range of drilling and production contract services to the oil and gas industry in South Louisiana and East Texas Gulf areas. These services include the construction of drillsites and roads, production equipment installations, lease maintenance work and leasehold restoration.

Supreme's drillsite construction work includes the specialized installation of hardwood access roads and drilling platforms on unstable or swampy terrain. Of special note during 1984 was the successful testing of a prefabricated boardroad mat system suitable for use on these drillsites. This new system appears to have significant advantages over previous methods, including much quicker installation, reduced labor costs and extension of the useful life of materials; these factors should contribute to higher profitability as activity levels continue to improve.

Supreme's market areas showed a modest strengthening during 1984 with the average number of rigs operating in Louisiana increasing from 322 in 1983 to 346 in 1984, or approximately 7%. Drilling permits issued in Louisiana, normally a leading indicator of activity, were up considerably during 1984 compared with 1983, peaking during the third quarter.

Supreme Contractors, Inc. builds hardwood board roads and drill sites and does production equipment installation and maintenance.

The Oil and Gas Division explores for and produces oil and gas.

Esse International, Inc. provides hydrogen sulphide safety services.

Permits issued during the first part of 1985 have, however, declined to a level below the same period in 1984.

Esse International, Inc. specializes in supplying hydrogen sulphide safety equipment and services to the petroleum industry. Hydrogen sulphide is a highly toxic gas frequently found with petroleum.

Generally improved industry activity levels in Esse's domestic market together with expanding international operations resulted in 1984 results showing significant improvements over 1983. Continued international expansion is expected to contribute to further improvements during 1985.

Outlook

The continuing excess reserves of natural gas and the downward pressure on oil and natural gas prices will provide an uncertain environment for the oil and gas industry in 1985. The pressure on prices experienced for the last two years will continue into 1985 but the demand for oilfield products should improve now that field inventories have been significantly reduced.

As a result of the expansion of products and markets discussed above and a modest increase in product demand, Bralorne's United States operations should experience further improvements in 1985.

Oil and Gas Division

During 1984 Bralorne concentrated on developing existing properties and maximizing production from its U.S. oil and gas operations.

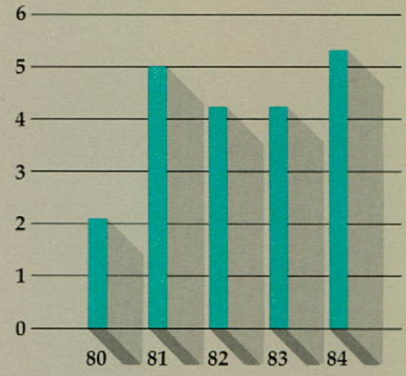
The Company participated in the drilling of 6 gross (1.22 net) wells in Texas and New York. This resulted in the successful completion of 3 gas wells and 2 oil wells. Four of the wells were placed on stream during 1984, while the remaining oil well will be placed on production in early 1985. Bralorne's capital expenditures in the U.S. were $748,000 compared to 1983 expenditures of $532,000.

Despite the addition of these new wells, plus successful recompletion work on wells within existing properties, low rates of take by gas purchasers resulted in Bralorne averaging gas production of 31,000 cubic metres per day (1.1 million cubic feet per day) as compared to our 1983 average of 36,000 cubic metres per day (1.3 million cubic feet per day). Successful drilling did however result in 1984's oil production increasing to 14 cubic metres per day (91 barrels per day) as compared to an average of 12 cubic metres per day (74 barrels per day) in 1983.

Bralorne's land holdings in the United States decreased during 1984 to a year end level of 6,056 gross hectares (15,141 acres) from the previous year's gross of 9,363 hectares (23,409 acres). This decrease resulted from Bralorne

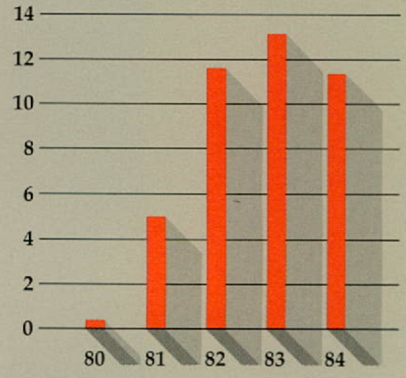
Oil Production – United States

(Thousand cubic metres per year)



Gas Production – United States

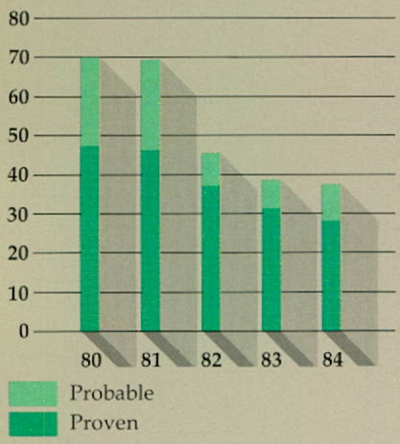
(Million cubic metres per year)



Oil Reserves – United States

Proven and Probable

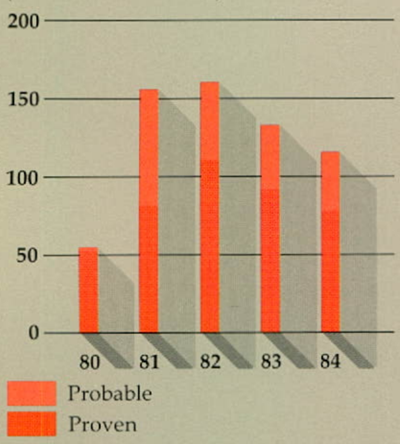
(Thousands of cubic metres)



Gas Reserves – United States

Proven and Probable

(Millions of cubic metres)



relinquishing or selling non productive and uneconomic acreage. The Company's properties are located in the States of Louisiana, New York, Ohio, Pennsylvania and Texas.

Ryder Scott Company, independent petroleum consultants in Texas, estimated, as of December 31, 1984, the Company's proved net reserves to be 27,686 cubic metres (174,174 barrels) of oil/condensate and 77.9 million cubic metres (2.765 billion cubic feet) of natural gas with probable reserves of 9,693 cubic metres (60,976 barrels) of oil/condensate and 37.1 million cubic metres (1.316 billion cubic feet) of natural gas. The value of these reserves before income taxes, and discounted at 15%, is $6,387,647 U.S.

Bralorne's investment strategy for the U.S. in 1985 will minimize expenditures except where necessary to develop additional cash flows from existing producing properties.

Canada

Total revenue from Canadian operations was basically unchanged from 1983 but increased natural gas production and improved margins for some operating units resulted in improved operating results for 1984.

Excess gas deliverability continued to be the major factor causing weak markets in Canada. Although regulatory changes in 1984 that moved toward market determined gas prices and allowed producers to contract directly with purchasers did not have a major impact on 1984, they were important moves that will have positive effects on the Canadian petroleum industry in the immediate future.

A large number of the wells drilled in western Canada were either oil related prospects or shallow natural gas plays. Very few deep natural gas prospects, which would utilize more of the products and services that could be provided by Bralorne, were drilled in 1984.

Industrial

The Company's Canadian Industrial units experienced a marginal decline in total revenue. These operations contribute about 75% of Canadian revenues.

Barber Industries operates one of the largest metal fabricating and machining facilities in Western Canada with two plants in Calgary and one in Edmonton. This division performs a large number of different operations: assembly of natural gas compressor units; manufacturing of pressure vessels; manufacturing of wellheads and flow control devices for use in the petroleum industry; and threading of oilfield tubular goods; and manufacturing of assorted tools and other products used in the mining industry.

Wellheads and flow control devices are oil related products and revenues for these products increased in 1984 due to the increased exploration for oil in Western Canada. Delivery of natural gas compressors increased significantly in the last half of 1984 as gas producers found it necessary to add compression in producing natural gas fields to offset normal production declines and to provide additional compression for secondary recovery programs.

