

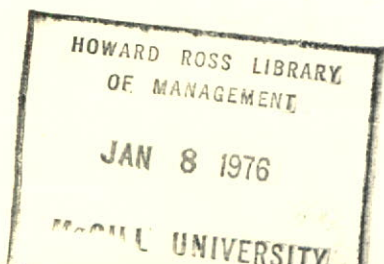
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# Scurry-Rainbow Oil Limited

## Annual

## Report

## 1975



# Scurry-Rainbow Oil Limited

Head Office: 709 - 8th Avenue S.W., Calgary, Alberta T2P 1H5

## Board of Directors

- \* **RONALD B. COLEMAN**, *Calgary, Alberta*  
Senior Vice-President, Secretary and General Counsel of Home Oil Company Limited,  
President and Director of Cygnus Corporation Limited
- GEORGE E. CREBER, Q.C.**, *Toronto, Ontario*  
President and Chief Executive Officer and Director of The Consumers' Gas Company;  
Director: Home Oil Company Limited, The Huron and Erie Mortgage Corporation, The Canada Trust Company, Rothmans of Pall Mall Canada Limited.
- \* **J. HOWARD GEDDES**, *Calgary, Alberta*  
Executive Vice-President and General Manager of the Company, Vice-President of Home Oil Company Limited
- \* **ANTHONY G. S. GRIFFIN**, *Toronto, Ontario*  
Chairman of the Boards of the Company, Home Oil Company Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company  
Director: The Consumers' Gas Company, Canadian Industries Limited, ICI Americas Inc., Raymond International Inc., Triarch Corporation Limited, United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company, National Film Board.
- + \* **J. GORDON HUTCHISON**, *Calgary, Alberta*  
Financial Consultant  
Director: Siebens Oil & Gas Ltd.
- MACLEAN E. JONES, Q.C.**, *Calgary, Alberta*  
Partner in law firm of Jones, Black & Company  
Director: Canadian Imperial Bank of Commerce
- + **HENRY E. LANGFORD, Q.C.**, *Toronto, Ontario*  
Corporate Director  
Director: Home Oil Company Limited, The Consumers' Gas Company, The Dominion of Canada General Insurance Company, Victoria & Grey Trust Company, The Empire Life Insurance Company, E.L. Financial Corporation.
- + **JOHN F. LANGSTON**, *Calgary, Alberta*  
Petroleum Engineer
- MAURICE P. PAULSON**, *Calgary, Alberta*  
Executive Vice-President and General Manager and Director of Home Oil Company Limited
- \* **ROSS F. PHILLIPS**, *Calgary, Alberta*  
President and Chief Executive Officer and Director of Home Oil Company Limited and the Company  
Director: The Consumers' Gas Company, Calgary Power Ltd.
- \* Member of Executive Committee
- + Member of Audit Committee

## Executive Officers

- A. G. S. GRIFFIN**,  
Chairman of the Board
- R. F. PHILLIPS**,  
President
- J. H. GEDDES**,  
Executive Vice-President and General Manager
- F. C. FINN**,  
Vice-President, Mining
- R. B. COLEMAN**,  
Vice-President
- C. B. CLARK**,  
Secretary-Treasurer

## Registrar & Transfer Agents

Guaranty Trust Company of Canada, Calgary, Alberta; Toronto, Ontario; Montreal, P.Q.; Vancouver, B.C.  
The Canadian Bank of Commerce Trust Company, New York, N.Y.

## Stock Listings

Toronto Stock Exchange, Toronto, Ontario  
Vancouver Stock Exchange, Vancouver, B.C.  
American Stock Exchange, New York, N.Y.

## Auditors

Price Waterhouse & Co., Calgary, Alberta

## Annual Meeting

The Annual Meeting of shareholders will be held at the head office of the Company in Calgary, Alberta. Formal notice of this meeting and proxy material has been mailed to all registered shareholders with this report.

The Company files annually with the United States Securities and Exchange Commission, a report on its operations known as the Annual Report on Form 10-K. Copies of this SEC Form 10-K are available free of charge upon written request to: C. B. Clark, Secretary-Treasurer, Scurry-Rainbow Oil Limited, 709-8th Avenue S.W., Calgary, Alberta T2P 1H5

## TO THE SHAREHOLDERS

For the fiscal year ending September 30, 1975, your Company recorded its highest sales revenue and earnings, notwithstanding reduced oil production. Our improved financial performance was due largely to substantial increases of natural gas prices and, to a lesser degree, to the Canadian crude price increase which took effect on July 1, 1975.

For the past fiscal year gross revenue was \$13,727,000, cash flow was \$6,776,000 while earnings were \$2,978,000 or \$1.12 per share compared to a restated loss of \$5,042,000 after non-recurring items for the previous year. Your Company ended the year in a strong working capital position of \$8,299,000 after capital expenditures of some \$5,199,000 for exploration, development, equipment and resource property acquisition.

During the past year the investment climate for oil and gas explorers operating in Alberta and British Columbia has been significantly improved by adjustments of Federal and Provincial policies. Governmental action to increase oil and gas prices, to reduce royalties, to partly offset the burden of overlapping Federal income tax and Provincial royalties and to offer incentive royalty rebates for exploration has resulted in improved after tax returns on existing oil and gas production and provided incentives to explore for oil and gas in Alberta and British Columbia. The industry is generally responding to this more hospitable economic climate by gearing up for an accelerated exploration effort, and your Company is no exception. We are undertaking a program to develop new plays in the western Provinces in order to regain the momentum which was lost as a result of the uncertainties created by government actions during 1973 and 1974.

With the demand for alternative forms of energy increasing, coal has become a centre of interest in western Canada. Scurry-Rainbow is currently involved in finalizing the evaluation of two major deposits, one in the Crowsnest Pass area, Alberta, the other in the Elk River Valley in British Columbia.

