

SCURRY-RAINBOW OIL LIMITED

**NOTICE OF SPECIAL MEETING
OF SHAREHOLDERS
TO BE HELD NOVEMBER 8, 1993**

NOTICE OF PETITION

**MANAGEMENT INFORMATION CIRCULAR
AND
PROXY STATEMENT**

**CONCERNING AN ARRANGEMENT INVOLVING
SCURRY-RAINBOW OIL LIMITED
AND
HOME OIL COMPANY LIMITED**

September 24, 1993

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SCURRY-RAINBOW OIL LIMITED

D. E. Powell
President and
Chief Executive Officer

1600 Home Oil Tower
324 Eighth Avenue S.W.
Calgary, Alberta, Canada T2P 2Z5
Telephone (403) 232-7101
Fax (403) 232-7678

September 24, 1993

Dear Shareholder:

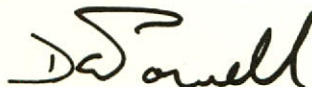
You are invited to attend a special meeting of shareholders of Scurry-Rainbow Oil Limited to be held in the 29th Floor Auditorium of the Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta on Monday, the 8th day of November, 1993, commencing at 9:30 a.m. (Calgary time).

Home Oil Company Limited owns approximately 88.1% of the issued and outstanding common shares of Scurry-Rainbow. At the special meeting, shareholders will be asked to consider and, if thought appropriate, approve an arrangement (the "Arrangement") which will result in the common shares of Scurry-Rainbow not presently owned by Home Oil being transferred to Home Oil. In exchange, minority shareholders, other than shareholders who exercise dissent rights, can elect to receive \$26.50 per share in cash or in common shares of Home Oil. The Board of Directors of Scurry-Rainbow, including a special committee of its independent directors established to consider the Arrangement, has determined that the Arrangement is fair to the minority shareholders, and unanimously recommends that you vote in favour of the resolution approving the Arrangement. In arriving at its recommendation the Board of Directors considered a valuation of the Scurry-Rainbow shares prepared by RBC Dominion Securities Inc., the independent financial advisor to the special committee, and an opinion of RBC Dominion Securities Inc. that the Arrangement is fair from a financial point of view to the minority shareholders of Scurry-Rainbow.

The circular accompanying this letter contains a detailed description of the proposed Arrangement, including the conditions required to be satisfied for the Arrangement to become effective, and information relating to the business and affairs of Scurry-Rainbow and Home Oil. Please give this material your careful consideration and, if you require assistance, consult your financial, income tax or other professional advisor.

I hope that you will be able to attend the special meeting in person; however, if you cannot attend, please complete and return the enclosed form of proxy which will assure you of representation at the special meeting.

Sincerely,



SCURRY-RAINBOW OIL LIMITED

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a special meeting (the "Special Meeting") of holders of common shares ("Scurry Shares") of Scurry-Rainbow Oil Limited ("Scurry-Rainbow") will be held in the 29th Floor Auditorium, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta on November 8, 1993 at 9:30 a.m. (Calgary time) for the following purposes:

- (a) to consider, pursuant to an order (the "Interim Order") dated September 23, 1993 of the Court of Queen's Bench of the Province of Alberta, and, if deemed advisable, to pass, with or without variation, a special resolution (the "Arrangement Resolution") approving an arrangement (the "Arrangement") under section 186 of the *Business Corporations Act* (Alberta) involving the acquisition by Home Oil Company Limited of all the Scurry Shares not already owned by it; and
- (b) to transact such other business, if any, as may be properly brought before the Special Meeting, or any adjournment thereof.

The texts of the Arrangement Resolution and the agreement in respect of the Arrangement are set forth in Schedules A and B, respectively, to the accompanying Management Information Circular and Proxy Statement (the "Circular").

Pursuant to the Interim Order, holders of Scurry Shares ("Shareholders") have been granted the right to dissent and to be paid the fair value of their Scurry Shares in respect of the Arrangement Resolution. This right is described in the Circular.

Only Shareholders of record at the close of business on September 27, 1993 will be entitled to vote in respect of the Arrangement Resolution at the Special Meeting, except that a person who has acquired Scurry Shares subsequent to such record date will be entitled to vote such Scurry Shares upon making a written request to that effect not later than ten days preceding the date of the Special Meeting to the Corporate Secretary of Scurry-Rainbow and establishing that such person owns such Scurry Shares.

Your vote is important regardless of the number of Scurry Shares you own. If you are unable to attend the Special Meeting in person, please sign, date and return the enclosed form of proxy in the envelope provided for that purpose to ensure your shares are represented at the Special Meeting. To be used at the Special Meeting, a proxy must be deposited with Montreal Trust Company of Canada at its principal office in Calgary not later than 4:30 p.m. (local time) on the last business day preceding the day of the Special Meeting or any adjournment thereof.

DATED at Calgary, Alberta this 24th day of September, 1993.

By Order of the Board of Directors



D. E. Deakin
Corporate Secretary

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY**

IN THE MATTER OF Section 186 of the *Business Corporations Act* (Alberta), being chapter B-15 of the Statutes of Alberta, 1981, as amended;

AND IN THE MATTER OF a proposed Arrangement involving Scurry-Rainbow Oil Limited, its shareholders and Home Oil Company Limited.

NOTICE OF PETITION

NOTICE IS HEREBY GIVEN that a Petition has been filed by Scurry-Rainbow Oil Limited ("Scurry-Rainbow") for approval of an arrangement (the "Arrangement") under Section 186 of the *Business Corporations Act* (Alberta), S.A. 1981, c. B-15, as amended, which Arrangement is described in greater detail in the Management Information Circular and Proxy Statement of Scurry-Rainbow dated September 24, 1993 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the Petition is directed to be heard before the Honourable Chief Justice W. K. Moore at The Court House, 611 Fourth Street S.W., Calgary, Alberta on the 8th day of November, 1993 at 2:00 p.m. (Calgary time), or as soon thereafter as counsel may be heard. Any holder of common shares of Scurry-Rainbow or any other interested party desiring to support or oppose the Petition may appear at the time of hearing in person or by counsel for that purpose. **Any such holder or person desiring to appear at the hearing is required to file with the Court of Queen's Bench of Alberta, at the Court House, Calgary, Alberta and serve upon the solicitors for Scurry-Rainbow, on or before November 1, 1993, a notice of intention to appear, including his address for service together with any evidence or materials which are to be presented to the Court.** Service on Scurry-Rainbow is to be effected by delivery to the solicitors for Scurry-Rainbow at the address below.

AND NOTICE IS FURTHER GIVEN THAT at the hearing, shareholders and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the Arrangement. If you do not attend, either in person or by counsel, the Court may approve the Arrangement as proposed or as amended by the Court or refuse to approve the Arrangement and may make any further order it thinks fit.

AND NOTICE IS FURTHER GIVEN THAT the Court, by Interim Order dated September 23, 1993, has given directions as to the calling of a special meeting of the holders of the common shares of Scurry-Rainbow for the purpose of such holders voting upon a resolution to approve the Arrangement, and in particular, has directed that holders of the common shares of Scurry-Rainbow shall have the right to dissent in the manner described in the agreement relating to the Arrangement.

AND NOTICE IS FURTHER GIVEN THAT the approval of the proposed Arrangement, if granted, will constitute the basis for an exemption from the registration requirements under the United States *Securities Act of 1933*, as amended, with respect to the common shares of Home Oil Company Limited which may be issued pursuant to the Arrangement.

A copy of the Petition and other documents in the proceedings will be furnished to any holder of Scurry-Rainbow common shares or other interested party requesting the same from the undermentioned solicitors for the Petitioner:

Macleod Dixon
Barristers & Solicitors
3700, 400 Fourth Avenue S.W.
Calgary, Alberta T2P 4H2
Attention: J. J. Marshall, Q.C.

DATED at Calgary, Alberta this 24th day of September, 1993.

By Order of the Board of Directors



D. E. Deakin
Corporate Secretary

SCURRY-RAINBOW OIL LIMITED

MANAGEMENT INFORMATION CIRCULAR

AND

PROXY STATEMENT

ARRANGEMENT INVOLVING

SCURRY-RAINBOW OIL LIMITED

AND

HOME OIL COMPANY LIMITED

GLOSSARY OF TERMS

Unless the context otherwise requires, the following terms shall have the respective meanings set out below when used in this Circular. These defined terms are not used in the schedules attached hereto unless specifically defined therein.

ABCA — The *Business Corporations Act* (Alberta), S.A. 1981, c. B-15, as amended.

Affiliate — An affiliated corporation and, for the purposes of this Circular, (i) one corporation is affiliated with another corporation if one of them is the Subsidiary of the other or both are Subsidiaries of the same corporation or each of them is controlled by the same person, or (ii) if two corporations are affiliated with the same corporation at the same time, they are deemed to be affiliated with each other.

AMEX — The American Stock Exchange.

Arrangement — The proposed arrangement under the ABCA to transfer to Home Oil all of the Scurry Shares, other than the Scurry Shares held by Home Oil and Scurry Shares held by Dissenting Shareholders, in consideration of the Arrangement Consideration, as described under the heading "The Arrangement — Details of the Arrangement".

Arrangement Agreement — The agreement dated as of September 20, 1993 between Home Oil and Scurry-Rainbow, a copy of which is attached as Schedule B to this Circular.

Arrangement Consideration — The Cash Consideration to be paid or Share Consideration to be delivered by Home Oil under the Arrangement, as described under "The Arrangement — Details of the Arrangement".

Arrangement Resolution — The special resolution, the full text of which is attached as Schedule A to this Circular, to be considered and, if deemed advisable, passed, with or without variation, by the holders of Scurry Shares at the Special Meeting.

Associate — Where used to indicate a relationship with any corporation, (i) any corporation of which such corporation beneficially owns, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the corporation, (ii) any partner of that corporation acting on behalf of the relevant partnership, or (iii) any trust or estate in which such corporation has a substantial beneficial interest or as to which such corporation serves as trustee or in a similar capacity.

Bbls — An abbreviation for a barrel which is equivalent to 0.159 cubic metres of oil or liquids.

Bcf — An abbreviation for a billion cubic feet of gas.

Board of Directors — The Board of Directors of Scurry-Rainbow.

BOE — A barrel of oil equivalent, based on converting natural gas into equivalent units of crude oil by equating ten thousand cubic feet of natural gas to one barrel of crude oil.

Business Day — A day other than a Saturday, Sunday or a day when banks in the City of Calgary generally are not open for business.

Canadian GAAP — Accounting principles generally accepted in Canada.

Cash Consideration — The consideration for the transfer of Scurry Shares to Home Oil pursuant to the Arrangement to be received in the form of cash, being \$26.50 per share.

Circular — The management information circular and proxy statement of Scurry-Rainbow, of which this Glossary is a part.

Corporation — Scurry-Rainbow.

Court — Court of Queen's Bench of Alberta.

Depository — Montreal Trust Company of Canada, in Canada, or The Bank of New York, in the United States.

Dissenting Shareholders — Shareholders who validly exercise the right of dissent provided to them pursuant to the Interim Order and thereby become entitled to receive the fair value of their Scurry Shares.

Effective Date — The effective date of the Arrangement, being the date shown on the certificate of amendment to be issued by the Registrar under the ABCA giving effect to the Arrangement, which is expected to be on or about November 8, 1993.

Election Deadline — 4:30 p.m. (local time) on the Business Day immediately prior to the date of the Special Meeting (or, if the meeting is adjourned, such time on the Business Day immediately prior to the date of such adjourned meeting).

Final Order — The final order of the Court approving the Arrangement.

Gross — Includes the interests of others.

Home Oil — Home Oil Company Limited, a corporation subject to the *Canada Business Corporations Act*.

Home Share Price — The weighted average trading price of Home Shares on the TSE for the ten consecutive trading days ending on the trading day immediately prior to the date of the Special Meeting (or, if the meeting is adjourned, ending on the trading day immediately prior to the date of such adjourned meeting).

Home Shares — Common shares of Home Oil.

Interim Order — The interim order of the Court dated September 23, 1993 which is attached as Schedule G to this Circular, providing for, among other things, the calling and holding of the Special Meeting.

Letter of Transmittal and Election Form — The letter of transmittal and election form accompanying this Circular, to be used by Shareholders to surrender the certificates representing their Scurry Shares in order to receive the Arrangement Consideration and to make their election to receive either the Cash Consideration or the Share Consideration.

Liquidity Opinion — The opinion of RBC-DS dated September 7, 1993 to the Special Committee concerning the liquidity of the Home Shares, a copy of which is attached as Schedule D.

Management — The senior officers of the Corporation.

MBbls — An abbreviation for a thousand barrels of oil or liquids.

Mcf — An abbreviation for a thousand cubic feet which is equivalent to 28.17 cubic metres of gas measured at standard temperature and pressure.

MMBbls — An abbreviation for a million barrels of oil or liquids.

MMcf — An abbreviation for a million cubic feet of gas.

Minority Shareholders — Shareholders other than Home Oil.

Net — Excludes the interests of others.

Notice of Petition — The notice of the petition filed on behalf of Scurry-Rainbow with the Court for approval of the Arrangement and to be heard by the Court in accordance with the terms of the Interim Order.

Plan of Arrangement — The plan of arrangement annexed as Appendix 1 to the Arrangement Agreement.

Policy 9.1 — Policy 9.1 of the Ontario Securities Commission.

Policy Q-27 — Policy Q-27 of the Quebec Securities Commission.

RBC-DS — RBC Dominion Securities Inc., an investment banking firm.

RBC-DS Report — The valuation report and fairness opinion of RBC-DS dated September 20, 1993, a copy of which is attached as Schedule C to this Circular.

Registrar — The Registrar under the ABCA.

Related Parties — Home Oil, the directors and senior officers of Home Oil and Scurry-Rainbow (other than members of the Special Committee) and any other person or company excluded for the purposes of the minority approval requirements of Policy 9.1 and Policy Q-27.

Scurry-Rainbow — Scurry-Rainbow Oil Limited, a corporation subject to the ABCA.

Scurry Shares — Common shares of Scurry-Rainbow.

Share Consideration — The consideration for the transfer of Scurry Shares to Home Oil pursuant to the Arrangement to be received in the form of Home Shares, being that number of Home Shares per share equal to \$26.50 divided by the Home Share Price, as more particularly described in the Arrangement Agreement.

Shareholder — A holder of Scurry Shares.

Special Committee — The committee of four directors of Scurry-Rainbow, consisting of B. F. MacNeill (Chairman), R. G. Black, Q.C., S. G. Olson and E. G. Sheasby.

Special Meeting — The special meeting of Shareholders to be held in the 29th Floor Auditorium of the Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta on November 8, 1993, at 9:30 a.m. (Calgary time), and any adjournment or postponement thereof, to consider and, if deemed advisable to pass, with or without variation, the Arrangement Resolution, and to transact any other business which may properly come before the meeting.

Subsidiary — When used to indicate a relationship with a specified corporation, (a) a corporation which is controlled by (i) that other, or (ii) that other and one or more corporations, each of which is controlled by that other, or (iii) two or more corporations, each of which is controlled by that other, or (b) a Subsidiary of a corporation that is that other's Subsidiary.

Tax Act — The *Income Tax Act* (Canada), S.C. 1970-71-72 c. 63, as amended.

TSE — The Toronto Stock Exchange.

In this Circular words importing the singular number only include the plural and vice versa and words importing any gender include all genders.

EXCHANGE RATE OF THE CANADIAN DOLLAR

All dollar amounts set forth in this Circular are in Canadian dollars, except where otherwise indicated.

The following table sets forth (i) the rates of exchange for the Canadian dollar, expressed in U.S. dollars, in effect at the end of each of the periods indicated, (ii) the average of exchange rates in effect on the last day of each month during such periods, and (iii) the high and low exchange rates during such periods, in each case based on the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	Six Months Ended June 30,		Year Ended December 31,				
	1993	1992	1992	1991	1990	1989	1988
Rate at end of period	\$0.7798	\$0.8353	\$0.7865	\$0.8652	\$0.8617	\$0.8636	\$0.8384
Average rate for period	0.7901	0.8432	0.8273	0.8726	0.8570	0.8445	0.8155
High for period	0.8046	0.8757	0.8757	0.8926	0.8837	0.8643	0.8433
Low for period	0.7767	0.8290	0.7761	0.8587	0.8286	0.8263	0.7698

On September 23, 1993 the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York was U.S. \$0.7561 = Cdn. \$1.00 (U.S. \$1.00 = Cdn. \$1.3225).

SUMMARY

This summary is qualified in its entirety by the more detailed information appearing elsewhere in the Notice of Special Meeting, the Notice of Petition and this Circular, including the schedules which are attached to this Circular.

The Special Meeting

The Special Meeting will be held on November 8, 1993, at the time and place set forth in the accompanying Notice of Special Meeting. At the Special Meeting, Shareholders will be asked to consider and, if deemed advisable, pass the Arrangement Resolution approving the Arrangement.

The Arrangement

Home Oil owns approximately 88.1% of the issued and outstanding Scurry Shares. Pursuant to the Arrangement, all of the Scurry Shares, other than those owned by Home Oil, will be transferred to Home Oil on the Effective Date. In exchange therefor, Minority Shareholders (other than Dissenting Shareholders) will receive for each of their Scurry Shares, at their option, either:

- (a) \$26.50 cash; or
- (b) the number of Home Shares equal to \$26.50 divided by the Home Share Price.

The Home Share Price will be the weighted average price at which Home Shares have traded on the TSE for the ten consecutive trading days ending on the trading day immediately prior to the date of the Special Meeting. No assurance can be given as to what the Home Share Price will be.