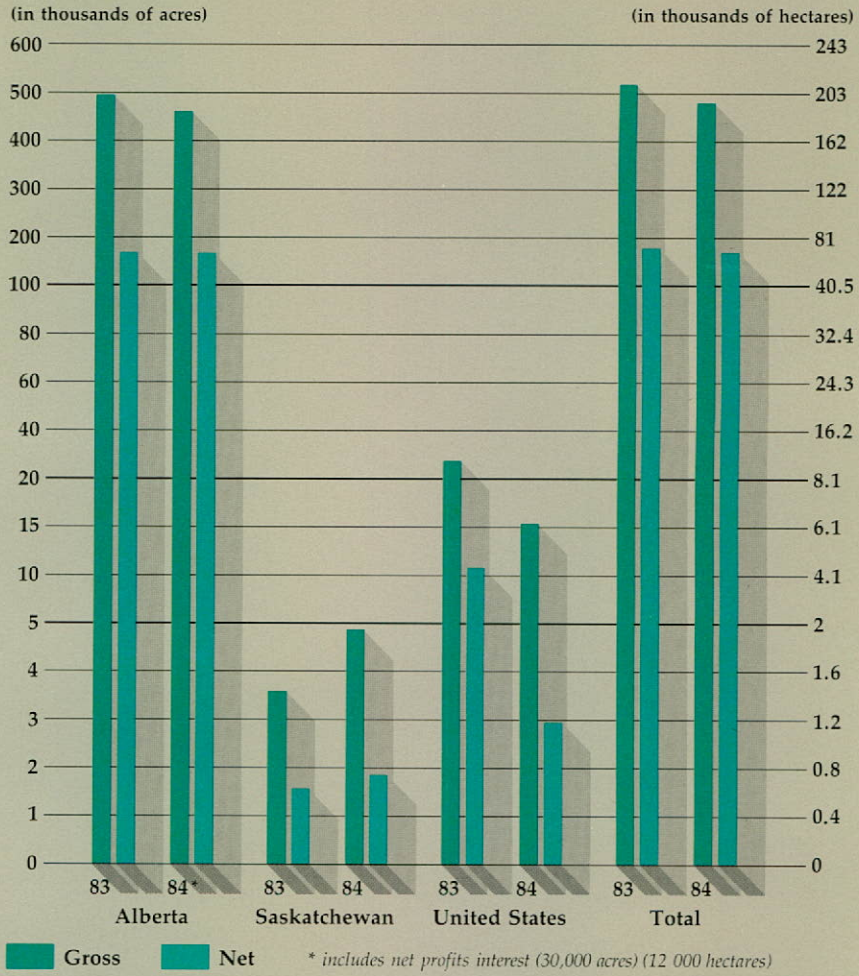
Vam Premium Connections Limited manufactures and distributes premium quality casing and tubing connections in the environmentally sensitive Canadian Petroleum Industry.

Barber Offshore's machining operations on the east coast of Canada were very active for the first five months of 1984 due to a strong demand for pipe threading. In the second half of the year, demand for pipe threading dropped and, as several rigs moved into Newfoundland waters, repair work in Nova Scotia declined.

Vam Premium Connections Limited is a joint venture 49% owned by Bralorne and 51% owned by Vallourec of Paris, France. Vam has the exclusive rights to manufacture Vallourec's premium threaded pipe connections in Canada. This Vam connection is a high quality patented design that is leak proof and stress and corrosion resistant, thereby making it very suitable for tubing, casing or pipe in environmentally sensitive frontier and offshore drilling and production areas. Several threading orders were completed in 1984 for the east coast market but several of the large new pipe threading contracts will not be awarded until 1985. By early February, Vam had received several major orders for 1985.

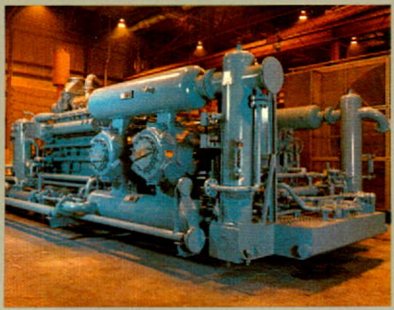
Custom Structures, of Spruce Grove, Alberta manufacturers, sells, leases, and services relocatable industrial housing.

1984 Land

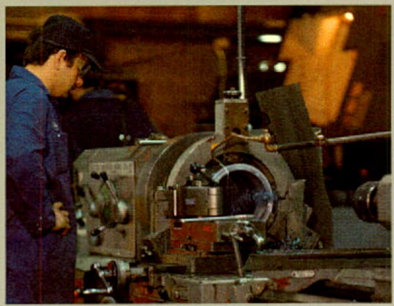


Year-End 1984 Present Worth Values at Various Per Cent Discount Rates

(in thousands of dollars, Canadian)	10%	12%	15%	20%
Canadian oil, natural gas and NGL	179,000	158,363	130,658	100,651
Undeveloped lands	7,984	7,984	7,984	7,984
Canada Total	186,984	166,347	138,642	108,635
U.S. oil, natural gas and NGL	10,395	9,600	8,441	7,108
United States Total	10,395	9,600	8,441	7,108
Total Canada and United States	197,379	175,947	147,083	115,743
Net book value, at cost less accumulated depletion and depreciation	88,863	88,863	88,863	88,863



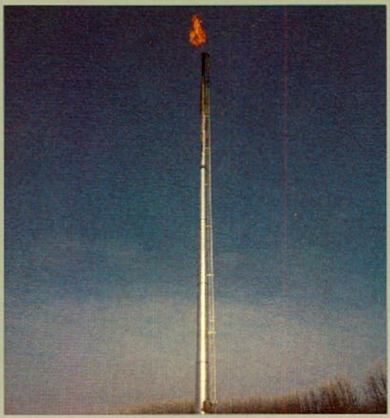
Barber Industries manufactures compressor packages, wellheads, flow control devices and is one of Western Canada's largest metal fabricating and machining organizations.



Barber Offshore services the offshore tubular threading market.

Custom Structures manufactures relocatable industrial housing.

Jarco Services assembles and leases hydraulic drilling jars and shock subs.



Polesystems manufactures lighting standards, traffic control structures and flare stacks.

Highlights during 1984 in the manufacturing operations included the completion and installation of a 60-man camp in Alaska and construction of two energy efficient modular houses for the Northwest Territories. Lease fleet activities have shown steady improvement with fleet usage at the end of 1984 reaching its highest level since 1980. Custom expects further improvements during 1985 with both continued high leasing activity and increased demand for specialized camps destined for the Arctic.

Crown Caterers, which provides catering services and lease camp facilities for drilling and seismic crews, has experienced a modest increase in activity levels during 1984. These higher activity levels, combined with higher camp facility utilization and better price stability within the industry, have resulted in improved profit margins. This trend has continued into 1985.

Jarco Services manufactures and supplies downhole tools, such as drilling jars and shock subs, to the drilling industry. Jarco's markets and profitability have been severely affected by the decline in the deep wells that traditionally have provided the majority of the market for these products.

Jarco consolidated all their operations in Calgary in 1984 and have taken the first step in re-entering the United States market by establishing a branch in Wyoming. Expansion into other U.S. exploration areas will be considered in 1985.

Polesystems, with facilities in both Calgary and Winnipeg, manufactures and installs a variety of high quality outdoor lighting standards, traffic sign and control structures and flare stacks for the petroleum industry.

The high mast lighting standard with a new patented mechanical latch, which was developed in 1983, and improved distribution agreements established in 1983 were contributing factors to the increased revenue and profitability in 1984.

Gold Mine

Continuing low gold prices have prevented any action to reopen the Bralorne Gold Mine in British Columbia as provided for under the joint venture agreement with E & B Inc.

Outlook

The winter drilling and seismic season in Canada started very strongly with rig and seismic crew counts at their highest recorded level. The booking positions for equipment and services to be used in this winter's drilling, the backlog of orders for compressors and new threading for the east coast indicate that the operating results for the Canadian Industrial sector should show improvement over 1984.