In June your Company made an offer for all of the outstanding shares of its 52% owned subsidiary, Plains Petroleum Limited. The offering price was 20¢ per share. As a result of this offer, 3,030,620 shares were acquired to bring Scurry-Rainbow's share interest up to 66%.

On Behalf of the Board



A. G. S. Griffin,  
Chairman of the Board.



R. F. Phillips,  
President.

November 24, 1975.

## EXPLORATION AND DEVELOPMENT

In fiscal 1975 Scurry-Rainbow maintained an active exploration program in Canada, the United States and in the Netherlands sector of the North Sea. The Company participated in the drilling of 38 wells, resulting in 7 oil wells and 13 gas wells. At year end, 1 additional well was still drilling.

### CANADA

#### Alberta

Exploratory drilling in the Marten Hills area of central Alberta continued in 1975. Scurry-Rainbow participated in six shallow wells, five of which were completed as gas wells. Exploratory drilling will continue during the 1976 winter season in an attempt to prove up additional reserves and extensive production testing of several wells will be undertaken to determine reservoir performance.

In the Coleman area of southwestern Alberta construction of a gathering system to transport the gas to an existing processing plant was completed at the end of the fiscal year, and gas went on-stream in November, 1975. Initial production rates are in the order of 33 MMcf/D of raw gas. Scurry-Rainbow and Plains Petroleum Limited, a 66% subsidiary, have an 8.17% and 9.05% interest in this project, respectively.

An exploratory well is currently drilling at Carbondale, ten miles south of Coleman, on lands obtained through a farmin agreement. Plains Petroleum Limited has a 7.93% interest in this well scheduled as an 11,800' Mississippian test to evaluate a structure believed similar to that controlling the Coleman gas accumulation.

#### British Columbia

Agreement has been reached with the British Columbia Petroleum Corporation whereby the Corporation will authorize a line into the Cecil Lake field. Initially, Scurry-Rainbow and its partner will commit gas at the rate of 5.0 MMcf/D from the Halfway Sandstone reservoir from one well. Further development drilling will be undertaken in the coming year to delineate the extent of the Cecil Lake oil pool and to increase the primary recovery of oil.

#### Saskatchewan

Scurry-Rainbow is in the process of substantially reducing its acreage position in this Province. Provincial Government Incentive Credits earned

through the Company's Saskatchewan production enabled the Company to drill a Devonian test in the Kisbey area at no cost to the Company. Although dry and abandoned, the results of this well will enable a further review of the Company's Saskatchewan land inventory. The Company is participating in a well currently drilling in the Estevan area, with the costs in this venture being supported by Government Incentive Credits.

#### Arctic Islands

During the year the Company participated with Panarctic in a geophysical program over its Melville Island holdings. The results of this survey are now being evaluated.

#### Nova Scotia

The geophysical evaluation of Scurry-Rainbow's offshore acreage was completed and, as the results were negative, the bulk of offshore permits were surrendered. Onshore, an unsuccessful farmout well was drilled on the Company's Amherst block. Further drilling is required to fully evaluate this large spread.

### UNITED STATES

#### Wyoming

The Company gained representation in three projects in the Powder River basin, northeast Wyoming. Scurry has an interest in over 70,000 acres in the general area south of the Ash Creek field on the west flank of the Powder River basin. The results of seismic surveys conducted during the summer are currently being evaluated and it is expected that one or more wells will be drilled during 1976.

Scurry also participated in a two-well shallow drilling program at Kirtley, also on the west flank of the Powder River basin. Although both were dry, one well provided encouragement and further drilling in 1976 may be undertaken.

Scurry is being carried in a five-well exploratory drilling program operated by the Anschutz Corporation in the Oedekoven area on the east flank of the Powder River basin. The first well was completed in September, 1975, as a Muddy Sandstone oil well. The initial development well, drilled in November, 1975 was unsuccessful. However, further drilling is required to evaluate the potential of this

discovery. A further twelve-well program, in which the Company is also carried, is planned in North Dakota.

The Company participated in an 18,000' Mississippian test in the Green River basin which was dry and abandoned. Although the well results were disappointing, reconnaissance seismic has outlined five additional leads currently being evaluated by detailed seismic and further drilling is programmed for 1976.

In the Washakie basin, a well drilled in 1975 at no cost to Scurry-Rainbow found minor oil shows in a shallow Eocene Limestone. A follow up well drilled in October, 1975 to evaluate this project was unsuccessful but further exploration is required.

### Utah

One exploratory well dry and abandoned, drilled at no cost to Scurry-Rainbow, provided a further evaluation of the Mississippian and Devonian potential of Scurry's holdings in the Paradox basin. Detailed seismic to firm up additional leads is in progress.

During the 1975 fiscal year the Company participated in two additional development wells at Altamont in the Uinta basin. The Company has now participated in 11 wells, nine have been completed as oil wells, and two unsuccessful wells will be abandoned. The Company's interest in these wells ranges from 0.38% to 14.31%. Unfortunately production rates are marginal due to reservoir quality and high-paraffin nature of the crude. Subsequent to year end, the Company sold its interest in these wells.

### UNITED KINGDOM

Scurry-Rainbow's 20% interest in Block 3/7 adjacent to the Ninian field has been considerably enhanced by recent drilling, particularly the Conoco discovery in the adjoining Block 3/2. Discussions are underway which could lead to early drilling of an exploratory well on this Block to test the west flank of the Ninian structure.

Early in 1975 Scurry-Rainbow surrendered its interests in the onshore Yorkshire permits and withdrew from application for additional permits.

### NETHERLANDS OFFSHORE

During 1975 the Company participated (2.5%) in two wells, F/5-1 and K/4-2, both of which were dry and abandoned. Additional drilling on the Company's holdings is warranted and it is expected that

during the 1976 fiscal year a well will be drilled on the F/15 block and a second well will be drilled on the P/15 block to follow-up the encouragement provided by oil and gas shows drilled at the P/15-1 location.