Each Shareholder will be required to elect whether to receive the Cash Consideration or the Share Consideration by depositing a completed Letter of Transmittal and Election Form, in the form accompanying this Circular, together with the certificates representing his Scurry Shares, with the Depositary at one of the offices specified in such form no later than 4:30 p.m. (local time) on the Business Day preceding the date of the Special Meeting. **Any Shareholder who fails to properly make such election by such time will be deemed to have elected to receive the Share Consideration.**

No fractional Home Shares will be issued to Shareholders who elect or are deemed to have elected to receive the Share Consideration. Such fractional interests will be paid for in cash based on the Home Share Price.

If the Arrangement Resolution is passed by the requisite majorities at the Special Meeting, the Arrangement is approved by the Court and all other conditions precedent to implementing the Arrangement are satisfied or waived, the Effective Date of the Arrangement is expected to be November 8, 1993.

Special Committee Review and Recommendation of the Board of Directors

The Special Committee of the Board of Directors of Scurry-Rainbow reviewed the Arrangement and presented a report to the Board of Directors detailing its conclusions and recommendations. The Special Committee unanimously concluded that the Arrangement is fair to the Minority Shareholders and in the best interests of Scurry-Rainbow and unanimously recommended that the Board of Directors approve the Arrangement and recommend to the Shareholders, including the Minority Shareholders, that they vote in favour of the Arrangement.

In reaching its conclusion and formulating its recommendations, the Special Committee considered, among other things, the following factors:

1. the conclusion of RBC-DS that the fair market value of the Scurry Shares at June 30, 1993 was in the range of \$23.00 to \$26.40 per share and the opinion of RBC-DS that the Arrangement is fair from a financial point of view to the Minority Shareholders (see "The Arrangement — RBC-DS Report");
2. under the Arrangement, Minority Shareholders may exchange their Scurry Shares for either the Cash Consideration or the Share Consideration, enabling Minority Shareholders to deal with their Scurry Shares in the manner best suited to their particular investment objectives and financial and income tax circumstances;

3. the liquidity of the market for Home Shares both before and after completion of the Arrangement, as confirmed by the Liquidity Opinion;
4. the Special Committee's assessment of the potential enhancement of business efficiency, management effectiveness and financial results of Scurry-Rainbow consequent on the elimination of potential conflicts of interest between Scurry-Rainbow and Home Oil, as public corporations.

After considering the report of the Special Committee, the Board of Directors unanimously adopted the Special Committee's recommendations, determined that the terms of the Arrangement are fair to the Minority Shareholders and authorized the submission of the Arrangement to the Shareholders for approval.

The Board of Directors unanimously recommends that all Shareholders vote in favour of the Arrangement Resolution.

Valuation and Fairness Opinion

The Special Committee retained RBC-DS to provide a formal valuation of the Scurry Shares in accordance with Policy 9.1 and Policy Q-27, and to provide its opinion as to the fairness of the Arrangement from a financial point of view to the Minority Shareholders. RBC-DS was also engaged to provide the Liquidity Opinion.

In the RBC-DS Report, RBC-DS determined that the fair market value of the Scurry Shares as at June 30, 1993 was in the range of \$23.00 to \$26.40 per share and advised that it was not aware of any factor or circumstance that would render such opinion inapplicable as at September 20, 1993. RBC-DS also determined that as at September 20, 1993 the Arrangement is fair from a financial point of view to the Minority Shareholders.

Shareholder and Court Approvals

Approval of the Arrangement will require the favourable vote of: (i) two-thirds of the votes cast by all Shareholders at the Special Meeting; and (ii) a simple majority of the votes cast at the Special Meeting by all Shareholders other than Related Parties.

The Arrangement must also be approved by the Court. If the Arrangement Resolution is approved at the Special Meeting, Scurry-Rainbow intends to make application for the Final Order to the Court at 2:00 p.m. (Calgary time) on November 8, 1993. Any Shareholder or any other interested party has the right to appear at such hearing and present evidence, subject to filing with the Court and serving on the solicitors for Scurry-Rainbow a notice of appearance on or before November 1, 1993. See "The Arrangement — Details of the Arrangement — Conditions to the Arrangement Becoming Effective".

Right of Dissent

Each Shareholder has the right to dissent in respect of the Arrangement if Scurry-Rainbow has received from such dissenting shareholder a written objection at or before the Special Meeting and such dissenting shareholder has otherwise complied with the steps described in Schedule H to this Circular. Upon the Arrangement becoming effective, each Dissenting Shareholder will be entitled to be paid by Home Oil the fair value of the Scurry Shares in respect of which he dissents in accordance with the provisions of the Plan of Arrangement and the Interim Order. See "The Arrangement — Details of the Arrangement — Right of Dissent".

Income Tax Considerations

The disposition by a Shareholder of Scurry Shares under the Arrangement or through the exercise of dissent rights may have material tax consequences under applicable Canadian or United States tax laws. Generally, under Canadian tax laws an exchange of Scurry Shares for cash will result in a capital gain or capital loss to the Shareholder, whereas an exchange of Scurry Shares for Home Shares will allow a Shareholder to defer any capital gain or capital loss until a subsequent disposition of the Home Shares. Generally, under U.S. tax laws the disposition by a Shareholder of Scurry Shares under the Arrangement or through the exercise of a dissent right will be taxable for U.S. federal tax purposes regardless of whether such Shareholder receives cash or Home Shares. Shareholders should read carefully the detailed information under "The Arrangement — Income Tax Considerations" and should consult their own tax advisors.

Stock Market Information

The Scurry Shares are listed on the TSE and AMEX. On July 29, 1993, the last day on which Scurry Shares traded on the TSE prior to the date of the announcement of the proposed transaction, the closing price was \$22 per share and on August 3, 1993, the last day on which Scurry Shares traded on the AMEX prior to the date of such announcement, the closing price on AMEX was U.S. \$17 per share. See "Information Concerning Scurry-Rainbow — Stock Exchange Listings and Trading of Scurry Shares".

The Home Shares are listed on the TSE and AMEX. For information concerning the trading of Home Shares, see "Information Concerning Home Oil — Stock Exchange Listings and Trading of Home Shares".

Selected Financial Information of Scurry-Rainbow

The following table sets forth selected financial information with respect to Scurry-Rainbow for each of the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	1993	1992	1992	1991	1990
	(unaudited)			(audited)	
	(dollar amounts in thousands except per share amounts)				
For the Period:					
Revenues	\$ 39,201	\$ 34,226	\$ 74,568	\$ 71,703	\$ 86,454
Earnings	5,668	3,498	8,824	9,535	22,632
Dividends	3,366	3,366	6,731	6,731	6,731
Cash Flow From Operations	24,596	20,139	42,736	43,863	57,424
Exploration and Development					
Expenditures	17,719	12,010	21,589	41,078	68,431
Acquisitions of Proved Properties ...	16,233	2,559	16,449	50	1,394
At End of Period:					
Working Capital	\$ 6,857	\$ (4,505)	\$ (3,436)	\$ (11,105)	\$ (10,051)
Total Assets	393,401	378,486	384,171	388,859	379,933
Shareholders' Equity	240,894	236,631	238,592	236,499	233,695
Per Share:					
Earnings	\$ 0.42	\$ 0.26	\$ 0.66	\$ 0.71	\$ 1.68
Dividends	0.25	0.25	0.50	0.50	0.50
Shareholders' Equity	17.89	17.58	17.72	17.57	17.36
Average Scurry Shares Outstanding ...	13,462,129	13,462,129	13,462,129	13,462,129	13,462,129

This information has been prepared on the basis of Canadian GAAP. A reconciliation to U.S. generally accepted accounting principles is provided for each of the years in the three year period ended December 31, 1992 in Note 12 to Scurry-Rainbow's Financial Statements for the year ended December 31, 1992, contained in Schedule E to this Circular.

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

This Management Information Circular and Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors and Management of the Corporation for use at the Special Meeting to be held on November 8, 1993.

The Special Meeting has been called for the purpose of considering and, if deemed advisable, passing the Arrangement Resolution approving the Arrangement. The effect of the Arrangement will be that all of the outstanding Scurry Shares, other than those already owned by Home Oil, will be transferred to Home Oil and the Minority Shareholders (other than Dissenting Shareholders) will receive, at their option, either the Cash Consideration or the Share Consideration. Details of the Arrangement are set forth below under "The Arrangement — Details of the Arrangement".

PART I — THE ARRANGEMENT

Background to the Arrangement

In the early 1970's, Home Oil began its association with Scurry-Rainbow by acquiring approximately 18% of the Scurry Shares. In 1974, Home Oil made a public takeover bid which resulted in Home Oil owning approximately 86% of the Scurry Shares. Home Oil presently owns approximately 88.1% of the Scurry Shares and manages the business and affairs of the Corporation pursuant to a management agreement (see "Information Concerning Scurry-Rainbow — Management Agreement").

On June 23, 1993, Home Oil approached the Board of Directors with a view to determining whether the two corporations could discuss, on a confidential basis, whether agreement could be reached on the terms of a transaction which would result in the acquisition by Home Oil of all Scurry Shares not then held by it. Upon receiving this request the Board of Directors established a special committee, comprised of the four directors who are independent of Home Oil, to review the request and make its recommendation thereon to the Board of Directors. At its first meeting, held on the same date, the committee appointed McCarthy Tétrault as its independent legal counsel, determined that independent financial advisors should be engaged and authorized the solicitation of a proposal from RBC-DS to act in that capacity and reviewed with legal counsel generally the possible transaction structures which might be employed by Home Oil to give effect to its request. After further consideration of the matter on June 29, 1993 the committee advised Home Oil that it was not prepared to proceed with discussions on the basis suggested by Home Oil. There were then no further discussions between Home Oil and the committee and no further steps taken by the committee.

On August 4, 1993, Home Oil presented to the Board of Directors a proposal that Home Oil acquire all of the Scurry Shares not already owned by it at a cash price of \$26.50 per share. The making of such proposal was then publicly announced.

Special Committee

Appointment and Role of Special Committee

On August 4, 1993, in response to the proposal by Home Oil to the Board of Directors, the Board of Directors constituted the Special Committee. The Special Committee was given the mandate to review and assess the proposal and to advise the Board of Directors as to whether such proposal was in the best interests of Scurry-Rainbow and the Minority Shareholders and, if thought necessary or advisable by the Special Committee, to canvass with Home Oil any revisions to such proposal that the Special Committee considered to be necessary or desirable. The members of the Special Committee are Brian F. MacNeill (Chairman), Robert G. Black, Q.C., Stanley G. Olson and E. Gordon Sheasby, none of whom is an officer, employee, or insider of Scurry-Rainbow, except by virtue of being a director thereof, or of Home Oil or any other of their Associates or Affiliates. None of the members of the Special Committee will benefit from the transaction in a manner that is different than the Minority Shareholders.

The Special Committee was empowered to engage its own independent advisors, to authorize and direct senior management of Scurry-Rainbow as to actions necessary or desirable in light of the Special Committee's consideration of Home Oil's proposal or the proper performance of its duties and to require the cooperation of Management with the Special Committee and its independent advisors.

Special Committee Review

At its meeting on August 4, 1993, the Special Committee appointed McCarthy Tétrault as independent legal counsel to the Special Committee, reviewed the proposal with its legal counsel and directed immediate public disclosure of the proposal by press release. The Special Committee reviewed and confirmed the independence from Home Oil of each of the members of the Special Committee. The Special Committee also resolved to engage RBC-DS as its independent financial advisor and requested it to prepare a valuation of the Scurry Shares and an opinion as to the fairness of the proposed transaction to the Minority Shareholders from a financial point of view, and generally to advise the Special Committee. The terms of RBC-DS's engagement are contained in an engagement letter dated August 4, 1993 between RBC-DS and Scurry-Rainbow.

At the same meeting, the Special Committee also considered and discussed in detail with its legal counsel an alternative to the transaction proposed by Home Oil which might be of benefit to Minority Shareholders, whereby Minority Shareholders could elect, depending upon their investment objectives and financial and income tax circumstances, to receive either a cash payment or Home Shares in exchange for their Scurry Shares. Counsel to the Special Committee noted that this alternative would require a formal valuation of Home Oil under Policy 9.1 and Policy Q-27 unless exemptions from the valuation requirements were obtained. Home Oil advised the Special Committee that it would consider such a modification to the transaction, provided that the addition of such alternative would not result in a valuation of Home Oil having to be prepared in order to effect the transaction. The Special Committee authorized its counsel to apply to the Ontario and Quebec securities commissions to obtain a waiver from the valuation requirements applicable to Home Oil under Policy 9.1 and Policy Q-27 in respect of this alternative proposal.

Two further meetings were held in August at which the Special Committee discussed the activities conducted and to be conducted by its independent advisors with respect to the proposed transaction.

On September 1, 1993, the Special Committee received from RBC-DS, and questioned RBC-DS on, a detailed oral and written report on its investigation and analysis undertaken with a view to delivering the RBC-DS Report, the methodologies and assumptions applied and the reasons therefor, and the nature and sources of information used by RBC-DS. RBC-DS also presented a draft of the Liquidity Opinion, which the Special Committee directed be sent to the Ontario and Quebec securities commissions and to the TSE in support of the applications for waivers under Policy 9.1 and Policy Q-27. On the same date, the Special Committee made a written request to the board of directors of Home Oil that the proposed transaction be structured to enable Minority Shareholders to elect to receive either a cash payment or Home Shares in exchange for their Scurry Shares. RBC-DS delivered the Liquidity Opinion on September 7, 1993. On September 8, 1993 RBC-DS delivered to the Special Committee, and responded to questioning on, a draft of the RBC-DS Report. On the same date, the members of the Special Committee and its independent legal and financial advisors conducted a formal due diligence session with Management and representatives of Scurry-Rainbow's auditors and independent oil and gas reservoir engineering consultants. On September 9, 1993 Home Oil advised the Special Committee that it was prepared to modify the transaction as requested by the Special Committee, subject to waivers, satisfactory to Home Oil, being obtained from the valuation requirements under Policy 9.1 and Policy Q-27 in relation to Home Oil.

On September 10, 1993 the Special Committee received and considered a further draft of the RBC-DS Report and questioned representatives of RBC-DS thereon. RBC-DS presented its conclusions as to the range of values of Scurry Shares and as to the fairness of the proposed transaction from a financial point of view to the Minority Shareholders. The final RBC-DS Report was subsequently delivered to the Special Committee.

Recommendations of the Special Committee

The Special Committee unanimously concluded that the Arrangement is fair to Minority Shareholders and is in the best interests of Scurry-Rainbow, and unanimously recommended that the Board of Directors approve the Arrangement and recommend that all Shareholders, including the Minority Shareholders, vote in favour of the Arrangement Resolution.

In reaching its conclusion and formulating its recommendations, the Special Committee considered the following factors:

- (a) the conclusion of RBC-DS that the fair market value of the Scurry Shares at June 30, 1993 was in the range of \$23.00 to \$26.40 per share and the opinion of RBC-DS that the Arrangement is fair from a financial point of view to the Minority Shareholders (see "The Arrangement — RBC-DS Report");
- (b) under the Arrangement, Minority Shareholders may exchange their Scurry Shares for either the Cash Consideration or the Share Consideration, (i) providing Minority Shareholders with the opportunity to continue, indirectly, to participate in the earnings and activities of Scurry-Rainbow, and (ii) providing certain Canadian resident Minority Shareholders with the ability to defer any capital gain on the disposition of their Scurry Shares to Home Oil (see "The Arrangement — Income Tax Considerations — Canadian Federal Income Tax Matters"), thus generally enabling Minority Shareholders to deal with their Scurry Shares in the manner best suited to their particular investment objectives and financial and income tax circumstances;
- (c) the liquidity of the market for Home Shares both before and after completion of the Arrangement, as confirmed by the Liquidity Opinion;
- (d) that \$26.50 per share, being the Cash Consideration and the amount used in determining the Share Consideration, represents a 20.45% premium over the closing price of \$22.00 per Scurry Share on the TSE on July 29, 1993, the last day on which Scurry Shares traded prior to the public announcement of Home Oil's proposal and exceeds the mid-point of the range of values attributed by RBC-DS to the Scurry Shares by 7.29% (see "Information Concerning Scurry-Rainbow Oil Limited — Stock Exchange Listings and Trading of Scurry Shares" and "The Arrangement — RBC-DS Report");
- (e) information concerning the financial condition, results of operations, business, plans and prospects of Scurry-Rainbow, the financial savings anticipated to be enjoyed by Scurry-Rainbow by virtue of ceasing to be a public corporation and thereby being relieved of certain obligations to prepare and disseminate written materials and hold formal meetings, and the resulting potential for enhancement of the business efficiency, management effectiveness and financial results of Scurry-Rainbow consequent on the elimination of potential conflicts of interest between Scurry-Rainbow and Home Oil, as public corporations;
- (f) the Arrangement will not proceed unless the Arrangement Resolution receives the favourable vote of not less than a majority of the votes cast at the Special Meeting by the Shareholders other than Related Parties (see "The Arrangement — Details of the Arrangement — Shareholder Approvals"); and
- (g) Minority Shareholders who oppose the Arrangement may, upon compliance with certain conditions, dissent from the Arrangement Resolution and be paid the fair value of their Scurry Shares (see "The Arrangement — Details of the Arrangement — Right of Dissent").

In view of the wide variety of information and factors considered in connection with its evaluation of the Arrangement, the Special Committee found it impracticable to, and therefore did not, quantify the specific information and factors considered by it but, in reaching its conclusions as to the fairness of the Arrangement to the Minority Shareholders and its being in the best interests of Scurry-Rainbow and in formulating its recommendations, the Special Committee assigned relatively greater weight to the valuation and fairness opinion of RBC-DS, the liquidity of the market for Home Shares comprising the Share Consideration and the potential enhancement of the business efficiency, management effectiveness and financial results of Scurry-Rainbow consequent on the elimination of potential conflicts of interest between Scurry-Rainbow and Home Oil, as public corporations.