Canadian Oil and Gas Division

During 1984 the Oil and Gas Division focused on maintaining gas production through the contracting of previously shut-in reserves, increasing oil production through continued development of the Crossfield Cardium 'B' Pool, acquisition of lands on new exploration prospects, and the construction and bringing on-stream of the 250,000 cubic metres per day (8.8 MMCF/D) gas plant in the Donnelly area of Northwestern Alberta. The Company was able to sustain its daily gas delivery rates despite declines in deliverability from mature shallow gas fields, and improve its oil production by 27%. Gross revenues in 1984 were $21,498,000, a 13% increase over 1983. Capital expenditures totalled $6,151,413 compared to $3,023,000 in 1983. Of this amount some $2.3 million was invested in land and geophysics designed to provide Bralorne a basis for exploration drilling in 1985 and thereby continued growth in production and reserves.

Exploration and Development

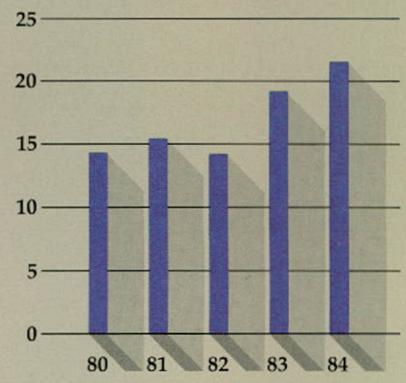
Bralorne participated in the drilling of 7 exploratory wells and 14 development wells. Of the 7 gross (1.9 net) exploratory wells, 2 were completed as gas producers and 1 as an oil producer. The oil well was drilled on the Manor prospect in Saskatchewan and produced at initial rates in excess of 8 cubic metres per day (50 barrels per day). The two gas wells were drilled in Alberta in the Girouxville (Donnelly) and Dreau areas and both will be placed on stream during 1985.

The Company participated in the drilling of 14 gross (3.8 net) development wells in Alberta and Saskatchewan. Of these, 9 gross (2.3 net) wells were completed as oil producers. Four additional wells were plugged and abandoned while 1 well was converted in the Taber area to a water disposal well. Of the successful oil wells 3 were drilled on Bralorne acreage in the Taber area under a farmout arrangement, and therefore at no cost to the company. These wells were brought on production at initial rates varying from 3 to 8 cubic metres (22-50 barrels) of oil per day. Bralorne also continued its successful development of the Crossfield Cardium Oil Pool located immediately north of Calgary. Three wells were drilled with two completed and placed on production by year end. Each of these produced at initial rates from 10-15 cubic metres per day (60-100 barrels per day) and the third will be completed in early 1985. Bralorne holds working interests in these wells ranging from 43% to 51%. The Company's two other successful oil wells were drilled at Drumheller and Pembina. The Drumheller well, after frac, produced over 15 cubic metres per day (100 barrels per day) while the well at Pembina was awaiting completion in the Cardium Formation at year end.

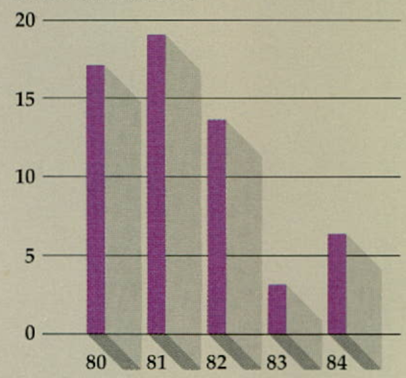
Production

Bralorne's natural gas production in Canada was maintained at 463,000 cubic metres per day (16.4 million cubic feet per day) despite a productivity decline at the Company's shallow gas

Gross Revenue
Oil and Gas Division – Canada
(in millions of dollars)



Capital Expenditures
Oil and Gas Division – Canada
(in millions of dollars)



1982 includes Sagebrush Acquisition

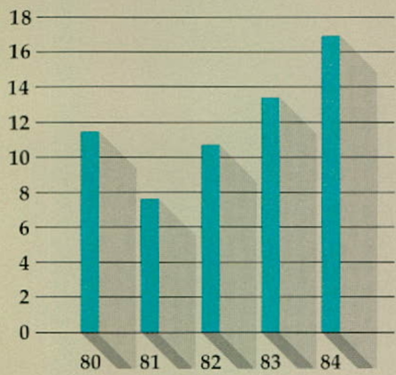
1984 Drilling
(number of wells drilled)

	1984 Gross	1984 Net	1983 Gross	1983 Net
Canada				
Exploratory:				
oil	1	0.3	6	1.7
gas	2	0.7		
dry	4	0.9	—	—
Development:				
oil	9	2.3	4	1.7
gas	—	—	—	—
dry	4	1.3	—	—
other	1	0.2	—	—
Total	21	5.7	10	3.4
United States*				
Exploratory:				
oil	1	0.1	1	0.2
gas	—	—	—	—
dry	—	—	1	0.1
Development:				
oil	1	0.2	2	0.2
gas	3	0.7	2	0.5
dry	1	0.2	1	0.4
Total	6	1.2	7	1.4

* Does not include Australia

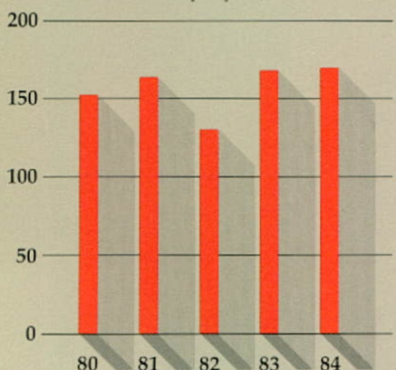
Oil Production – Canada

(Thousand cubic metres per year)

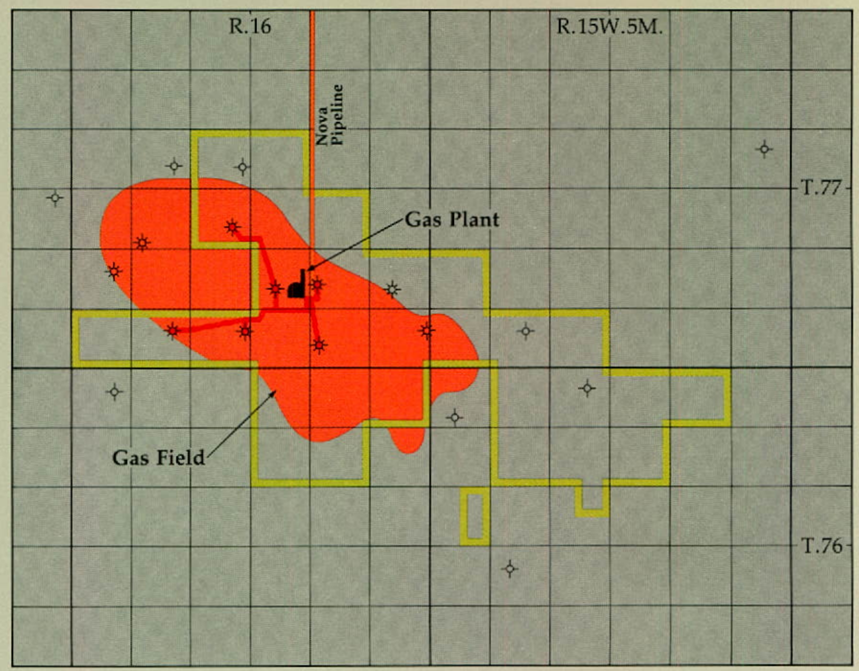


Gas Production – Canada

(Million cubic metres per year)