## PRODUCTION

Production of crude oil and natural gas liquids in the fiscal year 1974-75 declined by a total of 467,774 bbls. to 2,649,081 bbls. or 7,258 bbls. per day. Natural gas production increased to 5,258,231 Mcf or 14,406 Mcf per day compared to 4,886,000 Mcf or 13,385 Mcf per day in fiscal 1974.

The Company's production of crude oil in Western Canada declined because of natural decline as well as from proration resulting from government curtailment of exports.

### Crude Oil and Natural Gas Liquids

Production — barrels	1975	1974
Alberta .....	968,151	1,212,616
British Columbia.....	537,225	655,247
Saskatchewan .....	1,077,768	1,167,804
Manitoba .....	61,058	75,356
United States .....	4,879	5,832
Barrels for the year ...	<u>2,649,081</u>	<u>3,116,855</u>
Average per day .....	7,258	8,540

### Natural Gas Production — Mcf

Alberta .....	5,144,919	4,700,867
British Columbia.....	113,312	185,211
Mcf for the year .....	<u>5,258,231</u>	<u>4,886,078</u>
Average per day .....	14,406	13,385

### Sales Revenue

Crude oil and natural gas liquids.....	\$10,081,540	\$10,121,140
Natural gas .....	2,718,413	1,129,283
Sulphur .....	208,509	153,858
Other products.....	61,617	47,737
Total sales revenue ..	<u>\$13,070,079</u>	<u>\$11,452,018</u>

## Reserves

The Company's proven developed crude oil and natural gas liquids, natural gas and sulphur reserves at September 30, 1975, after deduction of minority interests in subsidiaries, are summarized in the table below.

### PROVEN DEVELOPED RESERVES (Before Deduction of Royalties)

	September 30	
	1975	1974
Crude Oil and Natural Gas Liquids —		
barrels.....	20,354,000	22,899,000
Natural Gas —		
Mcf .....	153,368,000	146,684,000
Sulphur —		
long tons .....	812,000	796,000

## MINING

### Coal

Consolidation Coal has purchased a 50% interest in the Company's coal holdings in the Crowsnest Pass and Ram River areas. Consol, as Operator of the properties, is finalizing tests preparatory to developing a strip mine on Grassy Mountain at Blairmore in the Crowsnest Pass. It is expected that an application for a mining permit will be submitted to the Alberta Government in the immediate future.

The Elk River Vally, British Columbia, property is also in the advanced stages of detailed exploration and evaluation by Elco Mining Ltd., a subsidiary of Exploration und Bergbau which represents a consortium of European companies in the steel industry. Elco, as at the end of September was ahead of schedule on the 1975 evaluation programme and results obtained to date indicate a distinct possibility of early production from this property. Other companies have expressed interest in acquiring a percentage of Scurry-Rainbow's remaining 50% interest in this property and negotiations are taking place.

As a result of the exploration and testing done to date, the Company estimates that its share of bituminous coal reserves in Alberta and British Columbia which are amenable to open cast mining are approximately 204 million short tons of proven reserves and 160 million short tons of probable additional reserves, of which 146 million short tons proven and 133 million short tons probable additional are attributable to reserves contained in the Blairmore and Elk River properties. In addition, there are several hundred million short tons (Company's share) of underground coal reserves at depths of less than 2,000 feet below surface. Deep core tests and mining studies are currently being conducted to develop a hydraulic mining plan for a portion of these underground reserves.

## Potash

The Company has granted an option to the Potash Corporation of Saskatchewan, which is exercisable to November 1, 1976, to acquire the Company's prospective potash land holdings and royalty interests for \$2,300,000.

## Metallics

The Company, during the fiscal year, expanded its search for other minerals. We were actively engaged in programmes in the Yukon Territory, Saskatchewan and Ontario. Some of these programmes were undertaken in conjunction with other companies in a formal joint venture. As a result of the Company's exploration programme, drilling will probably take place on a base metal property in north-western Ontario and on a uranium property in Saskatchewan. Scurry-Rainbow staked some 45,000 acres in a geologically favourable belt close to a reportedly high-grade uranium discovery in Saskatchewan. In conjunction with another company, Scurry has acquired additional acreage in this area and a major follow-up programme is planned early in 1976.

Scurry also extended its exploration to various areas in the western United States and to date some interesting properties have been evaluated in Idaho, Washington, Nevada and Arizona but none have been acquired.

The Company's Mexican operations centred around the Santa Rita mine in the State of Zacatecas. Additional geological exploration now indicates reserves of 127,200 tons of ore, averaging 15.5 oz. silver, 4.43% lead, 6.05% zinc and 3.21% antimony. The ninth level has been developed and a decision was made during the year to place the mine on production. We are completing the construction of the mill and a leaching plant to recover the antimony is well underway. It is expected that commercial production will commence early in our 1976 fiscal year.

Mining Acreage	Gross	Net
Coal mining properties ...	108,664	99,064
Potash leases .....	83,238	83,238
Mining claims .....	62,363	37,470
	<u>254,265</u>	<u>219,772</u>
Canada		
Alberta .....	89,464	89,464
British Columbia .....	34,786	14,971
Saskatchewan .....	99,202	99,106
Northwest Territories...	5,674	5,674
Yukon .....	13,980	1,398
Foreign .....	11,159	9,159
<b>Total acreage at</b>		
<b>Sept. 30, 1975.....</b>	<u>254,265</u>	<u>219,772</u>
Total acreage at		
Sept. 30, 1974 .....	<u>183,704</u>	<u>164,463</u>