Valuation and Fairness Opinion of Independent Financial Advisor

Appointment of Independent Financial Advisor

The Special Committee retained RBC-DS to provide a valuation of Scurry-Rainbow, in accordance with Policy 9.1 and Policy Q-27, and a fairness opinion in respect of the Arrangement and generally to provide financial advice to the Special Committee. The terms of reference of RBC-DS were subsequently expanded to include the furnishing of the Liquidity Opinion (see “The Arrangement — Other Valuation Matters”).

RBC-DS is one of Canada’s largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading, investment research and investment management. It is a leading provider of financial services to the oil and gas industry in the areas of accessing debt and equity capital markets, mergers, acquisitions, divestments, restructurings, valuations and fairness opinions.

The Special Committee determined that RBC-DS was qualified to prepare the valuation and provide the fairness opinion in light of its credentials, experience and expertise (described under “Credentials of RBC Dominion Securities” in the RBC-DS Report) and its independence from Scurry-Rainbow, Home Oil and their Affiliates or Associates, for reasons which include the following:

- (a) RBC-DS is experienced in the preparation of valuations and fairness opinions comparable to those provided in this transaction;
- (b) RBC-DS is not an insider, associate or affiliate (as such terms are defined in the Securities Act (Ontario)) of Home Oil, Scurry-Rainbow or any associate or affiliate of either and neither RBC-DS nor any of its affiliates is an advisor to Home Oil or any associate or affiliate thereof in respect of the Arrangement;
- (c) the compensation payable to RBC-DS for all services rendered to the Special Committee is not dependent on any arrangement or understanding which gives RBC-DS or any of its affiliates a financial incentive in respect of the conclusions reached by RBC-DS or on the completion of the Arrangement;
- (d) RBC-DS has represented to the Special Committee that there are no understandings, commitments or agreements between RBC-DS, on the one hand, and Home Oil, Scurry-Rainbow or any associate or affiliate thereof, on the other hand, with respect to future business dealings, although RBC-DS may render financial advisory services for such persons in the future or may trade, as principal or agent, in securities of Scurry-Rainbow or of Home Oil; and
- (e) in view of the past relationships between RBC-DS, on the one hand, and Home Oil, Scurry-Rainbow or associates or affiliates thereof, on the other hand (which to the knowledge of the Special Committee are accurately described under “Independence of RBC Dominion Securities” in the RBC-DS Report), the Special Committee does not believe that there exists a potential for bias on the part of RBC-DS in the performance of its services for the Special Committee.

Scurry-Rainbow has agreed to pay RBC-DS a fee of \$150,000 for its services and has also agreed to reimburse RBC-DS for reasonable out-of-pocket expenses incurred by it in the performance of its services and to indemnify it in respect of certain liabilities which may be incurred by it in connection with its engagement.

RBC-DS Report

The following is a summary of the RBC-DS Report prepared and delivered by RBC-DS, which is qualified in its entirety by the report, a copy of which is attached as Schedule C. **Shareholders are urged to read the RBC-DS Report in its entirety.**

In preparing its valuation and fairness opinion, RBC-DS reviewed and relied upon certain financial and operational information for Scurry-Rainbow, reports of consultants and publicly available information. RBC-DS also conducted extensive interviews and discussions with Management, its independent oil and gas reservoir engineering consultants and its auditors on the business, affairs, financial condition and prospects of Scurry-Rainbow. RBC-DS relied upon and assumed the completeness, accuracy and fair presentation of the information and representations it received. RBC-DS was granted full access to Scurry-Rainbow and Home Oil senior management and was not, to the best of its knowledge, denied access to any information which might be material to the views expressed by RBC-DS.

The valuation has an effective date of June 30, 1993 and the fairness opinion is effective as of September 20, 1993. For the purposes of the valuation, RBC-DS defined "fair market value" as the highest price available in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act, expressed in terms of money or money's worth without any downward adjustment to reflect the fact that the Scurry Shares held by Minority Shareholders do not form part of a controlling interest. In preparing its valuation, RBC-DS concluded that the net asset value approach was the most appropriate methodology to establish the value of oil and gas companies similar to Scurry-Rainbow. This methodology received the most emphasis in RBC-DS's analysis and conclusions. In assessing the fairness of the Arrangement, RBC-DS reviewed the price to cash flow multiples implied by the Arrangement to the price to cash flow multiples for a group of peer companies to assess the reasonableness of the Arrangement in the context of current stock market valuations for Scurry-Rainbow and similar companies. RBC-DS also compared the Arrangement to certain key variables arising from a number of significant property asset acquisitions and share exchange corporate acquisitions in the oil and gas industry during 1993.

RBC-DS considered the trading history of Scurry Shares on both an absolute basis and relative to the TSE oil and gas producers index (the "TSE OGPI"). RBC-DS determined that the Scurry Share price appreciation under performed the TSE OGPI since the spring of 1993 and that this under performance reflects the superior growth characteristics displayed by a number of Scurry-Rainbow's peers. The \$26.50 consideration under the Arrangement represents a premium of approximately 17.5% to the twenty day "unaffected" average closing price of \$22.55 for Scurry Shares prior to the date of the announcement of Home Oil's proposal and a 30.3% premium to the average closing price of \$20.34 for the period from January 1, 1993 to the date of announcement of the proposal. RBC-DS also reviewed the ratio of the TSE trading price of Scurry Shares to the trading price of Home Shares. For the period from January 1, 1993 to September 20, 1993 the average of such ratio was 1.22. For the ten trading days ended September 20, 1993 the weighted average trading price for Home Shares was \$21.02 per share which, for purposes of illustration only would, when divided into \$26.50, result in 1.26 Home Shares for each Scurry Share.

RBC-DS determined that the fair market value of the Scurry Shares as at June 30, 1993 was in the range of \$23.00 to \$26.40 per share and also determined that RBC-DS was not aware of any factor or circumstance that would render such opinion inapplicable as at September 20, 1993.

RBC-DS provided an opinion that, as at September 20, 1993, the Arrangement is fair from a financial point of view to the Minority Shareholders for the following principal reasons:

- (i) the consideration to be received for each Scurry Share under the Arrangement exceeds the high end of the valuation range for the Scurry Shares;
- (ii) the valuation parameters implicit in the Arrangement compare favourably to those implicit in precedent transactions and trading values of publicly traded peer companies;
- (iii) the option to receive the Share Consideration provides the opportunity to defer capital gains and to participate in the benefits of the combination of Home Oil and Scurry-Rainbow; and
- (iv) Shareholders electing to receive Home Shares will enjoy a more liquid market than currently exists for the Scurry Shares.

Recommendation of the Board of Directors

The Special Committee presented a report to the Board of Directors detailing the Special Committee's determinations and recommendations and the factors underlying its recommendations. After reviewing such report and recommendations and the factors considered by the Special Committee, including the valuation conclusion and fairness opinion of RBC-DS, the Board of Directors unanimously adopted the Special Committee's recommendations, determined that the terms of the Arrangement are fair to the Minority Shareholders, approved the Arrangement Agreement and authorized the submission of the Arrangement to the Shareholders for approval.

The Board of Directors unanimously recommends that Shareholders vote in favour of the Arrangement Resolution.

Four directors of Scurry-Rainbow are executive officers of Home Oil and one of such directors is also a director of Home Oil.

Other Valuation Matters

Scurry-Rainbow

The following information is included in this Circular because certain estimates of value of Scurry-Rainbow may be considered to be "prior valuations" required to be disclosed under Policy 9.1 and Policy Q-27.

The management of Home Oil annually prepares a net asset evaluation of Home Oil, which is used for corporate planning purposes and as a means of measuring changes in Home Oil's assets. Included in each evaluation is a net asset evaluation of Scurry-Rainbow. The net asset value attributed to Scurry-Rainbow in the evaluation as at December 31, 1991 was \$254.1 million (\$18.87 per share) using a 12% discount rate in valuing Scurry-Rainbow's oil and gas reserves and \$282.5 million (\$20.99 per share) using a 10% discount rate, and in the evaluation as at December 31, 1992 was \$301.6 million (\$22.40 per share) using a 12% discount factor and \$339.0 million (\$25.19 per share) using a 10% discount factor.

The management of Home Oil prepared a net asset evaluation of Scurry-Rainbow as at June 30, 1993 to assist Home Oil in making its proposal to Scurry-Rainbow. The net asset value attributed to Scurry-Rainbow in such evaluation was \$296.8 million (\$22.05 per share) using a 12% discount rate in valuing Scurry-Rainbow's oil and gas reserves and \$334.4 million (\$24.84 per share) using a 10% discount rate.

The foregoing evaluations were not intended as assessments of the fair market value of the assets or shares of Scurry-Rainbow, and were based upon various assumptions considered appropriate at the time and for the purposes for which the evaluations were prepared. Accordingly, Shareholders are cautioned that the evaluations may be of limited relevance in assessing the value of the Scurry Shares.

The management information circular of GW Utilities Limited ("GW") dated February 8, 1993, relating to the distribution of GW's Home Shares to GW shareholders, contained reference to (i) material prepared by The First Boston Corporation to assist GW and Gulf Canada Resources Limited in their efforts in 1992 to sell their Home Shares (the "FB Material") and (ii) a net asset evaluation of Home Oil, as at January 1, 1992, prepared by GW's management (the "GW Material"). The FB Material included net asset evaluations of Home Oil ranging between \$789.1 million and \$1,040.0 million as at December 31, 1992 (\$726.9 million and \$966.2 million as at March 31, 1992), in the computation of which a "minority interest" ranging between \$45.0 million and \$54.6 million as at December 31, 1992 (\$44.7 million and \$53.5 million as at March 31, 1992) was deducted. The GW Material determined a value of \$997 million for Home Oil, from which \$59 million had been deducted for "minority interest". These "minority interests" are presumed to represent values attributed to the aggregate of the Scurry Shares not owned by Home Oil. Management has no knowledge of the basis upon which such amounts were determined. Such circular stated that the evaluations in both the FB Material and the GW Material did not comprise formal valuations, should not be relied upon as such, and that no person assumed responsibility for their accuracy. In view of the nature of these evaluations, and the circumstances, purposes and dates of their preparation, Management believes Shareholders should give no weight to these evaluations in assessing the value of their Scurry Shares.

Copies of the net asset evaluations of Scurry-Rainbow, the FB Material and the GW Material described above are available for inspection during normal business hours at the offices of Scurry-Rainbow, 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5, and upon request a copy of such documents will be sent to any registered shareholder upon payment of a nominal charge sufficient to cover printing and postage.

Home Oil

The alternative for Shareholders to receive Home Shares in exchange for their Scurry Shares was included in the Arrangement at the request of the Special Committee in order to provide Minority Shareholders with the opportunity to continue, indirectly, to participate in the earnings and activities of Scurry-Rainbow and to provide certain Minority Shareholders with the ability to utilize a "roll-over" under Canadian tax laws. In connection with the addition of such alternative, waivers were obtained from the Ontario Securities Commission and Quebec Securities Commission from the valuation requirements of Policy 9.1 and Policy Q-27 applicable in respect of the Home Shares as a result of the Arrangement being a related party transaction. The granting of such waivers was based, in part, upon the Liquidity Opinion rendered by RBC-DS which was provided to such securities commissions. The TSE also delivered a letter to such securities commissions indicating its concurrence with the Liquidity Opinion. A copy of the Liquidity Opinion is attached hereto as Schedule D.

No valuation of the Home Shares has been prepared in connection with the Arrangement and the market price of the Home Shares may exceed their intrinsic value.

Details of the Arrangement

Scurry-Rainbow and Home Oil have entered into the Arrangement Agreement, a copy of which is attached as Schedule B. The terms of the Arrangement are set forth in the Plan of Arrangement. The following description of the Arrangement is qualified in its entirety by the Arrangement Agreement.

On the Effective Date, each of the events set forth below shall occur and be deemed to occur without further act or formality:

- (a) all Scurry Shares (other than Scurry Shares held by Home Oil and other than Scurry Shares held by Shareholders who exercise their right of dissent and are ultimately entitled to be paid fair value for such shares) shall be and shall be deemed to be transferred to Home Oil in exchange for, at the option of the holder, either:
 - (i) \$26.50 in cash for each Scurry Share; or
 - (ii) the number of Home Shares for each Scurry Share equal to \$26.50 divided by the Home Share Price;
- (b) with respect to each Scurry Share to which paragraph (a) applies:
 - (i) the holder thereof shall cease to be a holder of such share and such holder's name shall be removed from the register of Scurry Shares; and
 - (ii) Home Oil shall be, and be deemed to be, the transferee of such share and shall be entered in the register of such Scurry Shares as the holder thereof; and
- (c) all Scurry Shares held by Shareholders who exercise their right of dissent shall, if the holder is ultimately entitled to be paid the fair value thereof, be deemed to be transferred to Home Oil in exchange for such fair value or shall, if the holder is ultimately not so entitled to be paid the fair value thereof, be deemed to be transferred to Home Oil in exchange for the Share Consideration (see "The Arrangement — Details of the Arrangement — Right of Dissent").

The procedures for making an election are described under "The Arrangement — Details of the Arrangement — Election Procedure". **If a Shareholder fails to properly make an election by the Election Deadline, the Shareholder will be deemed to have elected to receive the Share Consideration.**

Upon the Arrangement becoming effective, Scurry-Rainbow will become a wholly-owned subsidiary of Home Oil. As a result, the TSE and AMEX listings and registration under Section 12(b) of the United States *Securities Exchange Act of 1934* for the Scurry Shares will be terminated. In addition, Scurry-Rainbow, if the required applications are made, will no longer be subject to reporting requirements of applicable Canadian and United States securities laws.

Conditions to the Arrangement Becoming Effective

The Arrangement is proposed to be carried out pursuant to Section 186 of the ABCA. In order for the Arrangement to become effective, the following must occur:

- (a) the Arrangement must receive the approval of Shareholders in the manner described below under "Shareholder Approval";
- (b) the Arrangement must be approved by the Court, as described below under "Court Approval"; and
- (c) all conditions precedent to the Arrangement as set forth in the Arrangement Agreement must be satisfied or waived as stipulated therein and as generally described below under "Other Conditions of the Arrangement".

Upon fulfilment of the foregoing conditions, the Board of Directors intends to cause articles of arrangement to be filed with the Registrar together with such other material as may be required in order that the Registrar may issue a Certificate of Amendment giving effect to the Arrangement.

Notwithstanding that the foregoing conditions are satisfied, Home Oil and Scurry-Rainbow may agree to terminate the Arrangement Agreement (and consequently not proceed with the Arrangement) at any time before or after the holding of the Special Meeting, but no later than the Effective Date, without any further action on the part of the Shareholders.

Shareholder Approval

For the Arrangement to be implemented, the Arrangement Resolution, the full text of which is set out in Schedule A to this Circular, must be passed, with or without variation. The Interim Order provides that the majorities required to pass the Arrangement Resolution shall be:

- (a) two-thirds of the votes cast by all Shareholders present in person or by proxy at the Special Meeting; and
- (b) a simple majority of the votes cast by Shareholders present in person or by proxy at the Special Meeting after excluding the votes which, to the knowledge of Scurry-Rainbow, Home Oil and their respective directors and senior officers, after reasonable inquiry, attach to Scurry Shares which are held, or are beneficially owned or over which control or direction is exercised, directly or indirectly, by Related Parties.

There are 13,462,129 Scurry Shares outstanding, of which Home Oil owns 11,856,588 Scurry Shares (88.1%). As at September 1, 1993, the directors and executive officers of Scurry-Rainbow and Home Oil beneficially owned, directly or indirectly, an aggregate of 2,600 Scurry Shares. The directors and executive officers of Scurry-Rainbow have stated their intention to vote their Scurry Shares in favour of the Arrangement Resolution. In the Arrangement Agreement, Home Oil has covenanted to vote the Scurry Shares owned by it in favour of the Arrangement Resolution. Accordingly, the voting requirements set forth in paragraph (a) above will be satisfied.

A form of proxy for voting at the Special Meeting accompanies this Circular. **To be used at the Special Meeting, a proxy must be deposited with Montreal Trust Company of Canada at its principal office in Calgary not later than 4:30 p.m. (local time) on the last Business Day preceding the day of the Special Meeting.** Further information relating to the use of proxies is set forth under "Other Matters — General Proxy Information".

The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote in favour of the Arrangement Resolution.

Court Approval

An Arrangement under the ABCA requires Court approval. Prior to the mailing of this Circular, Scurry-Rainbow obtained the Interim Order providing for the calling and holding of the Special Meeting and other procedural matters.

A copy of the Notice of Petition for the Final Order accompanies this Circular. Following approval of the Arrangement Resolution by the Shareholders at the Special Meeting, Scurry-Rainbow will, subject to any conditions not being satisfied which may prevent the completion of the Arrangement, make application to the Court for the Final Order at 2:00 p.m. (Calgary time) on November 8, 1993 at the Court House, 611 Fourth Street S.W., Calgary, Alberta. At the hearing, any Shareholder and any other interested party who wishes to participate or to be represented or present evidence or argument may do so, subject to filing with the Court and serving upon the solicitors for Scurry-Rainbow a notice of appearance on or before November 1, 1993 and satisfying certain other requirements.

Scurry-Rainbow has been advised by its counsel, Macleod Dixon, that the Court has broad discretion under the ABCA when making orders in respect of the Arrangement and will consider, among other things, the fairness of the Arrangement. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court shall order. However, if any amendments are made to the Arrangement, it is a condition of the completion of the Arrangement that the Final Order be, in form and substance, reasonably satisfactory to Home Oil and Scurry-Rainbow.