Heart River Area



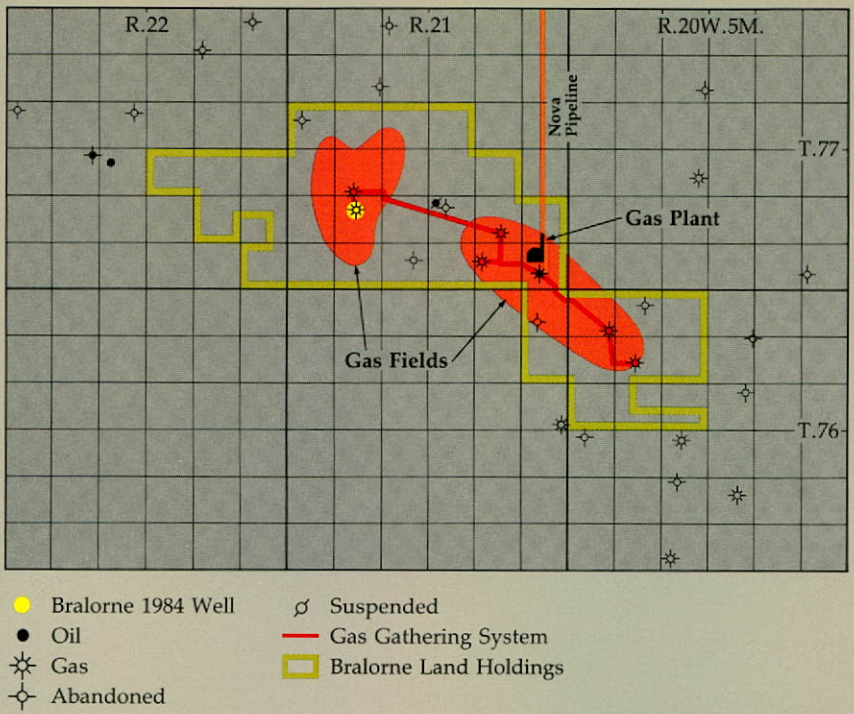
Gas
Abandoned
Gas Gathering System
Bralorne Land Holdings

properties in southeastern Alberta. This was accomplished through successful marketing of gas from the Heart River field into the Eastern Townships area of Quebec. As well, Bralorne sold excess gas in the traditionally low demand summer period into various spot markets within Alberta at competitive pricing levels. These incremental sales serve to level the rates of production in Bralorne's gas fields and thereby improve the economics of operation. Gas sales also resulted from the construction of a new processing plant in the Donnelly area of northwestern Alberta. This plant was designed to deliver gas at maximum contract rates of 250,000 cubic metres per day (8.8 million cubic feet per day) into new markets both within the Province of Alberta and into Quebec. Thus, through aggressive marketing techniques within Canada, Bralorne has been able to maintain its level of gas production despite reduced rates of take from both Pan Alberta Gas Ltd. and TransCanada Pipelines Limited. Production of crude oil and natural gas liquids increased to 46 cubic metres per day (291 barrels per day) from levels in 1983 of 36 cubic metres per day (229 barrels per day). This increase resulted from new oil production both in Taber and Crossfield, along with minor additions from wells drilled in other areas of Alberta and Saskatchewan. Bralorne's average daily production of oil, as of year end 1984, amounted to 61 cubic metres per day (382 barrels per day).

Reserves

As in the past, Bralorne's Canadian reserves were evaluated by the independent consulting firm of Sproule Associates Limited. This evaluation,

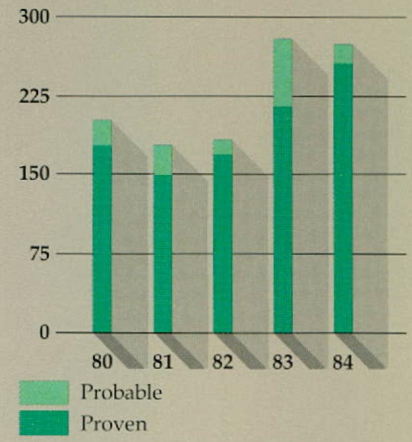
Donnelly Area



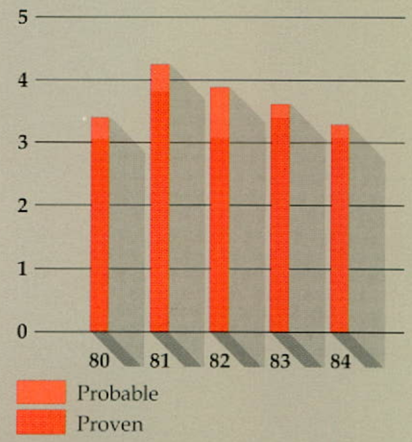
effective January 1, 1985, found the Company's gross proven and probable Canadian crude oil and natural gas liquid reserves to be 274,000 cubic metres (1,726,000 barrels) compared to year end 1983 reserves of 279,000 cubic metres (1,754,000 barrels). While these reserves exhibited a small decrease, Bralorne's cumulative production for the year was 16,900 cubic metres (106,000 barrels). The favorable results of drilling in Crossfield reclassified the probable undeveloped reserves into the proven producing category, thereby increasing their effective value. Natural gas reserves as of year end 1984 were 3,288 million cubic metres (116.7 billion cubic feet) as compared to 3,617 million cubic metres (128.4 billion cubic feet) in 1983. This decrease in gas reserves is again creditable to production of 170 million cubic metres (6 billion cubic feet) and some downward adjustments in existing proven properties due to production performance of both Bralorne and offset owners' wells in the same pool.

As previously indicated, 33% of Bralorne's capital expenditures during 1984 was devoted to the purchase and acquisition of land and geophysics. During 1984, exploration efforts concentrated on the development of new prospects for drilling in 1985 and were designed to internally generate an ambitious exploration program in conjunction with the development of markets for future natural gas reserves. Bralorne currently has 72% of its 3,288 million cubic metre gas reserve on production with a further 18% proposed to be brought on stream during 1985 assuming appropriate regulatory approvals for direct sales of natural gas into the United States are obtained. Bralorne will then be in the unique position of having 90% of its gas contracted and on production by the end of 1985. The Company, with its successful gas marketing and the new flexible export pricing regulations, will be actively

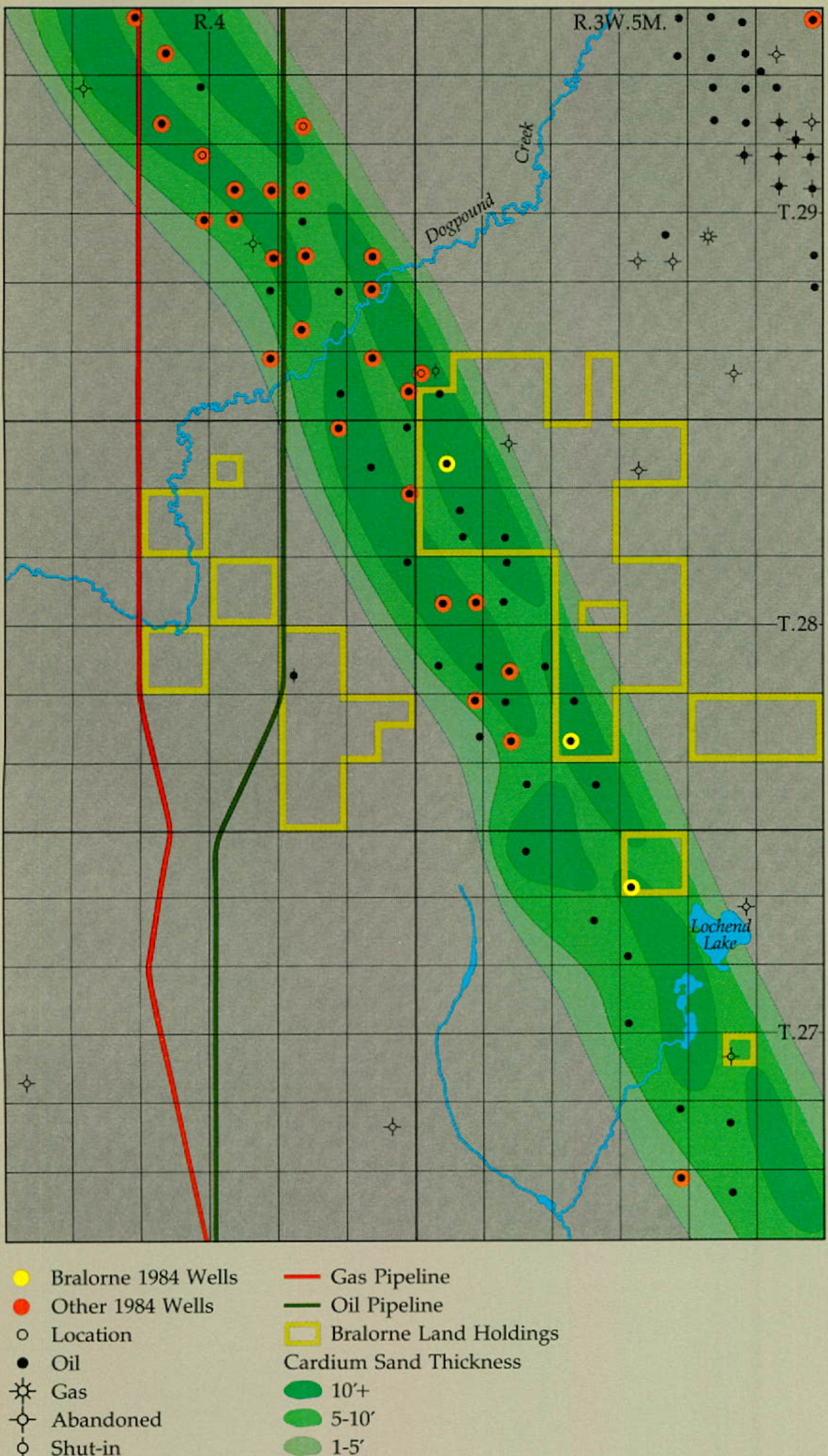
Oil Reserves – Canada
Proven and Probable
(Thousands of cubic metres)