## OIL AND GAS ACREAGE

	Gross Acres	Net working Interests	Net Mineral Interests	Net Royalty Interests
Petroleum and natural gas leases .....	2,382,154	743,646	—	—
Gross overriding royalties on leases .....	156,133	—	—	33,202
Reservations, licenses and permits .....	5,583,095	1,095,689	—	—
Oil and gas titles .....	1,120	—	600	—
Gross royalties in freehold land .....	302,939	—	—	60,679
Mineral titles and mineral leases.....	1,034,689	—	642,326	—
	<u>9,460,130</u>	<u>1,839,335</u>	<u>642,926</u>	<u>93,881</u>
Western Canada				
Alberta .....	1,481,757	256,924	11,814	88,169
British Columbia.....	698,422	92,985	—	4,257
Saskatchewan (1) .....	1,260,505	34,264	603,839	1,190
Manitoba .....	38,632	1,350	27,273	265
Northern Canada				
Arctic Islands .....	1,476,786	120,318	—	—
Northwest Territories .....	1,309,222	354,399	—	—
Eastern Canada				
Ontario .....	1,384	830	—	—
Quebec .....	852,326	274,362	—	—
Nova Scotia .....	265,045	260,665	—	—
Total Canadian acreage .....	<u>7,384,079</u>	<u>1,396,097</u>	<u>642,926</u>	<u>93,881</u>
United States				
Alaska .....	383,254	293,845	—	—
North Dakota .....	179,412	70,723	—	—
Utah .....	66,507	9,086	—	—
Wyoming .....	196,101	29,463	—	—
Montana.....	751	116	—	—
United Kingdom				
Offshore .....	50,026	10,005	—	—
Netherlands				
Offshore .....	1,200,000	30,000	—	—
<b>Total acreage at September 30, 1975 .....</b>	<u><b>9,460,130</b></u>	<u><b>1,839,335</b></u>	<u><b>642,926</b></u>	<u><b>93,881</b></u>
Total acreage at September 30, 1974 .....	<u>14,426,075</u>	<u>2,953,884</u>	<u>1,811,941</u>	<u>94,236</u>

(1) Excludes 938,036 gross acres (791,058 net acres) of mineral interests which have been voluntarily surrendered to the Provincial Government but which have not as yet been officially accepted by the Crown.

## FINANCIAL REVIEW

Gross revenues increased to \$13,727,000, an increase of 12% from the \$12,265,000 in 1974. This increase primarily reflects the higher sales prices received on natural gas and products. The increase in crude oil prices did not offset the decline in production of this product.

Net earnings were \$2,978,000 or \$1.12 per share compared to a restated loss of \$5,042,000 or \$1.92 per share for 1974. The 1974 restatement reflects adjustments to the 1974 income tax provision, resulting primarily from retroactive changes announced by certain Provincial governments in 1975 which were related to the 1974 Federal tax amendments. Further details of this adjustment are given in Note 4 to the financial statements contained in this report.

The improvement in net earnings results from the increased revenues, the reduction in depletion expense and reduced mining property abandonments, partially offset by higher income taxes. The Company also realized a net gain on other items, as discussed below, compared to a substantial loss realized on other items in 1974 which were principally a result of changes in accounting policies.

Income taxes in 1975 incorporate the effects of 1974 income tax amendments for a whole year coupled with the tax effects on other items. In 1974, taxes include the 1974 tax amendments which for the most part were effective on May 6, 1974.

Net cash flow from operations, after providing \$1,885,000 in current taxes, amounted to \$6,776,000 compared to \$7,504,000 in 1974. Capital expenditures were \$5,199,000. The Company's working capital amounted to \$8,299,000 at September 30, 1975 compared to \$5,816,000 at the end of the previous year.

During the year the Company disposed of certain capital assets including industrial property in Edmonton, its office building and aircraft. In addition, certain of the Company's investments were written

down to an estimated realizable value and payments were made to certain officers and employees under the terms of the Employment Security contracts. These other items resulted in a net gain of \$1,219,000.

Effective January 1, 1975, the Company's employees have been participating in the Pension Plan of its parent company. Based upon an actuarial evaluation, the Company paid \$136,000 into its pension fund to bring this Fund's benefits on to the same base as that of Home Oil Company Limited's plan. As soon as the necessary regulatory approvals are received, the Company's plan will be merged with that of Home Oil.

During 1975 the Company acquired an additional 3,030,620 shares of Plains Petroleums Limited, at a cost of \$621,000, bringing its direct and indirect holdings in this subsidiary to 66% from 52%.



## FIVE YEAR SUMMARY OF OPERATIONS

	1975	1974	1973	1972	1971
Revenue .....	\$13,727,000	\$12,265,000	\$9,917,000	\$8,613,000	\$8,703,000
Expenses					
Operating, general and administrative and minority interest .....	3,725,000	2,751,000	2,428,000	2,388,000	2,285,000
Depletion and depreciation .....	3,529,000	4,301,000	4,364,000	4,326,000	4,157,000
Mining properties abandoned .....	203,000	602,000	672,000	117,000	61,000
Interest expense ....	1,230,000	1,338,000	1,350,000	1,357,000	1,334,000
	<u>8,687,000</u>	<u>8,992,000</u>	<u>8,814,000</u>	<u>8,188,000</u>	<u>7,837,000</u>
Net earnings before the following .....	5,040,000	3,273,000	1,103,000	425,000	866,000
Other credits (charges)	<u>1,219,000</u>	<u>(7,933,000)</u>	<u>228,000</u>	<u>(119,000)</u>	<u>122,000</u>
Net earnings (loss) before provision for income taxes ...	6,259,000	(4,660,000)	1,331,000	306,000	988,000
Provision for income tax .....	<u>3,281,000</u>	<u>382,000</u>	<u>1,070,000</u>	<u>608,000</u>	<u>793,000</u>
Net earnings (loss) ...	<u>\$ 2,978,000</u>	<u>\$(5,042,000)</u>	<u>\$ 261,000</u>	<u>\$(302,000)</u>	<u>\$ 195,000</u>

The Company is engaged in the exploration for and development and production of petroleum and natural gas and in the exploration for various minerals.

Revenue decreased in 1972 as a result of natural decline in oil production and a cutback in production in the Gold Creek D-1 Gas Unit to  $\frac{1}{6}$  of previous production rates, caused by water intrusion. Increased revenues in 1973 and 1974 were mainly attributable to higher sales prices for crude oil and natural gas and related products, combined with a marginal increase in production volumes in 1973 and decreased production in 1974.