Pursuant to applicable Canadian case law, in order to grant the Final Order the Court must conclude, among other things, that the Arrangement, including its terms and conditions, is fair and reasonable (substantively and procedurally) to all affected persons.

The Final Order will constitute the basis for an exemption from the registration requirements under the United States *Securities Act of 1933*, as amended, with respect to the Home Shares to be issued pursuant to the Arrangement.

Other Conditions of the Arrangement

The Arrangement Agreement provides that the respective obligations of Scurry-Rainbow and Home Oil to complete the Arrangement are subject to the satisfaction or waiver of certain additional conditions, including the following:

- (a) the TSE shall have conditionally approved the listing of the Home Shares which may be issued pursuant to the Arrangement, subject to compliance with the usual requirements of such exchange;
- (b) all other consents, orders and approvals necessary or desirable for the completion of the Arrangement shall have been obtained;
- (c) there shall not be in force any order or decree making illegal, restraining or enjoining the completion of the transactions contemplated by the Arrangement;
- (d) none of the consents, orders or approvals required in connection with the Arrangement shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by Scurry-Rainbow or Home Oil, acting reasonably; and
- (e) the Arrangement Agreement shall not have been terminated in accordance with its terms.

Under the Arrangement Agreement, Scurry-Rainbow and Home Oil have agreed that, until the Effective Date or the time of termination of the Arrangement Agreement, whichever is earlier, they will not perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the proposed Arrangement.

Effective Date of the Arrangement

If the Special Meeting is held on November 8, 1993 as scheduled, and not adjourned, and the Shareholders pass the Arrangement Resolution by the requisite majorities, and provided that no condition exists which would prevent completion of the Arrangement, Scurry-Rainbow intends to apply to the Court on November 8, 1993 for the Final Order approving the Arrangement. If the Final Order is obtained on November 8, 1993 and the other conditions contained in the Arrangement Agreement are satisfied or waived, Scurry-Rainbow expects that the Effective Date will be November 8, 1993.

It is not possible, however, to specify when the Effective Date will occur. If the Arrangement does not become effective on or before November 30, 1993, Home Oil may terminate the Arrangement Agreement and, in such case, the Arrangement will not become effective.

Election Procedure

The election by a Shareholder as to the form of the Arrangement Consideration to be received in exchange for his Scurry Shares may be made by depositing a completed Letter of Transmittal and Election Form indicating the Shareholder's election, together with the certificates representing the Scurry Shares in respect of which the election is made (or a notice of guaranteed delivery in a form satisfactory to Scurry-Rainbow), with the Depositary at any of the offices specified in the Letter of Transmittal and Election Form. **To receive the Cash Consideration, a Shareholder must make such deposit prior to the Election Deadline, being 4:30 p.m. (local time) on the Business Day preceding the date of the Special Meeting.**

Shareholders who do not deposit with the Depositary a duly completed Letter of Transmittal and Election Form prior to the Election Deadline and otherwise fully comply with the requirements of the Plan of Arrangement and the Letter of Transmittal and Election Form in respect of an election to receive the Cash Consideration will be deemed to have elected to receive the Share Consideration for their Scurry Shares. Shareholders should review the discussion under "Income Tax Considerations" and consult their own tax advisors before completing (or failing to complete) the election in the Letter of Transmittal and Election Form.

Any election made by a Shareholder must be in respect of all the Scurry Shares held by such Shareholder.

Any use of the mails to transmit share certificates and a Letter of Transmittal and Election Form is at the risk of the Shareholder. If such documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used. If the Arrangement is not proceeded with, all certificates representing Scurry Shares received by the Depositary as aforesaid will be returned to Shareholders.

Shareholders who dissent and are ultimately not entitled to be paid the fair value for their shares will not be able to elect to receive the Cash Consideration and will only be entitled to receive the Share Consideration.

Entitlement to Cash and Share Certificates

Where a Shareholder has elected to receive the Cash Consideration for his Scurry Shares, Home Oil will cause to be forwarded as soon as practicable following the Effective Date by first class mail (postage prepaid) to the Shareholder, at the address specified in the Letter of Transmittal and Election Form, a cheque representing the payment required to be made to such Shareholder. Such cheque will be in Canadian currency, unless the holder requests in the Letter of Transmittal and Election Form that payment be made in U.S. funds, in which case the cheque will be in U.S. currency. For such purpose, Canadian dollar amounts will be converted into U.S. dollar amounts at the exchange rate on the Business Day immediately prior to the date of the issuance of the cheque evidencing such payment as provided in the Arrangement Agreement.

Where a Shareholder has elected or is deemed to have elected to receive the Share Consideration for his Scurry Shares, certificates representing the number of Home Shares issuable to such holder together with a cheque in the amount, if any, payable to such holder for the fraction of a Home Share otherwise issuable, will be forwarded to the Shareholder, at the address specified in the Letter of Transmittal and Election Form, by first class mail (postage prepaid) as soon as practicable following the later of the Effective Date and the date of deposit with the Depositary of a completed Letter of Transmittal and Election Form and the certificates representing such Scurry Shares.

Where a certificate representing Scurry Shares has been lost, apparently destroyed or wrongfully taken, the holder of such certificate should immediately contact the Depositary so that arrangements can be made to issue a replacement share certificate to such holder upon such holder satisfying such reasonable requirements as may be imposed by the Corporation in connection with the issuance of such replacement share certificate.

Home Oil Fractional Shares

No fractional Home Shares will be issued. Where a Shareholder elects or is deemed to have elected to receive Home Shares and the aggregate number of Home Shares to be issued to such Shareholder would result in a fraction of a Home Share being issued, such Shareholder will receive, in lieu of such fractional share, a cash payment from Home Oil equal to such fraction multiplied by the Home Share Price.

Right of Dissent

Pursuant to the Interim Order, a Scurry Shareholder is entitled to dissent in respect of the Arrangement Resolution and be paid the fair value of his Scurry Shares by Home Oil if the Arrangement is completed. In order to dissent a Shareholder must provide Scurry-Rainbow with a written objection to the Arrangement Resolution at or before the Special Meeting and otherwise comply with the steps set forth in Schedule H hereto. Any notice should be addressed to the attention of the Corporate Secretary at the Corporation's head office, 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5.

The rights of Shareholders to dissent are set forth in detail in Schedule H hereto. Any Shareholder desiring to exercise the right to dissent should seek legal advice since failure to comply strictly with the procedures set forth in Schedule H may prejudice his right.

Income Tax Considerations

The Arrangement will not result in any material income tax consequences to Scurry-Rainbow.

Canadian Federal Income Tax Matters

In the opinion of Macleod Dixon, counsel to Scurry-Rainbow, the following is a fair and adequate summary of the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to persons who for the purposes of the Tax Act hold Scurry Shares as capital property. This summary is based upon the current provisions of the Tax Act, the *Income Tax Application Rules*, 1971 (the "ITAR"), publicly announced specific proposed amendments thereto and counsel's understanding of the current administrative policies and practices of Revenue Canada, Taxation. This summary does not take into account Canadian provincial or foreign income tax legislation or considerations or, except for publicly announced proposed amendments to the Tax Act, any changes to the law whether by legislative or judicial action.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Shareholder. Therefore, Shareholders should consult their own tax advisors with respect to their particular circumstances.

Residents of Canada

Exchange for Cash

Upon the disposition of a Scurry Share to Home Oil for cash, whether pursuant to the Arrangement or pursuant to the exercise of a right of dissent, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition are greater than (or less than) the aggregate of the adjusted cost base of the Scurry Share and any costs of disposition. Generally, the adjusted cost base of a Scurry Share will be the average cost to the Shareholder of all Scurry Shares held by him at that time. Where all or a portion of a holder's Scurry Shares were owned by the holder on December 31, 1971 and thereafter without interruption until immediately before the exchange, or are treated under the ITAR as having been so owned (i.e. in the case of certain non-arm's length transfers), the "tax-free zone" rules under the ITAR may apply in determining the holder's adjusted cost base of those Scurry Shares.

Three-quarters of a capital gain realized on the disposition of a Share (referred to as a taxable capital gain) will be included in computing income. Three-quarters of a capital loss realized on such a disposition (referred to as an allowable capital loss) may be deducted by a Shareholder from taxable capital gains realized in the year of the disposition. Generally, an allowable capital loss which cannot be deducted in the year of the disposition may be carried back three years and forward indefinitely and deducted against taxable capital gains.

Subject to certain limitations, an individual, other than most trusts, may claim a capital gains exemption in respect of net capital gains realized after 1984 up to a cumulative lifetime limit of \$100,000. The capital gains exemption may only be claimed in respect of taxable capital gains in excess of the individual's cumulative net investment loss at the end of the year. Cumulative net investment loss is defined in the Tax Act as the amount by which the aggregate of the individual's investment expenses for each taxation year ending after 1987 exceeds the aggregate of the individual's investment income for each taxation year ending after 1987.

An alternative minimum tax will be payable by an individual, other than certain trusts, where the alternative minimum tax computed in respect of adjusted taxable income is greater than the income tax otherwise determined. Generally, the alternative minimum tax is computed at a federal rate of 17% of adjusted taxable income in excess of a basic exemption of \$40,000 and a basic minimum tax credit. Adjusted taxable income is computed, in part, by adding certain amounts to taxable income otherwise determined. One such amount is the one-quarter of capital gains that is not otherwise taxable. An individual's liability for alternative minimum tax will depend upon the amount of the individual's income, the sources from which the income is derived, and the nature and amounts of any deductions claimed.

Exchange for Home Shares

A holder who disposes of Scurry Shares in exchange for Home Shares will be deemed to have disposed of the Scurry Shares for proceeds of disposition equal to their aggregate adjusted cost base immediately before the exchange and to have acquired the Home Shares received on the exchange at a cost equal to that aggregate adjusted cost base less any cash received in lieu of a fractional Home Share, unless the holder chooses to recognize a capital gain or capital loss on the exchange.

A holder may choose to recognize a capital gain or capital loss on the exchange of Scurry Shares for Home Shares by including the capital gain or capital loss in the holder's income tax return for the taxation year in which the exchange occurs. When the holder chooses to recognize a capital gain or capital loss, the holder's proceeds of disposition for the purposes of calculating a capital gain or capital loss arising as a result of the exchange will be the aggregate of the fair market value of the Home Shares received on the exchange plus any cash received in lieu of fractional Home Shares. Any capital gain or capital loss so arising will result in the same tax consequences to the holder as described under "Residents of Canada — Exchange for Cash".

Non-Residents of Canada

The following applies to Shareholders who are not resident in Canada, and who do not use or hold and are not deemed to use or hold their Scurry Shares in, or in the course of, carrying on business in Canada.

A Shareholder who is not resident in Canada for the purposes of the Tax Act who disposes of his Scurry Shares to Home Oil (whether pursuant to the Arrangement or pursuant to the exercise of a right of dissent) will not be subject to tax under the Tax Act in respect of his capital gain (or be entitled to deduct an allowable capital loss arising on the disposition) unless his Scurry Shares are “taxable Canadian property” for the purposes of the Tax Act and he is not afforded any relief under an applicable tax treaty. A Scurry Share held by a non-resident Shareholder will generally not be “taxable Canadian property” of the Shareholder. Subject to the foregoing, a non-resident holder who disposes of Scurry Shares in exchange for Home Shares will be subject to the same tax consequences as described under “Residents of Canada — Exchange for Home Shares”.

Interest Awarded to Dissenting Shareholders

In determining the fair value of a Dissenting Shareholder’s Scurry Shares, a court may, in its discretion, award the Dissenting Shareholder a reasonable rate of interest on such amount from the Effective Date to the date of payment to the Dissenting Shareholder. Where the Dissenting Shareholder is resident in Canada, any interest awarded by a court will be included in the Shareholder’s income and excluded from the holder’s proceeds of disposition of the Scurry Shares. Where the Dissenting Shareholder is not resident in Canada, interest will be subject to Canadian withholding tax at the rate of 25% of the amount thereof unless the rate is reduced pursuant to the provisions of an applicable tax treaty. The provisions of the Canada-U.S. Income Tax Convention generally reduce the rate to 15%.

Certain U.S. Federal Income Tax Matters

The following is a general discussion of the material United States federal income tax (“U.S. Tax”) consequences of the Arrangement to Shareholders that are U.S. holders. A U.S. holder is defined as (i) an individual who is a citizen or a resident of the United States, (ii) a corporation that is organized under the laws of the United States or any state thereof, or (iii) an estate or trust, the income of which is subject to United States federal income taxation regardless of its source. This discussion is based upon the *Internal Revenue Code of 1986*, as amended (the “Code”), the Treasury Regulations promulgated thereunder and judicial and administrative interpretations thereof, all as presently in effect, and is addressed to U.S. holders who hold Scurry Shares as capital assets. The discussion may not be applicable to persons subject to special U.S. Tax regimes (such as financial institutions, broker-dealers, insurance companies or tax-exempt organizations). Scurry-Rainbow has not requested a ruling from the Internal Revenue Service with respect to the U.S. Tax consequences of the Arrangement.

This discussion is of a general nature only and is not intended to be, nor should it be considered to be, advice to any particular Shareholder. Each U.S. holder is urged to consult its own tax advisor regarding the U.S. tax and applicable state, local and other tax consequences of a sale of Scurry Shares.

Disposition of Scurry Shares to Home Oil Pursuant to the Arrangement

A disposition of Scurry Shares to Home Oil pursuant to the Arrangement is expected to be a taxable transaction for U.S. Tax purposes, regardless of whether the Shareholder receives cash or Home Shares upon disposition. A U.S. holder will recognize capital gain or loss on such a disposition of Scurry Shares equal to the difference between its tax basis for the Scurry Shares disposed of and the U.S. dollar value of the Canadian dollars or Home Shares received in exchange for such Scurry Shares. Any such gain will generally be U.S. source income.

Disposition of Scurry Shares to Home Oil Pursuant to the Exercise of Dissent Rights

For U.S. Tax purposes, a Dissenting Shareholder should recognize a capital gain or loss on the Effective Date equal to the difference between the U.S. dollar value of the amount realized by such Shareholder and such Shareholder’s basis in his Scurry Shares. For this purpose, the amount realized generally should equal the U.S. dollar value of the trading value per Scurry Share on the Effective Date. Ordinary interest income (or capital loss) generally should be recognized by such Dissenting Shareholder upon the receipt of payment pursuant to dissenter’s rights to the extent the U.S. dollar value of such payments exceeds (or is less than) the amount realized by such Shareholder on the Effective Date (as described above).

In addition, any portion of the amount received by a Dissenting Shareholder (including any Canadian tax withheld) that constitutes interest awarded by a court will be taxable as ordinary income for U.S. Tax purposes and any Canadian tax withheld from such interest will, subject to certain limitations and conditions (including those relating to the amount of such Shareholder's foreign-source income), be allowed as a credit against such Dissenting Shareholder's U.S. Tax liability or, alternatively, will be deductible in determining such Dissenting Shareholder's taxable income for U.S. Tax purposes. Income recognized by reason of a Dissenting Shareholder's disposition of its Scurry Shares generally will be characterized as foreign source income to the extent such income constitutes interest.

Foreign Currency Issues

The U.S. dollar value of the Canadian dollars received by a U.S. holder that uses the cash method of accounting for U.S. Tax purposes likely will be determined as of the date received, notwithstanding the date of disposition. The U.S. dollar value of the Canadian dollars received by a U.S. holder that uses the accrual method of accounting for U.S. Tax purposes will be determined as of the Effective Date.

In addition to the gain or loss described above, an accrual basis U.S. holder may recognize foreign currency gain or loss (which will be ordinary income rather than capital gain) equal to the difference between the U.S. dollar value of the Canadian dollars to be received pursuant to the Arrangement or the exercise of a right of dissent (including any portion thereof representing interest awarded by a Court) (a) on the Effective Date or at the time of a court decision, as the case may be, and (b) at the time of the receipt of the Canadian dollars. However, an accrual basis taxpayer can elect to be treated similarly to a cash basis taxpayer with respect to foreign currency transactions. Moreover, both cash and accrual basis taxpayers may recognize additional ordinary income or loss measured by the difference between the U.S. dollar value of the Canadian dollars received (a) at the time of receipt of the Canadian dollars, and (b) at the time such Canadian dollars are disposed of.

Expenses and Source of Funds

Home Oil will pay all costs and expenses incurred by Scurry-Rainbow in connection with the Arrangement, except the costs and expenses relating to the Special Committee, including the fees of any advisors to the Special Committee, which will be borne by Scurry-Rainbow. The costs to be incurred by Scurry-Rainbow are not expected to exceed \$250,000.

If all Shareholders elect the Cash Consideration, the total amount required to pay Minority Shareholders will be approximately \$42.5 million. The Cash Consideration to be paid by Home Oil will be funded by drawdowns under committed bank facilities of Home Oil.

PART II — INFORMATION CONCERNING SCURRY-RAINBOW

Corporate Background

Scurry-Rainbow was incorporated on February 5, 1954 under the *Companies Act* of Alberta. On July 5, 1983, the Corporation was continued under the ABCA. The registered office and principal place of business of the Corporation is 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5 and its telephone number is (403) 232-7101. Home Oil owns approximately 88.1% of the issued and outstanding Scurry Shares.

General Development of Business

The Corporation resulted from the amalgamation in 1954 of Scurry Oils Limited and Rainbow Oil Limited. During its first year of operation, Scurry-Rainbow conducted considerable exploration of its Alberta properties. The Corporation also had extensive land holdings in Saskatchewan.