Gas Reserves – Canada
Proven and Probable
(Billions of cubic metres)



Crossfield Area



exploring in Alberta during 1985 for new gas prospects to replace this production.

Present worth of Bralorne's Canadian reserves, both proved and probable, net of royalties, operating costs, PGRT, IORT, Mineral Taxes and Capital costs but before income taxes, and discounted as 15%, was at year end 1984 $138,642,000, as compared to a year end 1983 value of $146,884,000. This reduction of 16% was primarily attributable to decreases in anticipated natural gas netbacks for the next few years due to recently negotiated lower Canadian export pricing contracts, in combination with the previously referenced lower reserves.

Outlook

During the latter portion of 1984 Bralorne acquired land holdings through purchase at Alberta Crown sales of 5,440 hectares (13,600 acres), with an average net interest of 42%. In addition to the geophysical surveys undertaken early in 1984 Bralorne commissioned new seismic programs with its partners during the final quarter of 1984 at a gross cost in excess of $2,200,000. This activity is in anticipation of an increased level of exploration activity in 1985. Bralorne proposes to concentrate its exploration in strategic areas designed to fulfil both growth expectations in oil reserves and productivity while taking advantage of its sophisticated gas marketing abilities both for domestic use and export sales.

As a key to gas exploration in Western Canada, market development at competitive pricing is of primary concern to every producer. Bralorne developed this marketing awareness early, and hence directed its efforts to proceed into areas of direct sales both domestically and for export to the U.S. As a result Bralorne with its partners at year end had submitted to the National Energy Board a direct sale export application into the U.S. and have identified significant new market potential for Canadian gas in the U.S. mid west. Having identified these markets the Company in 1985 proposes not only to intensify its exploration efforts towards new gas pools, but also to drill previous areas of potential reserves within our acreage holdings that in the past were not economic to develop due to the poor initial delivery dates forecasted by the established gas purchasers.

Bralorne will also continue to develop its existing oil pools in combination with low risk, geologically controlled exploration prospects in Central Alberta and Saskatchewan. The Company will be drilling potentially significant oil wells on existing land holdings and acreage acquired during 1984 in the East Peace River Arch area of Alberta. Bralorne with its working interest partners have formulated a number of ventures designed to provide exposure on a sophisticated basis into high potential areas. The Company welcomes the increased level of activity throughout the oil industry that is anticipated for 1985 in response to anticipated Federal taxation schemes which will provide to producers sufficient incentive to develop the vast resources still existing in Western Canada.

International

Mobile Homes Limited manufactures relocatable housing for the Middle East and North Africa market.

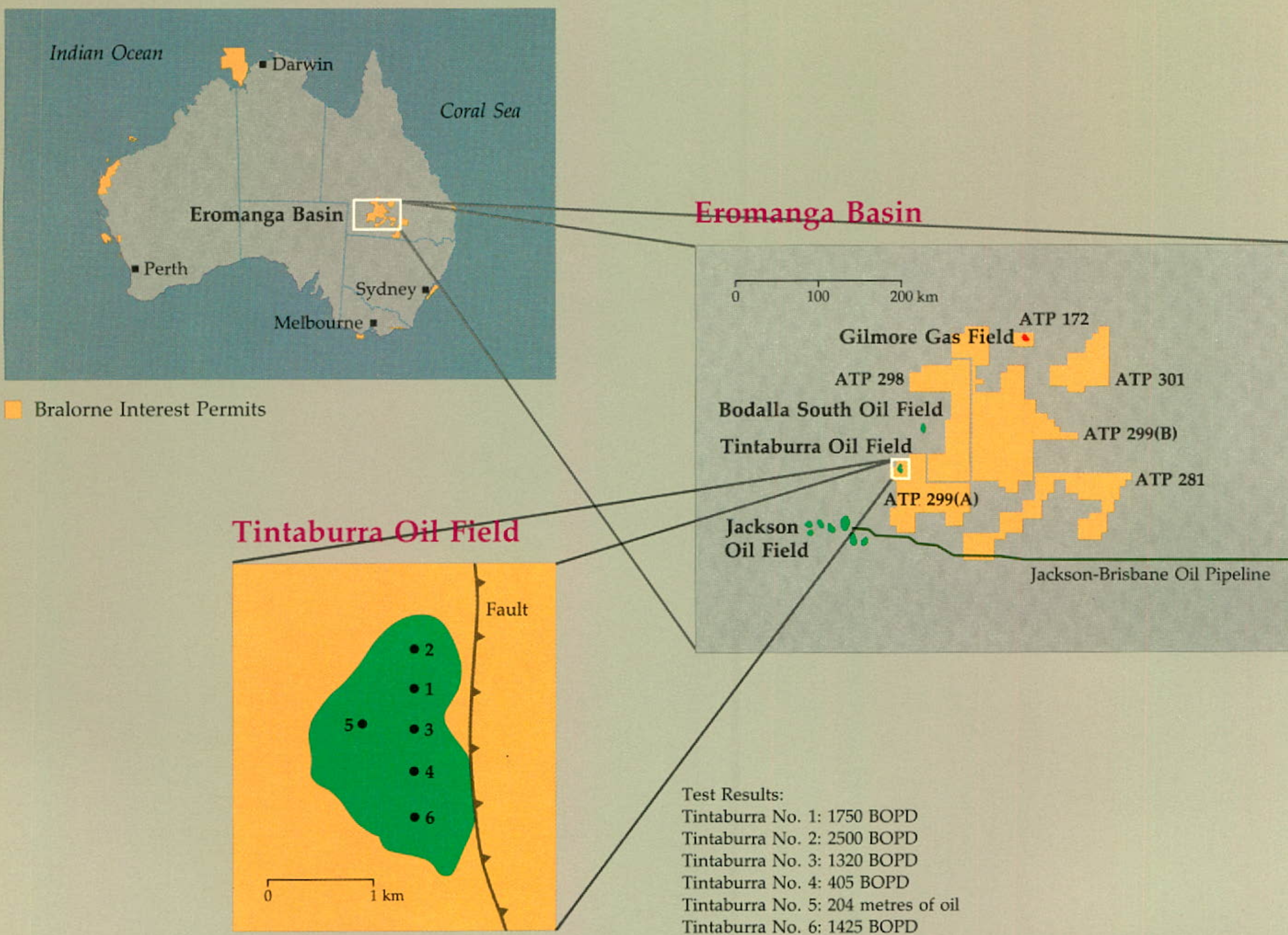
In 1984, Bralorne made a minor investment in an additional 25% of the shares of Mobile Homes Limited. This investment was made to enable retirement of a minority shareholder from the operations of the business.

Mobile Homes (76% owned by Bralorne) manufactures modular housing for residential, and industrial use specializing in skid mounted and wheeled trailers for seismic and drilling and base camps use.

Malta's geographically strategic location makes it an important supplier of camp units to the Middle East and North African markets. Although low levels of activity occurred during 1984, bidding late in the year indicates 1985 to be a more active year.