Revenues for 1975 increased primarily as a result of increased natural gas prices. The increase in the price of crude oil did not wholly compensate for the decline in production of this product since a large portion (40%) of the crude oil production is in Saskatchewan where two-thirds of the price increases were taken by the Provincial Government.

Other credits (charges) for the years 1971 to 1973 relate to losses or gains realized on the sale of capital assets with a net gain on the sale of investments also recorded in 1971. In 1974, the Company recorded charges related to changes in accounting policies, the write-down of an investment in an associated company and certain remuneration costs to former employees. In 1975, the other credits (charges) represent realized gains on the disposal of capital assets, the write-down of certain of its securities and additional special compensation expenses to former employees.

Income taxes in 1975 incorporate the effects of 1974 income tax amendments for a whole year coupled with the tax effects on other credits. The 1974 taxes include the 1974 income tax amendments which for the most part were effective on May 6, 1974.

Additional information relating to the above items is contained in the Directors' report to the shareholders, the financial and production reviews, the Five Years at a Glance and in the notes to the consolidated financial statements.

The following table shows the percentage of gross revenue contributed by the two major sources during each of the five years ended September 30, 1975:

	1975	1974	1973	1972	1971
Crude oil .....	68.59%	77.68%	81.93%	84.28%	82.14%
Natural gas and related products.....	26.18%	15.69%	12.71%	12.56%	14.29%

The Company produces crude oil, natural gas and other products principally as a result of one integrated operation. Frequently these products are produced jointly. Accordingly, it is not possible to allocate expenses to revenues generated by product in order to determine the contribution to net earnings by individual product line.

## TWO YEAR PRICE RANGE OF SHARES

	Toronto Stock Exchange		American Stock Exchange	
	1975	1974	1975	1974
			(U.S. funds)	
First Quarter	18½ - 11½	24⅞ - 18½	19¼ - 11	24⅞ - 18½
Second Quarter	15¼ - 12¾	24 - 20⅞	15 - 12	24½ - 20⅞
Third Quarter	14½ - 13⅞	27¼ - 20¾	15 - 13	28¼ - 21⅞
Fourth Quarter	16 - 14	20¾ - 18¾	15½ - 14⅞	20⅞ - 18⅞

The Company has not declared or paid any dividends on its outstanding shares.

**CONSOLIDATED STATEMENTS OF EARNINGS**

	<b>Year ended September 30</b>	
	<b>1975</b>	<b>1974</b>
		(restated)
Sales, less royalties .....	\$11,297,000	\$ 9,952,000
Royalty income .....	1,773,000	1,500,000
Investment income .....	407,000	682,000
Other income .....	250,000	131,000
	<u>13,727,000</u>	<u>12,265,000</u>
Production expenses .....	2,267,000	1,986,000
Administrative and general expenses .....	1,282,000	845,000
Interest on long-term debt .....	1,230,000	1,338,000
Depletion and depreciation .....	3,529,000	4,301,000
Mining properties abandoned .....	203,000	602,000
Amortization of deferred charges .....	143,000	51,000
Minority interests .....	33,000	(131,000)
	<u>8,687,000</u>	<u>8,992,000</u>
Earnings before the following .....	<u>5,040,000</u>	<u>3,273,000</u>
Other items:		
Gain on sale of capital assets .....	1,619,000	8,000
Write down of non-current marketable securities .....	(105,000)	—
Mining properties written off (Note 1 (g)) .....	—	(5,418,000)
Write-off of investment in an associated company .....	—	(1,370,000)
Special compensation to officers and employees (Note 6) ..	(295,000)	(698,000)
Special legal and travel expenses .....	—	(159,000)
Organization and other deferred charges written off .....	—	(296,000)
	<u>1,219,000</u>	<u>(7,933,000)</u>
Earnings (loss) before provision for income taxes .....	<u>6,259,000</u>	<u>(4,660,000)</u>
Provision for income taxes (Note 4)		
Current .....	1,885,000	(304,000)
Deferred .....	1,396,000	686,000
	<u>3,281,000</u>	<u>382,000</u>
Net earnings (loss) for the year .....	<u>\$ 2,978,000</u>	<u>\$ (5,042,000)</u>
Net earnings (loss) per share .....	<u>\$ 1.12</u>	<u>\$ (1.92)</u>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	<b>Year ended September 30</b>	
	<b>1975</b>	<b>1974</b>
		(restated)
Retained earnings (deficit) at beginning of year:		
As previously reported .....	\$ (719,000)	\$ 5,059,000
Adjustment for prior period income taxes (Note 4) .....	736,000	—
As adjusted .....	17,000	5,059,000
Net earnings (loss) for the year .....	2,978,000	(5,042,000)
Retained earnings at end of year .....	<u>\$ 2,995,000</u>	<u>\$ 17,000</u>

**CONSOLIDATED BALANCE SHEETS****Assets**

	<b>September 30</b>	
	<b>1975</b>	<b>1974</b>
Current assets:		(restated)
Cash and short-term deposits .....	\$10,179,000	\$ 5,579,000
Government bonds, at cost .....	96,000	96,000
Accounts receivable .....	2,867,000	3,067,000
Income taxes recoverable .....	370,000	304,000
Inventory of materials and supplies, at lower of cost or estimated realizable value .....	372,000	478,000
Prepaid expenses .....	220,000	16,000
	<u>14,104,000</u>	<u>9,540,000</u>
Investments and other assets:		
Investments —		
Shares of Minerals Ltd. — 50% owned .....	1,105,000	1,613,000
Shares of Minerales Santa Rita S.A. de C.V. — 49% owned (Note 2) .....	310,000	—
Securities of other companies, at lower of cost or estimated realizable value (Note 2) .....	220,000	284,000
Advances repayable from production (Note 2) .....	4,064,000	2,128,000
Deposits and advances .....	227,000	220,000
	<u>5,926,000</u>	<u>4,245,000</u>
Capital assets, at cost:		
Petroleum and natural gas and other mineral interests .....	75,115,000	71,676,000
Less: Accumulated depletion .....	(34,452,000)	(31,545,000)
Production equipment, buildings and other equipment .....	10,651,000	11,207,000
Less: Accumulated depreciation .....	(6,190,000)	(5,969,000)
Mining properties, non-producing .....	5,461,000	5,107,000
Land .....	83,000	959,000
	<u>50,668,000</u>	<u>51,435,000</u>
Deferred charges:		
Debenture issue costs, less amortization .....	366,000	395,000
Other charges, less amortization .....	135,000	114,000
	<u>501,000</u>	<u>509,000</u>
	<u><u>\$71,199,000</u></u>	<u><u>\$65,729,000</u></u>