Over the next few years Scurry-Rainbow continued to have an aggressive exploration program in Alberta and Saskatchewan. In 1957, the Corporation participated in Boundary Lake, the first oil field in British Columbia. This was the beginning of Scurry-Rainbow's activity in British Columbia which was enhanced by its merger with Canadian Pipelines and Petroleum Ltd. in the spring of 1957. Drilling successes continued in northeastern British Columbia — Beaton River, Milligan Creek, Peejay and Nancy. By mid 1963 Scurry-Rainbow held varying interests in 150 oil wells and 33 gas wells in British Columbia.

Saskatchewan was also a major focus for the Corporation and in 1963 Scurry-Rainbow acquired Agawam Oil Co. Ltd. and a 50% interest in Minerals Ltd. Both these companies were active in Saskatchewan. That same year Scurry-Rainbow increased its interests in the Alberta foothills when a 51% interest was acquired in Plains Petroleum Limited.

The next ten years of Scurry-Rainbow's history included both continuing exploration successes in western Canada, and exploration efforts abroad. The Corporation did not limit itself to the pursuit of oil and gas. Ventures included exploring for potash in Saskatchewan and sulphur in Nova Scotia and Bolivia, mining coal in the Crows Nest Pass, Alberta, mining gold and silver in Nevada and exploring for petroleum in Turkey, western U.S., Alaska, the North Sea and Great Britain.

In 1968, the Corporation acquired The Winnipeg Western Land Company and as a result obtained a land position in Manitoba. In the late 1970's Scurry-Rainbow began to exit from international activities and mining to concentrate on oil and gas exploration in western Canada. In 1992, the Corporation initiated an aggressive asset rationalization program designed to increase its interests in strategic properties while disposing of non-strategic properties characterized by poor quality reserves, limited development potential, low productivity and high operating costs.

Description of Business

The Corporation is presently engaged in the exploration for and the development and production of crude oil, natural gas liquids and natural gas in western Canada. Substantially, all of the Corporation's exploration, development and production activities are conducted jointly with others. The Corporation is one of the larger producers of crude oil in British Columbia, where it holds interests in, and operates, the West and East Eagle Units and the West Stoddart field, all located near Fort St. John. The Corporation produces natural gas in British Columbia and in Alberta, where it operates the North Coleman field, and holds oil and gas exploration interests in all four western provinces. The Corporation also operates one and has interests in several other gas processing plants. In addition, the Corporation has interests in undeveloped coal properties in Alberta and British Columbia.

Properties

Principal Oil and Gas Properties

The Corporation's principal properties are comprised of producing oil and gas rights. The following table sets forth, for each of the periods indicated, the average daily production or sales before royalties of those properties which account for more than 60% of its crude oil and natural gas liquids production and natural gas sales in the six months ended June 30, 1993:

	Six Months Ended June 30, 1993	Year Ended December 31,		
		1992	1991	1990
<i>Crude Oil (Bbls)</i>				
West Eagle Unit, British Columbia	1,216	1,333	1,184	1,311
East Eagle Unit, British Columbia	913	1,083	1,051	1,021
West Stoddart, British Columbia	623	740	669	715
Cecil/Royce, Alberta	526	638	389	391
South Pierson, Manitoba	255	251	258	223
Hitchcock/Macoun, Saskatchewan	239	327	432	644
<i>Natural Gas Liquids (Bbls)</i>				
South Wapiti, Alberta	419	266	534	587
Karr, Alberta	250	268	228	123
Swan Hills Unit, Alberta	149	89	—	—
Border Montney Units A&B (1)	93	58	3	—
<i>Natural Gas (Mcf)</i>				
South Wapiti, Alberta	17,878	11,477	9,595	14,108
Border Montney Units A&B (1)	12,591	7,899	552	—
North Coleman, Alberta	7,126	4,276	5,584	5,355
Mistahae, Alberta	5,036	2,469	2,363	739
Karr, Alberta	4,950	5,173	4,158	3,249
Hamburg Unit, Alberta	3,619	4,924	581	—
East Eagle Unit, British Columbia	1,443	1,123	1,039	788
West Stoddart, British Columbia	1,305	1,338	1,015	979

Note:

(1) previously named Ring/Border, Alberta/British Columbia

Wells

The following tables set forth the Corporation's estimate of the number of oil and gas wells, in which the Corporation holds a working interest, that were capable of production as at June 30, 1993 and December 31, 1992:

	Oil		Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
June 30, 1993						
Alberta	1,510	49.1	719	60.5	2,229	109.6
British Columbia	344	101.5	170	45.0	514	146.5
Saskatchewan	75	12.1	13	1.7	88	13.8
Manitoba	71	20.4	—	—	71	20.4
Total	<u>2,000</u>	<u>183.1</u>	<u>902</u>	<u>107.2</u>	<u>2,902</u>	<u>290.3</u>
December 31, 1992						
Alberta	1,227	57.9	752	60.5	1,979	118.4
British Columbia	347	94.0	163	42.5	510	136.5
Saskatchewan	1,742	66.9	13	1.7	1,755	68.6
Manitoba	72	20.4	—	—	72	20.4
Total	<u>3,388</u>	<u>239.2</u>	<u>928</u>	<u>104.7</u>	<u>4,316</u>	<u>343.9</u>

Oil and Gas Acreage

As at June 30, 1993 the Corporation owned 2,800,703 gross (1,012,039 net) acres of oil and gas leases and 1,660,438 gross (517,767 net) acres of reservations, licences and permits; included in this acreage was 685,728 gross (109,560 net) acres from which production was, or was capable of, being obtained. As at December 31, 1992, the Corporation owned 3,090,352 gross (1,130,239 net) acres of oil and gas leases and 2,335,837 gross (986,242 net) acres of reservations, licences and permits. Total acreage includes 736,444 gross (114,763 net) acres from which production was, or was capable of, being obtained. No deduction has been made from the gross or net acres under reservations, licences, and permits to reflect that only a portion of this acreage may be converted to lease.

The following table sets forth the undeveloped and developed oil and gas landholdings of the Corporation, as at each of the dates indicated:

	June 30, 1993		December 31,					
			1992		1991		1990	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(thousands of acres)							
British Columbia	697	497	1,116	863	1,691	1,349	1,751	1,369
Alberta	1,135	200	1,250	227	1,632	316	1,852	349
Saskatchewan	1,010	634	1,356	819	1,371	828	1,307	809
Manitoba	42	30	47	32	56	36	60	37
Total Western Canada	2,884	1,361	3,769	1,941	4,750	2,529	4,970	2,564
Northern Canada/Frontier	891	59	921	61	1,167	81	2,297	137
Total Undeveloped	3,775	1,420	4,690	2,002	5,917	2,610	7,267	2,701
Developed	686	110	736	115	764	114	777	115
Total	<u>4,461</u>	<u>1,530</u>	<u>5,426</u>	<u>2,117</u>	<u>6,681</u>	<u>2,724</u>	<u>8,044</u>	<u>2,816</u>

Oil and Gas Activities

Wells Drilled

The following table sets forth the exploration and development wells drilled, in each of the periods indicated, in which the Corporation had a working interest:

	Six Months Ended June 30,				Year Ended December 31,									
	1993		1992		1992		1991		1990		1989		1988	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory														
Oil	4	1.50	1	.25	2	0.43	6	0.75	9	2.74	5	2.28	27	5.33
Gas	5	1.91	2	.23	2	0.23	9	2.87	26	8.80	21	8.23	17	1.86
Dry	19	7.80	4	.91	13	3.07	27	8.97	30	10.45	26	4.64	43	6.78
Development														
Oil	12	1.65	16	3.80	30	6.64	32	5.56	59	10.41	59	10.07	86	13.54
Gas	9	1.78	1	.17	3	0.42	10	1.56	27	7.71	8	1.58	10	1.70
Dry	1	.07	4	.81	7	1.15	6	1.37	6	1.15	5	1.10	18	4.85
Total	<u>50</u>	<u>14.71</u>	<u>28</u>	<u>6.17</u>	<u>57</u>	<u>11.94</u>	<u>90</u>	<u>21.08</u>	<u>157</u>	<u>41.26</u>	<u>124</u>	<u>27.90</u>	<u>201</u>	<u>34.06</u>

Capital Expenditures

The following table sets forth the capital expenditures incurred by the Corporation with respect to exploration and development activities and the acquisition of proved properties and land for each of the periods given:

	Six Months Ended June 30,		Year Ended December 31,				
	1993	1992	1992	1991	1990	1989	1988
	(thousands of dollars)						
Exploration	\$ 8,551	\$ 5,064	\$ 9,265	\$19,688	\$33,648	\$24,009	\$25,789
Development	8,164	6,375	11,265	20,394	29,218	18,378	16,860
Land acquisitions	814	453	772	779	5,254	5,412	11,821
Other	190	118	287	217	311	188	623
Exploration and development	17,719	12,010	21,589	41,078	68,431	47,987	55,093
Acquisitions of proved properties	16,233	2,559	16,449	50	1,394	4,992	18,870
	<u>\$33,952</u>	<u>\$14,569</u>	<u>\$38,038</u>	<u>\$41,128</u>	<u>\$69,825</u>	<u>\$52,979</u>	<u>\$73,963</u>

Production and Sales

All of the Corporation's oil and gas operations are conducted in Canada. The following table sets forth total production or sales, by province, for each of the periods given, and daily average production volumes of crude oil and natural gas liquids, and sales of natural gas. This table includes all volumes attributable to Scurry-Rainbow's interests before deductions for royalties.

	Six Months Ended June 30,		Year Ended December 31,				
	1993	1992	1992	1991	1990	1989	1988
<i>Crude Oil Production (MBbls)</i>							
Alberta	285	290	582	589	568	597	662
British Columbia	596	645	1,345	1,284	1,365	1,539	1,663
Saskatchewan	79	311	559	655	756	699	700
Manitoba	46	46	95	103	114	93	75
	<u>1,006</u>	<u>1,292</u>	<u>2,581</u>	<u>2,631</u>	<u>2,803</u>	<u>2,928</u>	<u>3,100</u>
Daily average production (Bbls)	<u>5,559</u>	<u>7,100</u>	<u>7,051</u>	<u>7,208</u>	<u>7,679</u>	<u>8,021</u>	<u>8,469</u>
<i>Natural Gas Liquids Production (MBbls)</i>							
Alberta	216	162	353	362	359	439	434
British Columbia	32	33	68	38	37	27	33
	<u>248</u>	<u>195</u>	<u>421</u>	<u>400</u>	<u>396</u>	<u>466</u>	<u>467</u>
Daily average production (Bbls)	<u>1,371</u>	<u>1,070</u>	<u>1,150</u>	<u>1,095</u>	<u>1,085</u>	<u>1,277</u>	<u>1,277</u>
<i>Natural Gas Sales (Bcf)</i>							
Alberta	9.2	6.5	13.8	11.2	11.3	10.5	10.9
British Columbia	3.6	3.4	6.9	4.4	4.0	3.2	2.6
Saskatchewan	0.0	0.0	0.1	0.1	0.1	0.1	0.1
	<u>12.8</u>	<u>9.9</u>	<u>20.8</u>	<u>15.7</u>	<u>15.4</u>	<u>13.8</u>	<u>13.6</u>
Daily average sales (MMcf)	<u>70.7</u>	<u>54.6</u>	<u>56.8</u>	<u>43.0</u>	<u>42.2</u>	<u>37.7</u>	<u>37.1</u>

Operating Revenue

The following table sets forth the percentage of the Corporation's operating revenue contributed by crude oil, natural gas liquids and natural gas for each of the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	1993	1992	1992	1991	1990
Crude oil	43%	57%	57%	65%	67%
Natural gas liquids	8%	7%	7%	6%	6%
Natural gas	49%	35%	36%	26%	25%

Proved Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas liquids and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. The Corporation's proved reserves are located in Canada and are based on estimates made by the Corporation's engineers.

The calculation of net proved reserves is based on the Corporation's share of proved reserves after the deduction of royalties. Royalties are calculated on the basis of royalty regulations in effect on the dates the estimates were made. Royalty rates vary depending on well production volume, selling price, type and location of well, recovery method and date of discovery.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods at current economic conditions.

The following table presents the Corporation's proved reserves and changes therein of crude oil, natural gas liquids and natural gas for the periods indicated:

	Six Months Ended June 30, 1993		Year Ended December 31,					
			1992		1991		1990	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Crude Oil (MMBbls)								
Beginning of period	15.3	12.9	18.2	15.1	22.6	18.7	22.8	18.7
Extensions and discoveries	0.2	0.2	0.7	0.5	1.5	1.2	1.3	1.0
Revisions and improved recovery	0.1	—	(0.5)	(0.2)	(3.0)	(2.5)	1.5	1.4
Purchase of reserves in place	1.7	1.4	1.5	1.3	—	—	0.1	0.1
Sale of reserves in place	(3.2)	(2.7)	(2.0)	(1.7)	(0.3)	(0.2)	(0.3)	(0.2)
Production	(1.0)	(0.8)	(2.6)	(2.1)	(2.6)	(2.1)	(2.8)	(2.3)
End of period	<u>13.1</u>	<u>11.0</u>	<u>15.3</u>	<u>12.9</u>	<u>18.2</u>	<u>15.1</u>	<u>22.6</u>	<u>18.7</u>
Developed	11.2	9.4	13.6	11.4	16.6	13.7	19.1	15.9
Undeveloped	<u>1.9</u>	<u>1.6</u>	<u>1.7</u>	<u>1.5</u>	<u>1.6</u>	<u>1.4</u>	<u>3.5</u>	<u>2.8</u>
	<u>13.1</u>	<u>11.0</u>	<u>15.3</u>	<u>12.9</u>	<u>18.2</u>	<u>15.1</u>	<u>22.6</u>	<u>18.7</u>

	Six Months Ended June 30, 1993		Year Ended December 31,					
			1992		1991		1990	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<i>Natural Gas Liquids (MMBbls)</i>								
Beginning of period	7.0	6.2	7.3	6.4	7.0	5.9	7.5	6.5
Extensions and discoveries	0.4	0.3	0.1	0.1	1.3	1.2	1.0	0.9
Revisions and improved recovery	—	(0.1)	(0.2)	(0.1)	—	—	(1.1)	(1.2)
Purchase of reserves in place	0.2	0.2	0.3	0.3	—	—	—	—
Sale of reserves in place	(0.2)	(0.1)	(0.1)	(0.1)	(0.6)	(0.5)	—	—
Production	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)	(0.2)	(0.4)	(0.3)
End of period	<u>7.2</u>	<u>6.3</u>	<u>7.0</u>	<u>6.2</u>	<u>7.3</u>	<u>6.4</u>	<u>7.0</u>	<u>5.9</u>
Developed	5.5	4.8	5.7	5.0	6.1	5.3	5.9	5.0
Undeveloped	<u>1.7</u>	<u>1.5</u>	<u>1.3</u>	<u>1.2</u>	<u>1.2</u>	<u>1.1</u>	<u>1.1</u>	<u>0.9</u>
	<u>7.2</u>	<u>6.3</u>	<u>7.0</u>	<u>6.2</u>	<u>7.3</u>	<u>6.4</u>	<u>7.0</u>	<u>5.9</u>
<i>Natural Gas (Bcf)</i>								
Beginning of period	338	289	358	292	355	288	297	243
Extensions and discoveries	8	7	3	2	26	21	64	52
Revisions and improved recovery	8	3	(6)	9	(5)	(3)	8	5
Purchase of reserves in place	14	12	17	15	—	—	3	2
Sale of reserves in place	(11)	(9)	(13)	(11)	(2)	(1)	(2)	(1)
Sales	(13)	(11)	(21)	(18)	(16)	(13)	(15)	(13)
End of period	<u>344</u>	<u>291</u>	<u>338</u>	<u>289</u>	<u>358</u>	<u>292</u>	<u>355</u>	<u>288</u>
Developed	232	196	229	196	253	206	218	177
Undeveloped	<u>112</u>	<u>95</u>	<u>109</u>	<u>93</u>	<u>105</u>	<u>86</u>	<u>137</u>	<u>111</u>
	<u>344</u>	<u>291</u>	<u>338</u>	<u>289</u>	<u>358</u>	<u>292</u>	<u>355</u>	<u>288</u>

The Corporation is not aware of any recent major discovery or other favourable or adverse event that is believed to have caused a significant change in the estimated proved reserves.

Probable Reserves

Probable reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technologies and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. The Corporation's probable reserves are based on estimates made by Home Oil's engineers.

The following table sets forth the Corporation's gross probable reserves of crude oil, natural gas liquids and natural gas as at each of the dates indicated:

	June 30, 1993	December 31,		
		1992	1991	1990
Crude Oil (MMBbls)	9.2	10.2	9.8	12.1
Natural Gas Liquids (MMBbls)	4.2	4.0	4.0	5.2
Natural Gas (Bcf)	197	193	192	203

Environmental Matters

Scurry-Rainbow believes that its facilities and operations comply in all material respects with all applicable governmental regulations relating to safety and environmental protection. Scurry-Rainbow's activities are largely conducted pursuant to the terms of licences, permits or other specific authorizations granted under law, regulation or directive by applicable governmental agencies. The terms of each grant specify, either directly or indirectly by reference to general or specific standards, environmental protection measures to be taken by Scurry-Rainbow in the design, construction and operation of facilities, or the preparation for and conduct of activities.

Scurry-Rainbow has estimated its future liability for abandonment and restoration and has been recording this liability in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby these costs are accrued using the unit of production method. As at December 31, 1992, total costs were estimated at \$14.0 million, of which \$3.8 million (1991 — \$3.1 million) had been accrued and was recorded as a liability. During 1992, \$0.8 million (1991 — \$0.2 million) was included in depletion, depreciation and amortization expense using the unit of production method, increasing the liability, and \$0.1 million (1991 — \$0.2 million) of actual site restoration costs were incurred, reducing the liability.