In Australia, Bralorne participated in the drilling of 4 exploratory wells on various permits and 5 development oil wells in the previously discovered Tintaburra oil field. While the 4 exploratory wells were unsuccessful, Bralorne is encouraged by the continuing success at Tintaburra on ATP 299 P (A) in the Eromanga Basin of Queensland, in which Bralorne has a working interest of 0.83%. Each of these wells tested at commercial rates of oil production from the Hutton Sand. To date Tintaburra #1, 2 and 3 have been completed for commercial oil production. Facilities are being constructed to connect these and the remaining wells as part of a commercial development program for this field. In addition, up to 8 more wells are proposed on this structure for full delineation. This discovery is very significant not only because of its potential to contain between 0.8 to 1.6 million cubic metres (5 to 10 million barrels) of recoverable oil, but also because it confirms the presence of commercial hydrocarbon accumulations in the Eromanga Basin where

Australia



Bralorne has an interest in 5,070,898 hectares (12,677,245 acres). During 1985 the Tintaburra oil production will also provide the first cash flow to Bralorne from its Australian investment. Tintaburra joins three previous Australian discoveries; Petrel Gas Field (NTP 28), Gilmore Gas Field (ATP 172P) and the Tubridgi Gas Field (EP 110) where the Company now has proven oil and gas reserves.

During 1984 total expenditures on the Australian exploration program were $111,000 U.S. which was directed towards geophysical acquisition and exploratory drilling on existing permits. At year end Bralorne's gross land holdings were 16,421,890 hectares (41,054,726 acres) with a net acreage holding of 70,076 hectares (175,189 acres) all of which is now concentrated within fifteen remaining permits. Some permits were relinquished during 1984 as they became due for re-negotiated work programs which, the Company felt, were unjustified due to a lack of exploration success in neighboring permits.

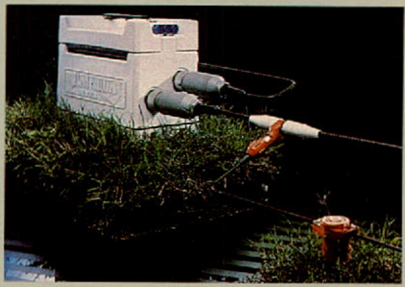
Of significance to Bralorne during 1985, in addition to the continuing development of the Tintaburra field, will be the drilling by BHP Petroleum Pty Ltd., at no cost to Bralorne, of the West Barrow #2 well on Permit WA 64P. This offshore well will be spudded in early April and will endeavour to confirm the presence of a significant oil pool initially identified by the West Barrow #1 well. During 1985 Bralorne will also be examining the potential the existing discoveries have with regard to cash flow generation and will focus future expenditures towards those permits or discoveries which will maximize this objective.

New Product Development

Bralorne's subsidiaries and divisions have continued to develop new products and enter new marketplaces. Some notable new developments are presented below:

Mark Products, Inc.

Mark Products' new product FiberSeis is a distributed telemetry seismic data acquisition system utilizing fiberoptic cable for high fidelity data transmission. The system increases the number of channels for data collection and improves the quality of data transmission.



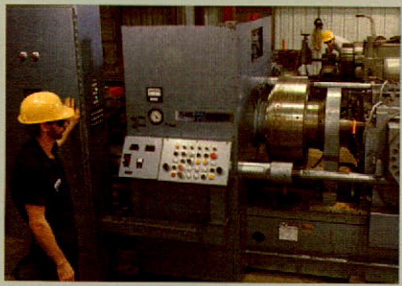
Supreme Contractors, Inc.

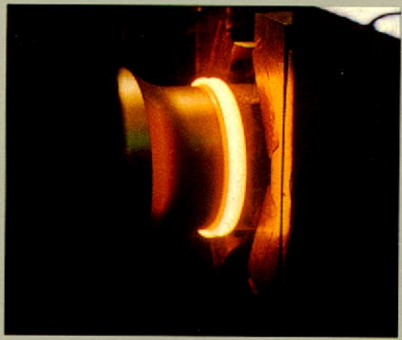
Supreme Contractors has initiated the use of prefabricated matting in the construction of hardwood board roads. The mats, which form the first two hardwood layers of a board road have shown to be less expensive to install, stronger and longer lasting than the conventional board road construction.

OMSCO Industries, Inc.

OMSCO has developed a new heavy weight drill pipe for use in specialized drilling situations such as directional drilling, transitional zone drilling and for use in tapered drill strings. These drill collars are used to reduce stress on the drill string found in these applications and to reduce drill stem wear and differential sticking.

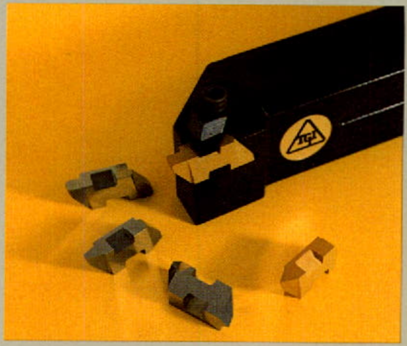
OMSCO's acquisition of Flame Industries has enabled it to enter into the oilfield and water well drill pipe market. Tool jointing capability is a key factor in entering this market. Forged tool joints machined on numerically controlled equipment are welded to pipe with inertia welders, heat treated and magnetic particle and ultrasonically inspected.





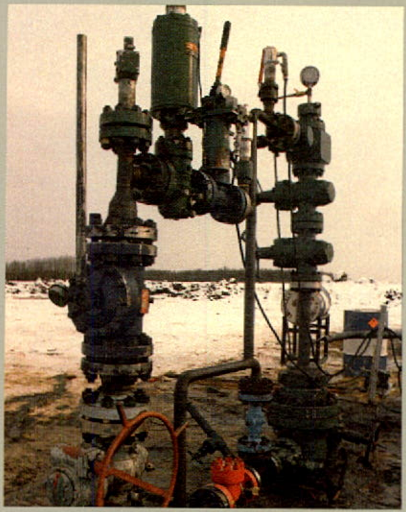
Triangle Grinding, Inc.

Triangle has developed a new series of TopLok inserts. These proprietary designed inserts fit into a variety of widely accepted tooling systems and permit the threading, cutting and grooving industry "a better alternative" tooling source to many systems which are now single source.



Barber Industries

Barber Industries has developed a new series of Pigging valves. The 4"-'BT' Pigging valve is a "Trunnion Supported Ball" valve resulting in lower operational torque conditions.



Bralorne Resources Limited

Consolidated Statement of Operations

(in thousands of dollars)	December 31, 1984	1983
Gross revenue	**$157,651**	$138,357
Expenses:		
Cost of sales and services	**103,180**	92,194
Selling, general and administrative	**24,579**	24,150
Interest on long-term debt	**13,883**	15,968
Other interest	**647**	1,492
Depreciation and amortization	**15,771**	15,519
Depletion	**4,500**	4,238
Gain on foreign exchange	**—**	(453)
	162,560	153,108
Loss before income taxes and minority interest	**4,909**	14,751
Income taxes:		
Alberta Royalty Tax Credit	**(1,896)**	(2,225)
Current	**(1,039)**	(10,327)
Deferred	**(2,440)**	3,240
	(5,375)	(9,312)
Income (loss) before minority interest	**466**	(5,439)
Minority interest	**358**	490
Income (loss) before unusual items	**108**	(5,929)
Writedown of raw materials inventory and oil well drilling equipment, net of deferred income taxes of $3,992,000 and minority interest of $176,000	**—**	4,398
Net income (loss) for the year	**$ 108**	$ (10,327)
Loss per common share		
Before unusual items	**$.11**	$.40
Including unusual items	**$.11**	$.61

Bralorne Resources Limited

Consolidated Balance Sheet

(in thousands of dollars)	December 31,	
Assets	**1984**	1983
Current assets:		
Cash and term deposits	**$ 7,032**	$ 7,093
Accounts receivable	**36,103**	29,375
Income taxes recoverable	**3,631**	13,555
Inventories (note 3)	**53,012**	59,474
Prepaid expenses and other assets	**2,456**	2,226
	102,234	111,723
Capital assets (note 4)	**157,627**	152,776
Other assets:		
Long-term receivables, investments and other assets	**3,674**	5,907
Goodwill	**31,410**	29,418
Patents	**2,659**	2,947
	37,743	38,272
	$297,604	$302,771

Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank loans (note 5)	**$ 2,984**	$ 9,262
Accounts payable and accrued liabilities	**25,188**	23,047
Dividend payable on preferred shares	**700**	700
Current portion of long-term debt	**7,934**	7,930
	36,806	40,939
Long-term debt (note 6)	**94,893**	95,419
Deferred income taxes	**26,421**	27,339
Prepayment of natural gas sales	**2,394**	2,678
Minority interest	**15,288**	14,787
Shareholders' equity		
Capital stock — (note 7)	**66,933**	66,931
Foreign exchange adjustment	**4,057**	—
Earnings reinvested in the business	**50,812**	54,678
	121,802	121,609
	$297,604	$302,771

Approved by the Board:

[signature], Director

[signature], Director

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)	December 31, 1984	1983
Cash provided by (used in) operating activities:		
Earnings (loss)	$ 108	$(10,327)
Add charges to operations not requiring a current cash payment —		
Depreciation, amortization and depletion	20,271	19,757
Deferred income taxes	(2,440)	3,240
Minority interest	358	490
Other	(599)	(616)
	17,698	12,544
Net change in non-cash working capital balances related to operations*	12,757	17,990
Cash provided by operating activities	30,455	30,534
Cash provided by (used in) investment activities:		
Additions to property, plant and equipment	(11,573)	(5,404)
Additions to oil and gas interests	(6,803)	(4,146)
Proceeds from sale of fixed assets	1,943	3,460
Decrease in deferred charges and other investments	(652)	(784)
Cash used in investment activities	(17,085)	(6,874)
Cash provided by (used in) financing activities:		
Additions to long-term debt	—	4,945
Repayments of long-term debt	(7,238)	(38,682)
Issue of shares	2	48,308
Dividends	(3,974)	(1,750)
Cash provided by (used in) financing activities	(11,210)	12,821
Net increase in cash during the year	2,160	36,481
Effects of exchange rate changes	4,057	—
Cash position at beginning of year	(2,169)	(38,650)
Cash position at end of year	$ 4,048	$ (2,169)

Cash position comprises bank indebtedness less cash.

* These consist of changes in receivables, inventories, prepaid expenses and other assets, accounts payable and income taxes recoverable.

Consolidated Statement of Earnings Reinvested in the Business

(in thousands of dollars)	December 31, 1984	1983
Earnings reinvested in the business, beginning of year	**$54,678**	$68,360
Net income (loss) for the year	**108**	(10,327)
Dividends — $1.75 per preferred share (1983 — $1.53)	**2,800**	2,450
— $ .05 per common share	**1,174**	—
Excess of purchase price of common shares over stated value	—	166
Preferred share issue costs net of income taxes	—	739
Earnings reinvested in the business, end of year	**$50,812**	$54,678

Auditors' Report

To the Shareholders of Bralorne Resources Limited

We have examined the consolidated balance sheet of Bralorne Resources Limited as at December 31, 1984 and the consolidated statements of operations, earnings reinvested in the business 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 December 31, 1984 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, except for the change in accounting for foreign currency translation as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
February 15, 1985

Except for note 12
which is as of
February 22, 1985

Price Waterhouse
Chartered Accountants

Notes to Consolidated Financial Statements

(tabular amounts in thousands)

1. Accounting Policies

(a) Principles of consolidation: The consolidated financial statements include the accounts of the Company and all its subsidiaries. The Company's 49% interest in a joint venture company is accounted for by the equity method. Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and accordingly these consolidated financial statements reflect only the Company's proportionate interest in such activities.

(b) Inventories: Inventories of finished goods, work-in-process, raw materials and supplies are valued at the lower of cost and net realizable value.

(c) Oil and gas interests: The Company follows the full cost method of accounting for oil and gas activities whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Government grants for exploration and development activities are applied as a reduction of the related expenditures. Costs are capitalized on the basis of one worldwide cost centre and are depleted by the unit-of-production method based on estimated proven oil and gas reserves as determined by independent petroleum engineers.

Additional depletion is provided if net book values exceed (i) the aggregate of the estimated discounted present value of proven reserves as determined by independent petroleum engineers and (ii) the aggregate value of undeveloped acreage.

(d) Mining interests: Exploration expenditures on mining properties continuing under examination are deferred and will be amortized against production revenue from the relevant properties or written off upon cessation of interest therein.

(e) Property, plant and equipment: Property, plant and equipment are carried at cost, and are being depreciated mainly on a straight-line basis over the estimated useful life of the assets at annual rates from 2½% to 50%. Expenditures for repairs and maintenance are charged to operating expenses. Betterments and major renewals are capitalized. Gains or losses on retirement or disposal of property, plant and equipment are recognized in income.

(f) Goodwill: Goodwill is being amortized on a straight-line basis mainly over forty years resulting in a charge to operations in 1984 of $1,145,000 (1983 — $1,160,000).

(g) Patents: Patents are being amortized over a period of seventeen years resulting in a charge to operations in 1984 of $288,000 (1983 — $286,000).

(h) Earnings or loss per share: The Company calculates earnings or loss per share based on the weighted monthly average of common shares outstanding after providing for preferred share dividends.

(i) Foreign currency translation: The Company translates foreign currency transactions and accounts of its financially or operationally independent (self-sustaining) foreign operations to Canadian dollars using the current rate method. Assets and liabilities are translated at year end rates, while income and expenses are translated at average rates in effect during the year. Resulting gains or losses are included in the foreign exchange adjustment account, a component of Shareholders' Equity.

2. Change in Accounting Principle

Effective January 1, 1984 the Company adopted, on a prospective basis, the foreign currency translation recommendations of the Canadian Institute of Chartered Accountants, under which self-sustaining operations use the current rate method described in Note 1. Prior to this change non-current assets and liabilities were translated at historical rates of exchange. Foreign exchange gains or losses were included in income. Net income for 1984 would have been approximately $2,679,000 had the translation method used prior to 1984 been followed.

3. Inventories

	December 31, 1984	December 31, 1983
Raw materials and supplies	**$ 27,986**	$ 34,184
Work-in-process	**14,730**	13,635
Finished goods	**10,296**	11,655
	$ 53,012	$ 59,474

4. Capital Assets

	December 31, 1984		December 31, 1983	
	Cost	**Net Book Value**	Cost	Net Book Net
Land	**$ 6,532**	**$ 6,532**	$ 6,049	$ 6,049
Buildings	**19,372**	**13,081**	18,082	13,070
Machinery and equipment	**74,024**	**41,080**	67,971	39,697
Other	**19,080**	**7,096**	13,377	8,271
	119,008	**67,789**	105,479	67,087
Oil and gas interests	**114,288**	**88,863**	103,903	84,720
Mining interests	**975**	**975**	969	969
Total	**$234,271**	**$157,627**	$210,351	$152,776

5. Bank Loans

Operating bank loans amounting to $2,984,000 (U.S. $2,250,000) are secured by certain inventories and a general assignment of certain book debts.