**Liabilities**

	<b>September 30</b>	
	<b>1975</b>	<b>1974</b>
		(restated)
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 3,140,000	\$ 3,117,000
Accrued interest.....	502,000	502,000
Income taxes payable.....	1,951,000	—
Due to parent company — Home Oil Company Limited.....	188,000	—
Long-term debt due within one year.....	24,000	105,000
	<u>5,805,000</u>	<u>3,724,000</u>
Long-term debt:		
Non-interest bearing advances under exploration agreement due October 1, 1979.....	381,000	381,000
6¾%, 7% and 9% mortgages due 1976 to 1981,.....	—	537,000
Non-interest bearing agreement, due July 23, 1990 repayable \$25,000 U.S. per annum.....	362,000	350,000
7¼% convertible subordinated debentures due May 1, 1988 (Note 3).....	16,602,000	16,602,000
	<u>17,345,000</u>	<u>17,870,000</u>
Less: Amounts due within one year.....	24,000	105,000
	<u>17,321,000</u>	<u>17,765,000</u>
Deferred income taxes (Note 4).....	11,646,000	10,251,000
Minority interests in subsidiary companies.....	1,738,000	2,278,000
Shareholders' equity (Note 5):		
Share capital		
Authorized — 7,500,000 shares, par value \$3.50 each		
Issued — 2,647,921 shares.....	9,268,000	9,268,000
Contributed surplus.....	22,426,000	22,426,000
Retained earnings.....	2,995,000	17,000
	<u>34,689,000</u>	<u>31,711,000</u>
Contingent liability (Note 7)		

APPROVED BY THE BOARD:



Director



Director

\$71,199,000

\$65,729,000

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	<b>Year ended September 30</b>	
	<b>1975</b>	<b>1974</b> (restated)
Funds were obtained from:		
Net earnings (loss) for the year .....	\$ 2,978,000	\$(5,042,000)
Adjustments for non-cash items not requiring an outlay of funds .....	3,798,000	12,546,000
Funds derived from operations .....	6,776,000	7,504,000
Sale of capital assets .....	3,926,000	1,105,000
Issuance of Company stock .....	—	724,000
Long-term borrowings .....	—	382,000
Dividend received from Minerals Ltd. ....	500,000	—
Other .....	—	42,000
	<u>11,202,000</u>	<u>9,757,000</u>
Funds were used for:		
Expenditures for capital assets .....	5,199,000	9,613,000
Investment in and advances to Minerale Santa Rita S.A. de C.V. ....	2,246,000	1,336,000
Retirement of long-term debt .....	444,000	409,000
Acquisition of additional shares in subsidiary companies .....	645,000	—
Other .....	185,000	152,000
	<u>8,719,000</u>	<u>11,510,000</u>
Increase (decrease) in working capital .....	2,483,000	(1,753,000)
Working capital at beginning of year .....	5,816,000	7,569,000
Working capital at end of year .....	<u>\$ 8,299,000</u>	<u>\$ 5,816,000</u>
Changes in components of working capital:		
Increase (decrease) in current assets		
Cash .....	\$4,600,000	\$(2,332,000)
Government bonds .....	—	8,000
Accounts receivable .....	(200,000)	1,080,000
Income taxes recoverable .....	66,000	304,000
Inventories .....	(106,000)	335,000
Prepaid Expenses .....	204,000	(71,000)
Net increase (decrease) in current assets .....	<u>4,564,000</u>	<u>(676,000)</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities .....	23,000	1,044,000
Accrued interest .....	—	(8,000)
Income taxes payable .....	1,951,000	—
Due to parent company .....	188,000	—
Long-term debt due within one year .....	(81,000)	41,000
Net increase in current liabilities .....	<u>2,081,000</u>	<u>1,077,000</u>
Increase (decrease) in working capital .....	<u>\$2,483,000</u>	<u>\$(1,753,000)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1975

### 1. Accounting policies—

The accounting policies presently followed by the companies are outlined hereunder.

#### (a) Principles of consolidation—

- (i) The consolidated financial statements include the accounts of all subsidiaries. The Company's principal subsidiaries are Scurry-Rainbow Oil (Sask) Ltd. which is 95.1% owned and Plains Petroleum Limited which is 65.1% owned. The other subsidiaries are Williams Creek Exploration Ltd., the Winnipeg Western Land Corporation Limited, Agawam Oil Co. Ltd., Scurry-Rainbow (International) Limited, Scurry-Rainbow (Bolivia) Limited, Scurry-Rainbow (U.K.) Limited and Westcoast Oil and Gas Corporation.

The excess of the cost of shares in subsidiaries over their underlying book value at dates of acquisition has been applied to petroleum and natural gas and other mineral interests and depletion is provided thereon.

- (ii) The investments in Minerals Ltd. and Minerales Santa Rita S.A. de C.V. are accounted for by the equity method. Under this method the investments are carried on the balance sheet at cost adjusted for the Company's share of undistributed earnings since acquisition less depletion of the related excess of the investments over the underlying book values at dates of acquisition. The Company's share of the net income, after deduction of a yearly provision for depletion of excess cost, is included in "Investment income" in the Consolidated Statement of Earnings.
- (iii) Current assets and liabilities of foreign subsidiaries are converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities are converted at historic rates. Revenue and expense items are converted using the average rates of exchange throughout the period except for items such as depletion and depreciation for which historic rates are applicable.