Scurry-Rainbow is not aware of any environmental protection measures required, or any unusual contingent environmental liabilities, of Scurry-Rainbow which are not common to participants generally in Scurry-Rainbow's industry segment.

Mining Properties

The Corporation's mining assets comprise undeveloped metallurgical and thermal coal reserves in British Columbia and Alberta. The total mineable reserves in place at December 31, 1992 are presented in the following table:

Total Probable Reserves (millions of short tons):

Elk River	360
Blairmore	60
	<u>420</u>

The Elk River property, in which the Corporation has a 10% working interest, is located in southeast British Columbia, while the Blairmore property, in which the Corporation has a 50% working interest, is in southwest Alberta. The Corporation also owns various other thermal coal properties in central and southwest Alberta. There are no plans to develop any of the coal properties at this time and any future development will be dependent on improved coal markets.

As at June 30, 1993 the Corporation held 54,061 gross (25,948 net) acres of mining leases. As at December 31, 1992, the Corporation held 65,140 gross (31,487 net) acres of mining leases.

Financial Statements

The audited financial statements of Scurry-Rainbow for the year ended December 31, 1992, including the auditors' report and management's report thereon, and the unaudited condensed financial statements of Scurry-Rainbow for the six month period ended June 30, 1993 are contained in Schedule E to this Circular.

Management's Discussion and Analysis

The text of the information which appeared in the Corporation's 1992 Annual Report under the heading "Management's Discussion and Analysis" is repeated in Schedule E. It should be considered and read in conjunction with the information set forth under the heading "Recent Developments" which is applicable to the six month period ended June 30, 1993.

Recent Developments

This section addresses changes to the Corporation's assets, operations and activities which occurred subsequent to December 31, 1992 and prior to June 30, 1993, unless otherwise noted. It should be considered and read in conjunction with the unaudited condensed financial statements of Scurry-Rainbow for the six month period ended June 30, 1993 contained in Schedule E to this Circular.

During the six months ended June 30, 1993 higher gas sales, improved prices and reduced operating expenses resulted in earnings of \$5.7 million compared with \$3.5 million earned during the same period last year. Cash flow from operations of \$24.6 million in the first half of 1993 represents a 22% increase from the corresponding period in 1992. Higher natural gas revenue and reduced operating expenses more than offset lower crude oil production and higher taxes.

Revenues for the six months ended June 30, 1993 totalled \$39.2 million, up \$5.0 million from the same period last year. Natural gas revenue increased 60% to \$19.1 million as a result of significantly higher prices and volumes, while crude oil revenue of \$16.6 million was down \$3.0 million as higher prices did not offset a decline in volumes. Natural gas liquids revenue increased to \$3.2 million from \$2.4 million last year as a result of higher prices and volumes. Sulphur production is currently being stockpiled as world oversupply has forced prices below transportation and marketing costs.

Operating expenses of \$7.6 million for the first six months of 1993 were \$1.2 million lower than the same period in the previous year and declined 16% on a unit basis. Operating costs averaged \$2.97 per BOE for the first six months of 1993. This compares with \$3.52 during the same period last year and reflects the disposition of high operating cost properties, increased gas sales and operating efficiency gains. General and administrative expenses of \$2.6 million were slightly higher than last year as cost reductions from downsizing and efficiency programs were more than offset by lower recoveries from joint venture partners and modest increases in safety and environmental costs. Depletion, depreciation and amortization expenses increased by \$2.5 million due to higher production levels and an increase in the depletion rate to \$5.42 from \$5.05 per barrel of oil equivalent (based on a 6:1 conversion ratio).

Exploration and development expenditures for the six month period totalled \$17.7 million, compared with \$12.0 million last year reflecting the more favourable outlook for natural gas. During the first six months of 1993, the Corporation participated in drilling 50 gross (15 net) working interest wells, compared with 28 gross (6 net) wells in the same period last year. This activity resulted in 30 gross (7 net) successful wells drilled in the first six months, compared to 20 gross (4 net) successful wells in the same period one year ago. Of the successful wells drilled in the six months ended June 30, 1993, 4 and 5 were oil and gas exploration discoveries, respectively, and 12 and 9 were oil and gas development wells, respectively.

Property acquisitions totalled \$16.2 million including the acquisition of a 100% interest in developed acreage adjacent to the Corporation's operated Mistahae natural gas property in Alberta, and interests in Border Montney Units A&B and the Mitsue Gilwood Unit. The sale of nonstrategic assets generated proceeds of \$23.3 million including \$15.1 million from the sale of 50 nonstrategic properties, containing approximately 800 wells, located primarily in southeastern Saskatchewan. A number of property swaps, valued by the Corporation, at \$2.7 million were completed in the period.

Crude oil production averaged 5,559 Bbls per day during the first six months of 1993, a decline of 1,541 Bbls per day from one year ago. The reduction is primarily attributable to the disposition of nonstrategic properties, partially offset by the acquisition of additional interests in the Mitsue Gilwood Unit and West Stoddart during the second quarter. Refinery closures in the Vancouver, British Columbia area have necessitated changes in marketing practices for the Corporation's B.C. light crude oil. Beginning on April 1, 1993, Scurry-Rainbow commenced selling its B.C. light crude to a U.S. refinery, in the Anacortes area of the State of Washington, under a one year contract.

Natural gas liquids production during the first half of 1993 averaged 1,371 Bbls per day, an increase of 301 Bbls per day from last year due to increased gas sales.

Natural gas sales for the six months ended June 30, 1993 averaged 70.7 MMcf per day, an increase of 16.1 MMcf per day from the first half of 1992. The increased production resulted primarily from new wells at South Wapiti and Mistahae and additional discretionary sales in response to improved prices. The Corporation's natural gas from the North Coleman field is processed through a plant owned and operated by a third party pursuant to an agreement in principle recently reached by the Corporation with the plant owner on the key provisions of a new long term custom processing contract. In August 1993, Scurry-Rainbow entered into an agreement in principle with Pacific Gas and Electric Co., Pacific Gas Transmission Co. and Alberta and Southern Gas Co. Ltd. ("A&S"). Under that agreement, Scurry-Rainbow has agreed in principle to accept a payment of U.S. \$3,000,000 as compensation for the early termination of certain gas purchase agreements between Scurry-Rainbow and A&S. Payment

of the U.S. \$3,000,000 to Scurry-Rainbow, currently scheduled for November 1, 1993, is subject to the satisfaction of certain conditions, including receipt of required regulatory approvals and the execution of formal documentation.

Scurry-Rainbow's crude oil price averaged \$20.21 per Bbl for the six month period. The 7% improvement over the same period last year reflected a weaker Canadian dollar and an overall improvement in the quality of oil produced as a result of asset rationalization activities, partially offset by a modest decrease in the West Texas Intermediate price. Natural gas prices remained strong during the first half of 1993 averaging \$1.73 per Mcf, an increase of 30% from the \$1.33 per Mcf received one year ago.

Capitalization

The following table summarizes the capitalization of the Corporation as at June 30, 1993 in thousands of dollars:

Share Capital	
Preferred	
Authorized — 100 million shares	
Issued — Nil	\$ —
Common	
Authorized — 200 million shares	
Issued — 13,462,129 shares	10,922
Contributed Surplus	23,334
Retained Earnings	206,638
	<u>\$240,894 (2)</u>

Notes:

- (1) The Corporation has no long term debt and has in place unutilized unsecured bank lines of credit of \$40 million.
- (2) In addition, as at June 30, 1993 the Corporation had deferred taxes of \$122,175,000, deferred production revenue of \$232,000 (all of which is due within one year), and a site restoration accrual of \$4,138,000.

Description of Share Capital

The authorized share capital of the Corporation consists of 200 million common shares and 100 million preferred shares, all of no par value. There are 13,462,129 Scurry Shares issued and outstanding. No preferred shares have been issued by the Corporation.

The common shares entitle the holders thereof to one vote for each common share held at all meetings of Shareholders, except meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Subject to the rights of holders of shares ranking senior to the common shares, holders thereof are entitled to receive any dividends declared thereon by the Board of Directors and to receive the remaining property of Scurry-Rainbow in the event of its liquidation, dissolution or winding-up.

The preferred shares are issuable in series, with the Board of Directors being authorized to fix the number of shares comprising each series and the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. The preferred shares of all series have preference over the common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of the assets of Scurry-Rainbow on liquidation, dissolution or wind-up.

Stock Exchange Listings and Trading of Scurry Shares

The Scurry Shares are listed on the TSE and AMEX under the symbols "SCR" and "SRB", respectively. The following table shows the volume of trading and price range for Scurry Shares during each of the periods indicated:

	The Toronto Stock Exchange			American Stock Exchange		
	Prices (Canadian Dollars per Scurry Share)		Volume (Shares)	Prices (U.S. Dollars per Scurry Share)		Volume (Shares)
	High	Low		High	Low	
1991						
1st quarter	24 $\frac{3}{4}$	22 $\frac{3}{4}$	51,724	21 $\frac{1}{8}$	19 $\frac{3}{4}$	47,300
2nd quarter	25	24 $\frac{1}{4}$	22,478	21 $\frac{1}{8}$	20 $\frac{1}{2}$	18,400
3rd quarter	24 $\frac{7}{8}$	22 $\frac{1}{2}$	17,907	21 $\frac{1}{8}$	19 $\frac{3}{4}$	15,600
4th quarter	22 $\frac{1}{2}$	17 $\frac{1}{2}$	33,335	20	14 $\frac{1}{2}$	40,700
1992						
1st quarter	17 $\frac{1}{2}$	16 $\frac{1}{4}$	22,377	15 $\frac{3}{8}$	14 $\frac{1}{8}$	17,700
2nd quarter	17 $\frac{3}{4}$	16	11,293	14 $\frac{7}{8}$	13 $\frac{3}{8}$	12,500
3rd quarter	17 $\frac{1}{2}$	16	82,217	14 $\frac{3}{4}$	13 $\frac{1}{2}$	46,100
4th quarter	17 $\frac{1}{2}$	16	75,883	14 $\frac{3}{8}$	12	76,100
1993						
1st quarter	18	16 $\frac{1}{2}$	328,671	14 $\frac{3}{4}$	12 $\frac{3}{4}$	199,400
April	22 $\frac{1}{4}$	18	29,270	17 $\frac{1}{2}$	14	30,200
May	24	22 $\frac{1}{2}$	6,333	18 $\frac{3}{4}$	17 $\frac{3}{8}$	13,600
June	24	23	13,646	19	18	35,900
July	23 $\frac{5}{8}$	22	23,872	18 $\frac{1}{8}$	17	3,700
August	30	26 $\frac{1}{4}$	16,815	24 $\frac{1}{8}$	17	105,600
September (to September 23)	28	26 $\frac{1}{2}$	20,431	21 $\frac{1}{8}$	19 $\frac{5}{8}$	30,800

On July 29, 1993, the last day on which Scurry Shares traded on the TSE prior to the date of the announcement of the proposed transaction the closing price was \$22 per share and on August 3, 1993, the last day on which Scurry Shares traded on AMEX prior to the date of such announcement, the closing price on AMEX was U.S. \$17 per share. On September 17, 1993, the last day on which Scurry Shares traded on the TSE prior to the date of this Circular, the closing price was \$26 $\frac{1}{2}$ and on September 22, 1993, the last day on which the Scurry Shares traded on AMEX prior to the date of this Circular, the closing price was U.S. \$20.

Dividend Policy

The following table sets forth the dividends per Scurry Share paid by Scurry-Rainbow in Canadian dollars and in U.S. dollars, translated at the rates of exchange in effect at each respective payment date:

	Six Months Ended June 30, 1993	Year Ended December 31,				
		1992	1991	1990	1989	1988
Canadian dollars	\$0.25	\$0.50	\$0.50	\$0.50	\$0.50	\$1.00
U.S. dollars	0.20	0.43	0.43	0.43	0.42	0.81

All dividends have been declared payable to Shareholders of record on each of January 1 and July 1. The Board of Directors has not established a policy with respect to the payment of dividends by the Corporation. However, if the Arrangement is not consummated, it is expected that dividend payments similar to those of preceding periods will continue.

Directors and Senior Officers

Directors

The following table sets forth the name, principal municipality of residence of each of the directors of the Corporation, his present principal occupation and his principal occupations during the past five years:

<u>Name</u>	<u>Municipality of Residence</u>	<u>Present Principal Occupation or Employment and Principal Occupations for the Five Year Period Ended September 1, 1993</u>
Robert G. Black (1) (3)	Calgary, Alberta	Barrister and Solicitor, Associate Counsel to McCarthy Tétrault, Barristers and Solicitors; prior to 1993, Counsel, and prior to 1991, Partner of that firm.
Fred Callaway	Calgary, Alberta	Vice President, Corporate of Home Oil (oil and gas exploration and production company) since 1990. (2)
Allen R. Hagerman	Calgary, Alberta	Vice President & Chief Financial Officer of Home Oil since 1991; prior thereto Vice President, Finance of Interhome Energy Inc. ("Interhome") since 1990; prior thereto Vice President and Treasurer of Interhome.
Andrew P. Holder	Calgary, Alberta	Vice President, Exploration of Home Oil since 1990. (2)
Brian F. MacNeill (1) (3)	Edmonton, Alberta	President & Chief Executive Officer of Interprovincial Pipe Line System Inc. (crude oil and liquids pipeline transportation company) since 1991; prior thereto Executive Vice President of Interhome and Chief Operating Officer of Interprovincial Pipe Line Company, a division of Interhome since 1989; prior thereto Vice President, Finance of Home Oil.
Stanley G. Olson (1) (3)	Spokane, Washington	Corporation Director.
David E. Powell	Calgary, Alberta	President & Chief Executive Officer of Home Oil since 1991. (2)
E. Gordon Sheasby (1) (3)	Calgary, Alberta	Corporation Director since 1990; prior thereto Vice President, Law of Interhome (oil and gas exploration and crude oil pipeline company).

Notes:

- (1) Member of the Corporation's audit committee.
- (2) Prior thereto in senior management or executive capacities with that company or its Affiliates since 1988.
- (3) Member of the Special Committee.

Senior Officers

The following table sets forth the name of each of the senior officers, each of whom is an executive officer of the Corporation, his current office with the Corporation and his principal occupations for the past five years:

<u>Name (1)</u>	<u>Current Office (2)</u>	<u>Current Principal Occupation and Principal Occupations for the Five Year Period Ended September 1, 1993</u>
David E. Powell	President & Chief Executive Officer	President & Chief Executive Officer of Home Oil since 1991; prior thereto Executive Vice President and Chief Operating Officer of Home Oil.
Fred Callaway	Vice President, Corporate	Vice President, Corporate of Home Oil since 1990; prior thereto Vice President, International Operations of Home Oil.
Douglas E. Deakin	Corporate Secretary	Corporate Secretary of Home Oil since 1991; prior thereto General Manager, Corporate Planning of Home Oil.
Stewart D. Gossen	Vice President, Property Consolidation	Vice President, Property Consolidation of Home Oil since December, 1992; prior thereto General Manager, Property Consolidation of Home Oil since May 1992; prior thereto, Director, Asset Optimization since 1991; prior thereto, General Manager, Information Systems of Home Oil since 1989; prior thereto, Director, Business Development of Interhome.
Allen R. Hagerman	Vice President & Chief Financial Officer	Vice President & Chief Financial Officer of Home Oil since 1991; prior thereto Vice President, Finance of Interhome since 1990; prior thereto Vice President and Treasurer of Interhome.
Andrew P. Holder	Vice President, Exploration	Vice President, Exploration of Home Oil since 1990; prior thereto Vice President, Canadian Exploration of Home Oil.
Richard C. Osborne	Vice President, Marketing	Vice President, Marketing & Pipelines of Home Oil since 1991; prior thereto General Manager, Marketing of Home Oil.
Robert M. Perrin	Vice President & General Counsel	Vice President & General Counsel of Home Oil since September 1991; prior thereto Vice President, Law and Corporate Secretary of Home Oil since May 1991; prior thereto Corporate Secretary of Interhome.
Bruce W. Sherley	Vice President, Production	Vice President, Production of Home Oil since 1991; prior thereto General Manager, Operations of Home Oil since 1990; prior thereto General Manager, International Exploration of Home Oil.

Notes:

(1) All such officers are ordinarily resident in Calgary, Alberta.

(2) Unless otherwise noted, all such officers were elected or appointed to their current positions in 1991.

Executive Compensation

Cash Compensation of Officers

There are nine senior officers of the Corporation and no cash or non-cash compensation was paid by the Corporation to them for the year ended December 31, 1992. No cash or non-cash compensation is expected to be paid to such officers in 1993.

Cash Compensation of Directors

The Corporation pays to each director an annual retainer of \$6,000 and an additional retainer of \$1,500 per annum to the Chairman of the Audit Committee. Each director is also paid a fee of \$500 for each meeting of the Board of Directors or a committee thereof attended by him. Fees are not paid to directors who are officers or employees of the Corporation. Travelling and living expenses incurred by directors while attending meetings of the Board of Directors or a committee thereof are reimbursed by the Corporation.

Retainer and meeting fees paid to all directors, as a group, in respect of the calendar year ended December 31, 1992 amounted to \$63,500.