6. Long-Term Debt

	December 31, 1984	December 31, 1983
Bralorne Resources Limited Sinking fund debentures, Series A, bearing interest at 12⅞% due August 15, 1995, secured by certain producing oil and gas properties	**$ 34,000**	$ 37,000
Bralorne International Inc. Bank loans, secured, bearing interest at rates ranging from ¾% above the Euro-dollar London inter-bank rate to 16% (principal amount U.S. $31,900,000), repayable in 11 equal semi-annual instalments commencing January 1, 1986	**42,153**	37,228

Bank loan bearing interest at 1% above the prime rate of a U.S. bank (principal amount U.S. $6,797,800), repayable in 8 semi-annual instalments commencing January 1, 1986, secured by certain oil and gas properties and the Company's oil well drilling rigs	**8,983**	8,478
Bank loan bearing interest at 1% above the prime rate of a U.S. bank (principal amount U.S. $3,600,000), repayable in 11 equal semi-annual instalments commencing January 1, 1986, secured by certain oil and gas properties	**4,757**	4,449
Notes payable 1985 - 1986 bearing interest at 6% and 9% (principal amount U.S. $3,394,000)	**4,483**	6,494
Mark Products, Inc.		
Unsecured, note bearing interest at 9.95% repayable in semi-annual instalments through December 1, 1990 (principal amount U.S. $3,215,000)	**4,248**	4,417
Term loan bearing interest at 1¾% above the holder's commercial paper rate repayable in quarterly instalments through October, 1987 (principal amount U.S. $2,667,000)	**3,525**	4,864
Other secured debt	**678**	419
	102,827	103,349
Less: Current portion	**7,934**	7,930
	$ 94,893	$ 95,419

The aggregate maturities of long-term debt in each of the four years subsequent to December 31, 1985 are as follows:

1986 — $18,533,000
1987 — $14,577,000
1988 — $14,577,000
1989 — $14,576,000

Under the provisions of the Trust Deed securing the $34,000,000 debenture, the Company must establish a sinking fund by remitting to the trustee $3,000,000 annually until 1994. In addition, the Company must comply with certain covenants with respect to the net revenue coverage of principal and interest payments and to the discounted value of future net revenues for the oil and gas properties which secure the debenture.

As security for long-term bank loans of U.S. $34,500,000 the Company executed a first floating charge debenture in the amount of $25,000,000. A covenant of this debenture requires the consent of the lender for payment of dividends on common shares. In addition, the Company executed a first fixed charge debenture in the amount of $23,000,000 mortgaging certain real properties.

7. Share Capital

	December 31, 1984	December 31, 1983
First Preferred shares, issuable in series		
Authorized		
10,000,000 shares of no par value		
Issued		
1,600,000 — 8.75% cumulative, redeemable convertible First Preferred shares, Series A	**$32,000**	$32,000
Common shares:		
Authorized		
60,000,000 shares of no par value		
Issued		
23,489,730 shares (1983 — 23,489,430)	**34,933**	34,931
	$66,933	$66,931

Each First Preferred share, Series A, is convertible until February 15, 1990 into 2.963 common shares of the Company for a conversion price of $6.75 per common share, subject to adjustments in certain events. The shares are redeemable between February 16, 1986 and February 15, 1988 at a price of $21 per share, together with accrued and unpaid dividends, provided the current market price of the common shares is not less than 125% of the conversion price then in effect. Each year after 1988 the redemption price reduces by $.20 per share until 1993.

At December 31, 1984 there were 999,700 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share at $7.65 on or before March 1, 1987. A total of 300 share purchase warrants were exercised in 1984.

In prior years, common shares were issued to certain employees under the Company's share subscription plan. Shares purchased under the plan are held by a trustee as security for promissory notes from the various participants which are repayable in five annual instalments commencing six years after the date of issue, without interest. Funds for the purchase were advanced by the Company and the amount unpaid from time to time is included in long-term receivables. At December 31, 1984 this amount was $1,985,000 (December 31, 1983 — $1,985,000). The Company has set aside 253,260 common shares as at December 31, 1984 for possible future allocation under share incentive plans.

In addition, 5,740,500 common shares have been set aside at December 31, 1984 for the conversion of First Preferred shares, Series A and for the exercise of the share purchase warrants.

8. **Segmented Information** (in thousands of dollars)

By Geographic Location	Canada		United States	
	1984	1983	**1984**	1983
Sales to customers outside the enterprise	**$ 75,150**	74,226	**78,678**	57,197
Intersegment sales	**2,566**	2,659	**96**	169
Total revenue	**77,716**	76,885	**78,774**	57,366
Segmented operating profit (loss)	**$ 11,500**	8,888	**2,449**	(3,519)
General corporate expenses				
Interest expense				
Gain on foreign exchange				
Income taxes recovery				
Minority interest				
Unusual items				
Net income (loss) for the year				
Identifiable assets	**$118,501**	123,032	**174,700**	175,641

By Industry	Industrial	
	1984	1983
Sales to customers outside the enterprise	**$137,427**	119,609
Intersegment sales	**1,660**	1065
Total revenue	**$139,087**	120,674
Segmented operating profit (loss)	**$ 5,143**	(1,428)
General corporate expenses		
Interest expense		
Gain on foreign exchange		
Income taxes recovery		
Minority interest		
Unusual items		
Net income (loss) for the year		
Identifiable assets	**$182,483**	190,807
Expenditures on oil and gas interests	**$ —**	—
Expenditures on property, plant and equipment	**$ 11,339**	5,388
Depreciation, amortization and depletion	**$ 13,094**	12,869

Other		Eliminations		Consolidated	
1984	1983	**1984**	1983	**1984**	1983
3,823	6,934	**—**	—	**157,651**	138,357
981	798	**(3,643)**	(3,626)	**—**	—
4,804	7,732	**(3,643)**	(3,626)	**157,651**	138,357
111	1,213	**26**	—	**14,086**	6,582
				4,465	4,326
				14,530	17,460
				—	(453)
				(5,375)	(9,312)
				358	490
				—	4,398
				$ 108	(10,327)
4,403	4,098	**—**	—	**297,604**	302,771

Oil & Gas		Other		Eliminations		Consolidated	
1984	1983	**1984**	1983	**1984**	1983	**1984**	1983
19,340	18,050	**884**	698	**—**	—	**157,651**	**138,357**
—	—	**267**	1,716	**(1,927)**	(2,781)	**—**	—
19,340	18,050	**1,151**	2,414	**(1,927)**	(2,781)	**157,651**	138,357
8,060	7,312	**883**	698	**—**	—	**14,086**	6,582
						4,465	4,326
						14,530	17,460
						—	(453)
						(5,375)	(9,312)
						358	490
						—	4,398
						$ 108	(10,327)
94,823	86,372	**20,298**	25,592	**—**	—	**297,604**	302,771
6,803	4,146	**—**	—	**—**	—	**6,803**	4,146
104	16	**130**	—	**—**	—	**11,573**	5,404
5,580	5,288	**1,597**	1,600	**—**	—	**20,271**	19,757

9. Income Taxes

The provision for income taxes in the Consolidated Statement of Operations reflects an effective tax rate which differs from the combined Canadian Federal and Provincial corporate tax rate of 47% for the following reasons:

	1984	1983
Income tax recovery at the Canadian corporate tax rate	**$(2,308)**	$(7,064)
Add (deduct) effect of —		
Crown charges including resource royalties and petroleum and gas revenue taxes disallowed for tax purposes	**2,911**	2,395
Resource profits rate reductions	**(3,178)**	(2,660)
Provincial resource industry rebates	**(1,896)**	(2,225)
Other incentive credits and allowances	**(253)**	(260)
Different effective tax rates in foreign subsidiaries	**(619)**	(319)
Loss carry forwards not recognized	—	1,473
Miscellaneous	**(32)**	(652)
Actual income tax recovery	**$(5,375)**	$(9,312)

10. Related Party Transactions

The Company has participated in certain petroleum and natural gas joint ventures with Versatile Corporation, the Company's parent company, under normal industry terms. There are no significant related party receivables or payables at December 31, 1984.

11. Operating Subsidiary Companies

Barber Industries, Inc.
Bralorne Antilles N.V.
Bralorne Holland B.V.
Bralorne International Inc.
ESSE International, Inc.
Mark Products, Inc.
Mark Products, Ltd.
Mark Products U.S., Inc.
Mobile Homes Limited
OMSCO Industries, Inc.
Supreme Contractors, Inc.
Triangle Grinding, Inc.
World Wide Catering Ltd.

12. Subsequent Events

Under an Agreement dated December 11, 1984, Bralorne International Inc. (a wholly owned subsidiary of Bralorne Resources Limited) agreed to purchase, using a newly created Texas subsidiary, the minority interest in Mark Products, Inc. (a 53% owned subsidiary). A special meeting of the shareholders of Mark Products, Inc. was held on February 22, 1985 at which the proposed transaction was approved. The purchase price of the minority interest is U.S. $18,668,000 and is being financed with new bank debt secured by 100% of the shares of Mark Products, Inc.

Operating Information

Barber Industries

R. (Reg) Worsley
President

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