#### (b) Petroleum and natural gas and other mineral interests—

The companies follow the full cost method of accounting for petroleum, natural gas and other mineral interests whereby all costs of exploring for and developing oil, natural gas and other mineral reserves within the same properties, including exploration overhead, are capitalized whether productive or unproductive. Proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. The costs are accumulated in two cost centres — North America and Northwestern Europe.

Costs accumulated in the North America cost centre are depleted by the unit of production method based on the total estimated proven reserves of oil, gas and gas by-products and indicated potash royalty reserves within the cost centre.

Costs accumulated in the Northwestern Europe cost centre are amortized by the straight-line method over a ten-year period. Under this policy, should exploration in the area prove successful the unamortized balance in the cost centre will be depleted by the unit of production method. Should production not be obtained in the area the unamortized balance in the cost centre will be written off to income (included in depletion).

#### (c) Mining properties—

The costs of mining properties, consisting of coal properties, potash leases and other mining claims (none of which is yet in production), include acquisition and carrying costs, exploration costs, preliminary development expenditures and exploration overhead. Costs applicable to any particular area are written off when there is little prospect of further work being carried out by the Company or its partners; costs applicable to areas which prove to be productive will be depleted on the unit of production basis.

(d) Depreciation—

Depreciation is based on the estimated service life of assets, calculated by the straight-line method.

(e) Income taxes—

The companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method, provisions for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts.

(f) Earnings per share—

Earnings (loss) per share are calculated on the weighted average number of shares of the Company outstanding during the year. The conversion of outstanding convertible debentures would not be dilutive.

(g) 1974 changes in accounting policies—

During the 1974 fiscal year, the Company and its subsidiaries changed certain of their accounting policies resulting in non-recurring charges against income, as follows:

- (i) Prior to 1974, the capitalized costs of non-producing mining properties were written off when all properties in an area were surrendered. During 1974, it was decided that the policy as outlined in Note 1 (c) above was more appropriate. This resulted in an additional charge to 1974 income for the write-off of mining properties of \$5,418,000 (\$3,918,000 net of tax and minority interests).
- (ii) The organization and share issue expense and certain other intangible expenses which had been treated as deferred charges at the time incurred were written off, resulting in a charge to 1974 income of \$296,000 (with no tax effect).

**2. Investments and advances—**

The investment in Minerales Santa Rita S.A. de C.V. represents the cost of a 49% equity interest in a Mexican company incorporated to explore and develop a silver-lead-zinc-antimony property in Mexico. The property is in the preproduction stage and all exploration and development expenditures are being capitalized.

Advances repayable from production represent \$3,819,000 advanced by the Company to September 30, 1975 for exploration and development of the Mexican property and \$245,000 advanced to certain Mexican nationals to enable them to purchase the remaining 51% equity interest in the Mexican company. The \$3,819,000 and any further advances are recoverable, with interest, out of 100% of the net cash flow generated from the mining operations and the \$245,000 is recoverable, with interest, out of any dividends attaching to the shares representing the 51% equity interest. No such dividends may be declared by Minerales Santa Rita S.A. de C.V. until all advances to that company have been repaid with interest. Because this mining operation is still in the preproduction stage, the Company has not recorded any interest recoverable on the advances, which interest at September 30, 1975 amounted to \$453,000.

The non-current investment in marketable securities has been written down by \$105,000 in recognition of the decline in value of such securities which appears to be of a permanent nature.

**3. Long-term debt—**

The 7¼% convertible subordinated debentures are convertible into shares of the Company at any time before May 1, 1978 at \$33⅓ per share and are subject to sinking fund requirements of \$1,067,000 annually on November 1 until 1987 inclusive. Debentures converted or repurchased may be applied by the Company against its sinking fund obligations. The aggregate of debentures converted prior to September 30, 1975 satisfy the November 1, 1975 instalment, leaving a balance of \$197,000 to apply against future sinking fund payments.

The estimated amount of long-term debt maturities and remaining sinking fund requirements for the five fiscal years subsequent to 1975 are as follows: 1976 - \$24,000, 1977 - \$894,000, 1978 - \$1,091,000, 1979 - \$1,091,000, 1980 - \$1,472,000.



#### 4. Income taxes—

The provision for income taxes is related to the following categories:

	\$000					
	1975			1974		
	Current	Deferred	Total	Current	Deferred	Total
On earnings before other items . .	\$1,417	\$1,314	\$2,731	\$(304)	\$2,461	\$2,157
On other items . . . . .	468	82	550	—	(1,775)	(1,775)
	<u>\$1,885</u>	<u>\$1,396</u>	<u>\$3,281</u>	<u>\$(304)</u>	<u>\$ 686</u>	<u>\$ 382</u>

The 1974 provision has been restated to give effect to refinements to the original provision which incorporated amendments to Federal tax legislation as announced November 18, 1974 and to take into account retroactive changes announced by certain Provincial Governments which were related to these Federal tax amendments. This restatement resulted in (1) a reduction in the previously reported deferred tax provisions, amounting to \$395,000 on "earnings before other items" and \$56,000 on "other items" and (2) a recovery of current taxes (\$304,000) representing the Alberta Government's Royalty Tax Credit as enacted in June, 1975. This Royalty Tax Credit is a direct refund from the Province of the amount of Federal taxes attributable to royalty and other payments made to the Province which were disallowed effective May 6, 1974 for Federal tax purposes. After providing for minority interest, this restatement resulted in a reduction of \$736,000 in the previously reported net loss for the year.