Directors' and Officers' Insurance

The Corporation participates in the maintenance of insurance for the benefit of the Corporation and its directors and officers as a group, in respect of the performance by them of the duties of their offices. The amount of insurance purchased is U.S. \$25 million with a U.S. \$1 million deductible in respect of each claim. There is no individual deductible for directors and officers. The premium allocated to and paid by the Corporation for the twelve month period ended December 31, 1992 was \$28,950. The premium is paid without distinction as to directors as a group or officers as a group and the total cost of this insurance is paid by the Corporation.

Management Agreement

The management functions of the Corporation are performed by its Board of Directors and Management. The Corporation does not have any employees. Under an agreement, terminable by either party, Home Oil has furnished certain management, technical and administrative services to the Corporation at cost. Payments made by the Corporation to Home Oil for such services for the year ended December 31, 1992 aggregated \$14,144,000 and for the six months ended June 30, 1993 the payments aggregated \$6,953,000. The Corporation has been indebted to Home Oil in respect of such services, from time to time since December 31, 1992, the largest total of such indebtedness being \$1,343,000 on April 30, 1993.

In 1992, Home Oil effected a downsizing program affecting approximately 10 per cent of its head office staff in response to unfavourable economic conditions and lower activity levels prevailing in the oil and gas industry. The Corporation's share of the cost of the downsizing was \$594,000.

The Corporation borrows from and advances to Home Oil various amounts, depending on the Corporation's cash balances. The amounts borrowed or advanced are repayable on demand and bear interest at $\frac{1}{16}\%$ above Home Oil's cost of funds. During the calendar year 1992, the largest borrowing from Home Oil was \$16,000,000, which was outstanding for the period January 17, 1992 to January 21, 1992. During the six months ended June 30, 1993, the largest borrowing was \$14,000 which was outstanding for the period January 5, 1993 to January 24, 1993. There were no outstanding borrowings at December 31, 1992 and June 30, 1993. During the calendar year 1992, the largest advance to Home Oil was \$14,086,000, which was outstanding for the period December 24, 1992 to December 28, 1992. On December 31, 1992 such advances totalled \$6,186,000. During the six months ended June 30, 1993 the largest advance to Home Oil was \$19,900,000 which was outstanding on June 28, 1993. On June 30, 1993 outstanding advances totalled \$14,800,000.

The Corporation and Home Oil are active in the business of exploring for and producing crude oil, natural gas and natural gas liquids and sulphur. In the course of such business the Corporation and Home Oil may, from time to time, enter into joint venture agreements, the terms of which are similar to other agreements within the industry, to conduct such activities. The Corporation has also entered into agreements with Home Oil whereby Home Oil markets the Corporation's crude oil as well as sulphur, ethane, propane, and butane produced from certain gas plant facilities in the provinces of Alberta and British Columbia. No interest has been charged or paid in respect of any indebtedness under the above agreements as accounts are settled on a current basis. Scurry-Rainbow was indebted to Home Oil in respect of all such activities in the amount of \$460,000 and \$663,000 on December 31, 1992 and June 30, 1993, respectively.

Auditors, Registrars and Transfer Agents

The auditors of Scurry-Rainbow are Price Waterhouse, Chartered Accountants, 1200, 425 - 1st Street S.W., Calgary, Alberta.

The registrars and transfer agents of Scurry-Rainbow are Montreal Trust Company of Canada at its principal offices in Calgary, Toronto, Montreal and Vancouver and The Bank of New York (co-transfer agent and co-registrar) at its office in New York City, N.Y.

PART III — INFORMATION CONCERNING HOME OIL

In this Part III, references to Home Oil mean Home Oil together with its Subsidiaries (including Scurry-Rainbow), unless the context otherwise requires. All information relating to the assets and operations of Home Oil include the assets and operations of Home Oil and its Subsidiaries. All Subsidiaries are wholly-owned except for Scurry-Rainbow, which is approximately 88.1% owned. Home Oil's 50% interest in Federated Pipe Lines Ltd., which Home Oil operates, is accounted for using the equity method.

The information relating to Home Oil contained in this Circular has been prepared by Home Oil and provided to Scurry-Rainbow for inclusion in this Circular or taken from publicly available documents.

Corporate Background

Home Oil is a corporation resulting from the amalgamation (the "Amalgamation") of Home Oil Company Limited ("Old Home") and 2684713 Canada Inc. ("Newco") pursuant to a plan of arrangement under section 192 of the *Canada Business Corporations Act* (the "CBCA") involving Interhome Energy Inc. ("Interhome"), its shareholders, Old Home and Newco, which arrangement was effective May 1, 1991. Prior thereto, and since December 1986, Old Home was a wholly-owned Subsidiary of Interhome. Information contained in this Circular relating to Home Oil represents the operations, assets, liabilities and structure of Home Oil, including its predecessor corporations and Subsidiaries.

On May 19, 1993 Gulf Canada Resources Limited and Olympia & York Developments Limited sold their combined 59.7% interest in Home Oil to the public by way of a secondary offering and, as a result, Home Oil became a broadly held public corporation.

General Development of Business

Home Oil was established in 1925, and its first well, completed in 1928, came in as the biggest producer in the Turner Valley area at that time. In the 1940's Home Oil participated in major early oil discoveries in the Leduc area of central Alberta.

During the 1950's Home Oil participated in many significant oil and gas discoveries in Alberta, including its discovery at Swan Hills, Alberta in 1957. This oil field has become Home Oil's largest single source of oil production and revenue. Cumulatively, Swan Hills is one of the larger producing oil fields in Canada. Home Oil also discovered one of the richer gas fields in Alberta, at Carstairs, in 1958.

Aggressive expansion continued in the 1960's with significant oil and gas developments and discoveries. Amongst those were the Mitsue oil field in north central Alberta and the Harmattan Elton oil field in west central Alberta. In the latter part of the 1960's Home Oil became actively involved in the storage, transportation and marketing of natural gas liquids. With the acquisition of a controlling interest in Scurry-Rainbow in 1974, Home Oil gained access to significant oil and gas reserves in the Fort St. John area of northeastern British Columbia, as well as natural gas fields throughout Alberta.

Home Oil's production base continued to grow in the 1970's and 1980's as several gas fields were discovered in Alberta which have since been developed into major properties. The Leismer field, discovered in 1974 has since become Home Oil's most significant gas field while other significant gas development occurred at Wapiti, in northern Alberta, and North Coleman, in southern Alberta. Home Oil increased its western Canadian land position in the 1980's by taking a leading role in the development of a major oil discovery at Cecil in northern Alberta and a substantial gas find at Border Montney in northeastern British Columbia. Exploration in southeastern Saskatchewan and Manitoba also proved successful in the late 1980's with oil discoveries at Tableland, Hitchcock/Macoun, and Pierson.

Home Oil moved into tertiary oil recovery in 1983 with the initiation of a large miscible flood project at Swan Hills. Home Oil continues to benefit from its expertise in this technology in other miscible flood projects in Alberta.

Prior to 1990 Home Oil conducted exploration and production activities internationally. In 1988 and 1989, Home Oil sold its shareholdings in Sovereign Oil & Gas PLC, an exploration and production company operating in the U.K. On March 30, 1990 Home Oil sold its remaining international exploration and production operations.

Description of Business

Home Oil is presently engaged in the exploration for, development, production, transportation and marketing of crude oil, natural gas liquids and natural gas, primarily in western Canada. Substantially all of Home Oil's exploration, development and production activities are conducted jointly with others. Home Oil has assets exceeding \$1.3 billion and 1992 revenues totalled \$281 million. With properties and facilities in British Columbia, Alberta, Saskatchewan and Manitoba, Home Oil operates six of its largest fields, nine natural gas processing plants and two regional pipeline systems.

Home Oil's principal subsidiary is Scurry-Rainbow, and Home Oil owns approximately 88.1 % of the Scurry Shares. Numerous other subsidiaries are owned, as to 100%, directly or indirectly by Home Oil. Those subsidiaries, many of which are inactive, are not identified because, considered in the aggregate, they represent less than 5% of the total consolidated revenues or the total consolidated assets of Home Oil.

Home Oil owns a 50% interest in, and operates, Federated Pipe Lines Ltd. ("Federated") which transports crude oil and natural gas liquids in Alberta, and owns 100% of the Manyberries pipeline system, which also transports crude oil in the Province of Alberta. The Cremona pipeline system, which transports crude oil and natural gas liquids in Alberta, was sold to Federated by Home Oil on June 30, 1992. Home Oil sold its 50% interest in an underground storage facility for liquefied petroleum gases ("LPG") to Federated on March 31, 1993. Home Oil markets proprietary and third party crude oil, natural gas, natural gas liquids and sulphur.

Properties

Principal Oil and Gas Properties

Home Oil's principal properties are comprised of producing oil and gas rights. The following table sets forth, for each of the periods indicated, the average daily production or sales before royalties of those properties which account for more than 60% of its crude oil and natural gas liquids production and natural gas sales for the six months ended June 30, 1993:

	Six Months Ended June 30, 1993	Year Ended December 31,		
		1992	1991	1990
<i>Crude Oil (Bbls)</i>				
Swan Hills Unit, Alberta	5,146	5,145	4,719	4,560
Mitsue Gilwood Unit, Alberta	2,630	2,507	2,339	2,595
Cecil/Royce, Alberta	1,579	1,914	1,164	1,137
West Eagle Unit, British Columbia	1,258	1,355	1,210	1,339
Virginia Hills Unit, Alberta	1,073	905	963	1,070
East Eagle Unit, British Columbia	913	1,083	1,051	1,021
Manyberries, Alberta	787	879	709	683
South Pierson, Manitoba	771	753	775	669
Harmattan/Elkton, Alberta	651	610	805	768
West Stoddart, British Columbia	623	740	669	715
<i>Natural Gas Liquids (Bbls)</i>				
Swan Hills Unit, Alberta	2,699	2,883	2,472	1,808
Mitsue Gilwood Unit, Alberta	658	730	26	—
Carstairs/Elkton, Alberta	525	547	525	650
South Wapiti, Alberta	419	266	534	587
Pembina Nisku, Alberta	314	456	389	465
Moose Mountain, Alberta	309	265	113	260
Harmattan/Elkton, Alberta	280	314	399	427

	Six Months Ended June 30, 1993	Year Ended December 31,		
		1992	1991	1990
<i>Natural Gas (Mcf)</i>				
Leismer, Alberta	51,068	46,588	36,932	19,917
South Wapiti, Alberta	17,878	11,477	9,595	14,108
Border Montney Units A&B (1)	15,125	10,578	743	—
Harmattan/Elkton, Alberta	11,691	13,370	11,757	8,997
Blackstone, Alberta	10,796	—	2,010	6,766
Hamburg, Alberta	9,967	12,822	1,452	—
Carstairs/Elkton, Alberta	9,759	9,172	8,344	8,144
Swan Hills Unit, Alberta	9,665	6,628	6,676	3,976
Moose Mountain, Alberta	7,741	7,082	5,151	5,957
Marten Hills Unit, Alberta	7,584	7,142	7,682	6,572
North Coleman, Alberta	7,126	4,276	5,584	5,355

Note:

(1) Previously called Ring/Border, Alberta/British Columbia.

Gas Plants

The following table identifies the name and location of each gas plant operated by Home Oil, the original design processing capacity of each such plant and the year of its construction (which is also the year such plant commenced operation). All such plants (other than those at Chard and Mistahae which are wholly-owned) are joint venture projects with other industry participants and Home Oil holds the working interests therein specified below:

<u>Plant</u>	<u>Location</u>	<u>Working Interest (%)</u>	<u>Processing Capacity (MMcf/day)</u>	<u>Construction Completion Date</u>
Carstairs	3-3-30-2-W5M	22.50	338	1960
Cecil	8-15-84-8-W6M	59.31	8	1991
Chard	2-4-78-6-W4M	100.00	7	1992
Leismer East	3-7-77-7-W4M	78.06	70	1979
Marten Hills #1	14-22-74-24-W4M	40.06	21	1969
Marten Hills #2	14-29-74-25-W4M	40.06	8	1977
Mistahae	6-7-78-1-W5M	100.00	7	1990
Pickell	B-22-I/94-H-3	75.00	6	1989
South Elkton	2-3-31-4-W5M	45.11	8	1965

Pipeline Systems

Home Oil's interest, and the date of acquisition of Home Oil's interest, in each of its pipeline systems are as follows:

Federated Pipe Lines Ltd. — incorporated in 1957. Home Oil was a subscribing shareholder and has held 50% of the issued and outstanding shares of this corporation since its incorporation.

Manyberries Pipeline — a division of Home Oil. Construction of this system commenced in June, 1984 with start-up in January, 1985.

Wells

The following tables set forth Home Oil's estimate of the number of oil and gas wells, in which it held a working interest, that were capable of production as at June 30, 1993 and December 31, 1992:

	Oil		Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
June 30, 1993						
Alberta	2,750	361.2	1,566	305.2	4,316	666.4
British Columbia	354	106.2	201	62.4	555	168.6
Saskatchewan	81	21.5	13	3.9	94	25.4
Manitoba	71	60.1	—	—	71	60.1
Total	<u>3,256</u>	<u>549.0</u>	<u>1,780</u>	<u>371.5</u>	<u>5,036</u>	<u>920.5</u>
December 31, 1992						
Alberta	2,925	409.8	1,623	314.1	4,548	723.9
British Columbia	350	96.6	192	58.1	542	154.7
Saskatchewan	1,800	99.4	13	3.9	1,813	103.3
Manitoba	72	60.3	—	—	72	60.3
Total	<u>5,147</u>	<u>666.1</u>	<u>1,828</u>	<u>376.1</u>	<u>6,975</u>	<u>1,042.2</u>

Oil and Gas Acreage

As at June 30, 1993 Home Oil owned 4,508,341 gross (1,803,142 net) acres of oil and gas leases and 2,116,156 gross (857,283 net) acres of reservations, licences and permits. Total acreage included 1,580,673 gross (407,732 net) acres from which production was being obtained or was capable of being obtained. As at December 31, 1992 Home Oil owned 4,893,879 gross (1,985,091 net) acres of oil and gas leases and 3,006,049 gross (1,605,356 net) acres of reservations, licences and permits, including 1,667,509 gross (426,135 net) acres from which production was being obtained or was capable of being obtained. No deduction has been made from the gross or net acres under reservations, licences and permits to reflect that only a portion of this acreage may be converted to lease.

The following table sets forth the undeveloped and developed oil and gas landholdings of Home Oil, as at each of the dates indicated:

	June 30, 1993		December 31,					
	Gross	Net	1992		1991		1990	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(millions of acres)							
Western Canada	5.3	2.5	6.6	3.4	7.9	4.2	8.4	4.4
Beaufort/Mackenzie Delta	1.1	0.2	1.1	0.2	1.4	0.2	3.1	0.4
Arctic Islands and others	0.2	—	0.2	—	0.2	—	0.3	—
	<u>6.6</u>	<u>2.7</u>	<u>7.9</u>	<u>3.6</u>	<u>9.5</u>	<u>4.4</u>	<u>11.8</u>	<u>4.8</u>
Undeveloped	5.0	2.3	6.2	3.2	7.7	3.9	9.9	4.3
Developed	1.6	0.4	1.7	0.4	1.8	0.5	1.9	0.5
	<u>6.6</u>	<u>2.7</u>	<u>7.9</u>	<u>3.6</u>	<u>9.5</u>	<u>4.4</u>	<u>11.8</u>	<u>4.8</u>

Oil and Gas Activities

Wells Drilled

The following table sets forth the exploration and development wells drilled, in each of the periods indicated, and in which Home Oil had a working interest:

	Six Months Ended June 30,				Year Ended December 31,									
	1993		1992		1992		1991		1990		1989		1988	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory														
Oil	4	3	1	1	2	1	7	2	9	4	9	4	40	13
Gas	5	2	2	—	2	1	11	5	27	12	20	12	21	7
Dry	19	16	5	2	15	7	33	15	32	19	39	14	64	19
	<u>28</u>	<u>21</u>	<u>8</u>	<u>3</u>	<u>19</u>	<u>9</u>	<u>51</u>	<u>22</u>	<u>68</u>	<u>35</u>	<u>68</u>	<u>30</u>	<u>125</u>	<u>39</u>
Development														
Oil	33	8	40	11	74	21	61	16	76	29	89	14	147	48
Gas	16	5	2	1	5	2	13	4	45	22	14	3	21	5
Dry	5	2	6	1	14	2	7	3	12	4	11	3	31	11
	<u>54</u>	<u>15</u>	<u>48</u>	<u>13</u>	<u>93</u>	<u>25</u>	<u>81</u>	<u>23</u>	<u>133</u>	<u>55</u>	<u>114</u>	<u>20</u>	<u>199</u>	<u>64</u>
Total	<u>82</u>	<u>36</u>	<u>56</u>	<u>16</u>	<u>112</u>	<u>34</u>	<u>132</u>	<u>45</u>	<u>201</u>	<u>90</u>	<u>182</u>	<u>50</u>	<u>324</u>	<u>103</u>

Capital Expenditures

The following table sets forth Home Oil's capital expenditures with respect to its exploration and development activities and the acquisition of proved properties for each of the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,				
	1993	1992	1992	1991	1990	1989	1988
	(dollars in millions)						
Western Canada							
Exploration	\$15.9	\$11.5	\$19.9	\$ 44.5	\$ 80.9	\$ 69.5	\$ 92.7
Development	20.1	14.5	30.6	60.3	79.1	72.3	69.1
Miscible fluids	9.2	8.6	18.4	22.5	24.2	22.0	17.1
Other	1.5	1.5	3.2	6.6	8.5	7.8	7.2
Exploration and development.....	46.7	36.1	72.1	133.9	192.7	171.6	186.1
Acquisitions of proved properties	9.5	2.6	13.5	0.3	3.4	54.7	23.2
Total Western Canada	56.2	38.7	85.6	134.2	196.1	226.3	209.3
Canadian Frontier.....	—	—	—	1.1	0.6	1.7	(0.4)
International	—	—	—	—	—	20.8	17.9
Canadian Incentives	—	—	—	—	—	(4.4)	(7.8)
	<u>\$56.2</u>	<u>\$38.7</u>	<u>\$85.6</u>	<u>\$135.3</u>	<u>\$196.7</u>	<u>\$244.4</u>	<u>\$219.0</u>

Production and Sales

Total and daily average production volumes of crude oil and natural gas liquids, and sales of natural gas of Home Oil for each of the periods as indicated are shown in the following table. This table includes all volumes attributable to Home Oil's interests before deductions for royalties and minority interests in Subsidiaries.