The Alberta Royalty Tax Credit is refundable from the Province currently even though the applicable Federal taxes may not be payable until some time in the future. It is also limited to a maximum of \$1,000,000 for a complete taxation year. The 1975 current tax provision on earnings before other items includes a recovery of \$621,000 related to this credit.

#### 5. Shareholders' equity—

As of September 30, 1975, the Company had 498,060 shares reserved for issuance upon conversion of the 7¼% convertible subordinated debentures. In November 1974, the stock option plan for officers and key employees was cancelled and shares are no longer reserved for this purpose.

The Trust Indenture under which the 7¼% convertible subordinated debentures have been issued contains certain dividend restrictions providing essentially that dividends may be paid only to the extent of consolidated earnings accumulated subsequent to January 31, 1968 and the net consideration received from the issue of the Company's shares after January 31, 1968. Under these restrictions, the amount available for distribution as dividends is in excess of the retained earnings at September 30, 1975.

#### 6. Remuneration of directors and senior officers—

During 1975 the Company and its subsidiaries paid as remuneration to the Company's directors and senior officers the following:

Remuneration of directors in their capacity as directors . . . . .	\$ 42,000
Remuneration of senior officers in their capacity as officers . . . . .	216,000
Consideration to senior officers upon resignation under terms of employment security contracts . . . . .	121,000

The Company paid special compensation under the terms of employment security contracts to certain officers and employees, upon their resignation, aggregating \$295,000 (including the \$121,000 shown above). In 1974, such payments amounted to \$264,000 and payments made to senior officers on surrender of employee stock options amounted to \$434,000.

## 7. Contingent liability—

The Company and certain of its subsidiaries are contingently liable at September 30, 1975 for \$603,000 (excluding any penalties which may be assessed thereon) relating to mineral taxes on acreage surrendered to the Crown in the Province of Saskatchewan, which surrenders have not as yet been officially accepted by the Crown.

## 8. Subsequent event—

On November 7, 1975, the Company and Potash Corporation of Saskatchewan entered into an option agreement covering the Saskatchewan potash properties of the Company and certain of its subsidiaries. Under the option, Potash Corporation may, on or before November 1, 1976, purchase all of such potash properties located in the Province of Saskatchewan for \$2,300,000 (subject to adjustment in certain circumstances). Until November 1, 1976, Potash Corporation will reimburse all maintenance charges and obligations except for such charges relating to certain revenue producing tracts. If the option is exercised, mining properties will be reduced by \$1,900,000, being the costs thereof, and petroleum and natural gas interests by the balance of \$400,000.

## AUDITORS' REPORT

To the Shareholders of  
Scurry-Rainbow Oil Limited

We have examined the consolidated balance sheets of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1975 and 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As described in Note 4 to the consolidated financial statements, amounts shown for 1974 have been restated to give effect to the adjustment of income taxes.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied.

Calgary, Alberta  
November 24, 1975

PRICE WATERHOUSE & CO.  
Chartered Accountants

## FIVE YEARS AT A GLANCE

		1975	1974	1973	1972	1971
<b>EARNINGS</b>	Gross Revenue .....	\$13,727,000	12,265,000	9,917,000	8,613,000	8,703,000
	Net earnings (loss) .....	\$ 2,978,000	(5,042,000)	261,000	(302,000)	195,000
	Per share .....	\$ 1.12	(1.92)	.10	(.12)	.07
<b>BALANCE SHEET</b>	Working capital .....	\$ 8,299,000	5,816,000	7,569,000	7,816,000	3,917,000
	Investments and advances .....	\$ 5,926,000	4,245,000	3,338,000	3,265,000	3,243,000
	Capital Assets — net .....	\$50,668,000	51,435,000	54,033,000	52,609,000	56,349,000
	Deferred charges .....	\$ 501,000	509,000	862,000	786,000	827,000
	Long-term debt — net .....	\$17,321,000	17,765,000	17,792,000	17,873,000	17,965,000
	Deferred income taxes .....	\$11,646,000	10,251,000	9,565,000	8,494,000	7,886,000
	Minority interests .....	\$ 1,738,000	2,278,000	2,409,000	2,495,000	2,569,000
Shareholders' equity .....	\$34,689,000	31,711,000	36,036,000	35,614,000	35,916,000	
<b>CAPITAL EXPENDITURES</b>	Acquisition of property .....	\$ 782,000	3,358,000	1,130,000	620,000	231,000
	Exploration and Development expenditures .....	\$ 4,127,000	5,817,000	5,859,000	3,639,000	4,572,000
	Production equipment .....	\$ 232,000	375,000	250,000	592,000	519,000
	Other capital assets .....	\$ 58,000	63,000	10,000	97,000	1,010,000
	Total capital expenditures .....	\$ 5,199,000	9,613,000	7,249,000	4,948,000	6,332,000
<b>LAND HOLDINGS</b>	Gross acreage .....	9,714,000	14,610,000	14,538,000	12,868,000	10,224,000
	Net acreage .....					
	— Working interest .....	1,839,000	2,954,000	3,505,000	2,911,000	2,946,000
	— Minerals .....	643,000	1,812,000	1,812,000	1,812,000	1,810,000
	— Royalty interest .....	94,000	94,000	97,000	96,000	102,000
— Mining .....	220,000	164,000	217,000	221,000	267,000	
<b>DRILLING ACTIVITY</b>	Gross wells drilled .....	38	64	77	72	82
	Net oil and gas wells — working interest .....	3	4	4	4	2
	— royalty interest .....	4	3	9	11	10
<b>PRODUCTION</b>	Crude oil and Natural gas liquids .....					
	— barrels per day .....	7,258	8,540	8,960	8,890	9,055
	Natural gas — thousand cubic feet per day .....	14,406	13,385	14,545	14,225	15,115
<b>SHARES</b>	Shares outstanding .....					
	— end of year .....	2,647,921	2,647,921	2,611,761	2,601,761	2,601,761
	— average for the year .....	2,647,921	2,627,638	2,602,829	2,601,761	2,601,761

The above data incorporates retroactive adjustments.