	Six Months Ended June 30,		Year Ended December 31,				
	1993	1992	1992	1991	1990	1989	1988
Crude Oil Production (MBbls)							
Canada							
Alberta	2,772	3,003	5,995	6,272	6,474	6,467	6,729
British Columbia	606	655	1,360	1,298	1,386	1,558	1,682
Saskatchewan	140	390	725	810	994	983	983
Manitoba	125	132	279	293	278	194	159
	<u>3,643</u>	<u>4,180</u>	<u>8,359</u>	<u>8,673</u>	<u>9,132</u>	<u>9,202</u>	<u>9,553</u>
International	—	—	—	—	—	412	415
	<u>3,643</u>	<u>4,180</u>	<u>8,359</u>	<u>8,673</u>	<u>9,132</u>	<u>9,614</u>	<u>9,968</u>
Daily Average Production (Bbls)							
Canada	20,129	22,969	22,839	23,763	25,019	25,212	26,100
International	—	—	—	—	—	1,130	1,134
	<u>20,129</u>	<u>22,969</u>	<u>22,839</u>	<u>23,763</u>	<u>25,019</u>	<u>26,342</u>	<u>27,234</u>
Natural Gas Liquids Production (MBbls)							
Alberta	1,339	1,342	2,848	2,345	2,332	2,107	1,872
British Columbia	46	45	93	60	52	30	35
	<u>1,385</u>	<u>1,387</u>	<u>2,941</u>	<u>2,405</u>	<u>2,384</u>	<u>2,137</u>	<u>1,907</u>
Daily Average Production (Bbls)	<u>7,653</u>	<u>7,623</u>	<u>8,034</u>	<u>6,588</u>	<u>6,532</u>	<u>5,854</u>	<u>5,211</u>
Natural Gas Sales (Bcf)							
Alberta	39.4	33.3	68.8	56.4	52.0	50.4	50.7
British Columbia	4.6	4.5	8.9	6.1	5.3	3.7	2.9
Saskatchewan	0.3	0.4	0.7	0.6	0.9	0.9	0.6
	<u>44.3</u>	<u>38.2</u>	<u>78.4</u>	<u>63.1</u>	<u>58.2</u>	<u>55.0</u>	<u>54.2</u>
Daily Average Sales (MMcf)	<u>244.8</u>	<u>209.6</u>	<u>214.2</u>	<u>172.8</u>	<u>159.5</u>	<u>150.6</u>	<u>148.0</u>

Operating Revenue

The following table sets forth the percentage of Home Oil's operating revenue contributed by crude oil, natural gas liquids and natural gas for each of the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	1993	1992	1992	1991	1990
Crude oil	43%	52%	51%	57%	60%
Natural gas liquids	11%	11%	11%	9%	9%
Natural gas	45%	32%	34%	27%	24%

Proved Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas liquids and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. Home Oil's proved reserves are located in Canada and are based on estimates made by its engineers.

The calculation of net proved reserves is based on Home Oil's share of proved reserves after the deduction of royalties. Royalties are calculated on the basis of royalty regulations in effect on the dates the estimates were made. Royalty rates vary depending on well production volume, selling price, type and location of well, recovery method and date of discovery.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods at current economic conditions.

The following table sets forth Home Oil's proved reserves, and changes therein, of crude oil, natural gas liquids and natural gas for the years indicated:

	Year Ended December 31,					
	1992		1991		1990	
	Gross	Net	Gross	Net	Gross	Net
<i>Crude Oil (MMBbls)</i>						
Beginning of year	73.4	61.6	84.0	70.8	88.4	73.4
Extensions and discoveries	4.4	3.7	3.4	2.8	4.9	4.1
Revisions and improved recovery	(2.3)	(1.6)	(4.6)	(4.3)	1.7	1.8
Purchase of reserves in place	3.0	2.5	—	—	0.2	0.2
Sale of reserves in place	(6.5)	(5.5)	(0.7)	(0.5)	(2.1)	(1.1)
Production	(8.4)	(6.9)	(8.7)	(7.2)	(9.1)	(7.6)
End of year	<u>63.6</u>	<u>53.8</u>	<u>73.4</u>	<u>61.6</u>	<u>84.0</u>	<u>70.8</u>
Developed	53.7	45.4	64.5	54.1	73.4	61.8
Undeveloped	9.9	8.4	8.9	7.5	10.6	9.0
	<u>63.6</u>	<u>53.8</u>	<u>73.4</u>	<u>61.6</u>	<u>84.0</u>	<u>70.8</u>
<i>Natural Gas Liquids (MMBbls)</i>						
Beginning of year	25.5	21.8	26.9	23.0	27.6	23.8
Extensions and discoveries	1.4	1.3	6.1	5.3	4.4	3.8
Revisions and improved recovery	1.3	1.3	—	—	(2.7)	(2.7)
Purchase of reserves in place	0.6	0.5	—	—	—	—
Sale of reserves in place	(0.6)	(0.6)	(5.1)	(4.5)	—	—
Production	(2.9)	(2.5)	(2.4)	(2.0)	(2.4)	(1.9)
End of year	<u>25.3</u>	<u>21.8</u>	<u>25.5</u>	<u>21.8</u>	<u>26.9</u>	<u>23.0</u>
Developed	22.5	19.4	23.4	20.0	23.2	19.8
Undeveloped	2.8	2.4	2.1	1.8	3.7	3.2
	<u>25.3</u>	<u>21.8</u>	<u>25.5</u>	<u>21.8</u>	<u>26.9</u>	<u>23.0</u>
<i>Natural Gas (Bcf)</i>						
Beginning of year	1,207	997	1,256	1,037	1,193	981
Extensions and discoveries	12	10	54	45	129	107
Revisions and improved recovery	(5)	46	(23)	(19)	(12)	(6)
Purchase of reserves in place	24	20	1	1	6	5
Sale of reserves in place	(65)	(56)	(18)	(15)	(2)	(2)
Sales	(78)	(68)	(63)	(52)	(58)	(48)
End of year	<u>1,095</u>	<u>949</u>	<u>1,207</u>	<u>997</u>	<u>1,256</u>	<u>1,037</u>
Developed	902	783	1,020	842	1,020	842
Undeveloped	193	166	187	155	236	195
	<u>1,095</u>	<u>949</u>	<u>1,207</u>	<u>997</u>	<u>1,256</u>	<u>1,037</u>

Probable Reserves

Probable reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technologies and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Home Oil's probable reserves are based on estimates made by Home Oil's engineers.

The following table sets forth Home Oil's gross probable reserves of crude oil, natural gas liquids and natural gas as at each of the dates indicated:

	December 31,		
	1992	1991	1990
Crude Oil (MMBbls)	33.5	33.8	39.4
Natural Gas Liquids (MMBbls)	7.5	7.4	14.3
Natural Gas (Bcf)	403	422	507

Pipelines

The average daily capacities and throughputs for each of the two pipeline systems described in the section "Information Concerning Home Oil — Description of the Business" for each of the periods indicated were as follows:

	Capacity			Throughput		
	Six Months Ended June 30, 1993	Year Ended December 31,		Six Months Ended June 30, 1993	Year Ended December 31,	
		1992	1991		1992	1991
					(MBbls per day)	
Federated (1)						
Crude oil	180	180	180	104	108	117
Natural gas liquids (2)	130	88	88	81	86	75
Manyberries						
Crude oil (3)	7	20	20	4	8	15

Notes:

- (1) Home Oil accounts for its ownership in Federated on an equity basis. Information provided includes the Cremona pipeline system which was sold to Federated on June 30, 1992.
- (2) NGL capacity increase in 1993 resulted from the addition of the Caroline pipeline system and the Acheson to Fort Saskatchewan extension.
- (3) The capacity decrease in 1993 resulted from a reduction in pumping facilities.

Marketing and Storage Operations

Home Oil is engaged in the wholesale marketing and storage of LPG products and sulphur in Canada. Home Oil acts as the agent for the supply of natural gas liquids on behalf of some 25 companies involved in the Swan Hills miscible flood project. On behalf of this group, Home Oil is responsible for acquiring approximately 12,500 barrels per day of natural gas liquids. Home Oil also markets its own, as well as others', production of crude oil, natural gas liquids, natural gas and sulphur.

Human Resources

Approximately 750 people were employed by Home Oil as at December 31, 1992, which included permanent, part-time and temporary staff.

Environmental Matters

Home Oil believes that its facilities and operations comply in all material respects with all applicable governmental regulations relating to safety and environmental protection. Home Oil's activities are largely conducted pursuant to the terms of licences, permits or other specific authorizations granted under law, regulation or directive by applicable governmental agencies. The terms of each grant specify, either directly or indirectly by reference to general or specific standards, environmental protection measures to be taken by Home Oil in the design, construction and operation of facilities, or the preparation for and conduct of activities.

Home Oil has estimated its future liability for abandonment and restoration and has been recording this liability in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby these costs are accrued using the unit of production method. As at December 31, 1992, total costs were estimated at \$50.0 million, of which \$14.0 million (1991 — \$12.4 million) has been accrued and recorded as a liability. During 1992, \$2.9 million (1991 — \$0.5 million) was included in depletion, depreciation and amortization expense using the unit of production method, increasing the liability, and \$1.3 million (1991 — \$0.5 million) of actual site restoration costs were incurred, reducing the liability.

Home Oil is not aware of any environmental protection measures required, or any unusual contingent environmental liabilities, of Home Oil which are not common to participants generally in Home Oil's industry segment.

Financial Statements

The audited financial statements of Home Oil for the year ended December 31, 1992, including the auditors' report and management's report thereon, and the unaudited condensed financial statements of Home Oil for the six month period ended June 30, 1993 are contained in Schedule F to this Circular.

Management's Discussion and Analysis

The text of the information which appeared in Home Oil's 1992 Annual Report under the heading "Management's Discussion and Analysis" is repeated in Schedule F to this Circular. It should be considered and read in conjunction with the information set forth under the heading "Information Concerning Home Oil — Recent Developments" which is applicable to the six month period ended June 30, 1993.

Recent Developments

This section addresses changes to Home Oil's assets, operations and activities which occurred subsequent to December 31, 1992 and prior to June 30, 1993, unless otherwise noted. It should be considered and read in conjunction with the unaudited condensed financial statements of Home Oil for the six month period ended June 30, 1993 attached as Schedule F to this Circular.

Home Oil's financial results continued to improve in 1993. Earnings for the six months ended June 30, 1993 were \$9.6 million, a substantial increase over the \$2.4 million earned during the same period in 1992. Cash flow from operations for the first half of 1993 increased 21% to \$77.5 million. Higher operating revenues and lower operating expenses more than offset higher current taxes. Significant progress was made on Home Oil's debt retirement objectives permitting an increase in the exploration and development programs compared to those in 1992.

Operating revenues for the six months ended June 30, 1993 totalled \$143.0 million, up \$15.9 million for the same period last year. Natural gas revenue increased by \$22.9 million to \$64.0 million as a result of improved prices and volumes, while crude oil revenue of \$61.8 million was down from \$66.1 million last year as higher prices did not offset a decline in volumes. Natural gas liquids revenue increased to \$15.4 million from \$13.5 million last year as a result of higher prices. Sulphur sales generated a loss of \$0.5 million compared to revenues of \$0.6 million last year as world oversupply forced prices below shipping and stockpiling costs.

Operating expenses of \$27.5 million for the first six months of 1993 were down \$5.6 million from last year. Oil and gas operating expenses declined 14% on a unit basis and averaged \$2.86 per BOE for the first six months of 1993. This compared with \$3.33 per BOE during the same period last year and reflected the disposition of high operating cost properties, increased gas sales and operating efficiencies. General and administrative expenses of \$9.4 million were \$1.1 million higher than the first half of last year as a result of first quarter bonus payments to employees and a 1992 recovery from partners relating to prior years. Depletion, depreciation and amortization expenses increased by 7% due to higher production and an increase in the average depletion rate to \$5.37 from \$5.06 per barrel of oil equivalent (on a 6:1 conversion ratio).

Interest expense of \$21.6 million declined \$0.7 million from 1992 as a result of the reduction in outstanding debt, partially offset by higher amortization of foreign exchange losses on U.S. dollar denominated debt.

Exploration and development expenditures for the six month period totalled \$46.7 million, compared with \$36.1 million last year reflecting the more favourable outlook for natural gas.

Approximately \$9.5 million was spent to acquire additional interests in several properties including Mistahae, Border Montney Units A&B and the Mitsue Gilwood Unit. The sale of nonstrategic assets generated proceeds of \$38.2 million. Home Oil also completed or reached agreement in principle with respect to six property exchanges, valued by Home Oil, at \$12.3 million.

During the first six months of 1993, Home Oil participated in drilling 82 gross (36 net) working interest wells, compared with 56 gross (16 net) wells in the same period last year; however drilling activity was lower than anticipated as wet weather delayed a number of projects. This activity resulted in 58 gross (18 net) successful wells drilled in the first six months, compared to 45 gross (13 net) successful wells in the same period one year ago. Of the successful wells drilled in the six months ended June 30, 1993, 4 and 5 were oil and gas exploration discoveries, respectively; and 33 and 16 were oil and gas development wells, respectively.

Crude oil production averaged 20,129 Bbls per day during the first six months of 1993, a decline of 2,840 Bbls per day from one year ago. The 12% reduction is primarily attributable to the disposition of nonstrategic properties, partially offset by the acquisition of additional interests. Natural gas liquids production during the first half of 1993 averaged 7,653 Bbls per day, which was comparable to last year's level. Natural gas sales for the six months ended June 30, 1993 averaged 244.8 MMcf per day, an increase of 35.2 MMcf per day from the first half of 1992. The increased production reflects additional discretionary sales in response to improved prices and higher nominations from aggregators.

Home Oil's crude oil prices averaged \$20.89 per Bbl for the six month period. The 7% improvement over the same period last year reflected both a weaker Canadian dollar and an overall improvement in the quality of oil produced as a result of asset rationalization activities, partially offset by a modest decrease in the West Texas Intermediate price. Natural gas liquids prices improved 19% from last year to average \$13.63 per Bbl due to generally higher product prices and a reduction in proportion of low priced ethane. Natural gas prices remained strong during the first half of 1993 averaging \$1.73 per Mcf, an increase of 37% over the price for the same period last year.

At June 30, 1993 long term debt of \$389.9 million was \$36.6 million lower than at the beginning of the year. Based on six month annualized cash flow, long term debt represents 2.5 times cash flow from operations. The percentage of debt to total capitalization improved from 52% at December 31, 1992 to 49% at June 30, 1993.

Consolidated Capitalization

The following table sets forth the consolidated capitalization of Home Oil as at June 30, 1993 in millions of dollars:

Long Term Liabilities

Long term debt (including current portion)	
Oil Indexed Debenture — 2000 (1)	\$200.0
9.875% Sinking Fund Debentures — 1998	20.0
11% Debentures — 1995	125.0
Revolving Bank Credit Facility — 1994 (2)	
Canadian dollars	—
U.S. dollars (U.S. \$35 million)	44.9
Total Long Term Debt	389.9
Deferred Credits (including current portion) (3)	24.8
Minority Interest	28.7
Total Long Term Liabilities (5)	443.4

Shareholders' Equity

Capital Stock

Preferred shares

Authorized — unlimited number of shares

Issued — Nil

Common shares

Authorized — unlimited number of shares

Issued — 39,646,664 shares (4)

Contributed surplus

Retained earnings

409.6

Total Capitalization \$853.0

Notes:

- (1) The Oil Indexed Debenture bears interest at a fixed rate of 5% per annum plus a variable rate of up to 16.8% per annum based upon the average price of crude oil. In March 1992, Home Oil completed an interest rate swap relating to the Oil Indexed Debenture which effectively fixes the interest rate at 8.263% beginning February 1, 1993 through to its maturity in October, 2000.
- (2) Home Oil has a committed revolving bank credit facility in the amount of \$195 million which expires June 30, 1994. Home Oil expects to negotiate replacement facilities prior to June 30, 1994. This facility is available in any combination of Canadian or U.S. dollar amounts and may be drawn down on a revolving basis. Interest rate during the first six months of 1993 on the Canadian and U.S. drawdowns averaged 6.34% and 3.93% respectively. At June 30, 1993, the unutilized portion of this facility amounted to approximately \$150 million.
- (3) Deferred credits include amounts paid for gas volumes not yet taken under take or pay arrangements ("deferred production revenue") of \$2.8 million (and all of which is due within one year), a restoration accrual of \$14.8 million and a pension accrual of \$7.2 million.
- (4) Certain employees of Home Oil have been granted options to purchase unissued Home Shares. As of August 31, 1993, options to purchase an aggregate of 627,750 shares were outstanding at exercise prices varying between \$14.625 and \$18.50 per share and 20,000 shares were reserved for the granting of additional options.
- (5) Total liabilities include amounts due within one year of \$2.8 million. In addition to long term liabilities shown in the above table, Home Oil has deferred income taxes of \$436 million at June 30, 1993.
- (6) No assumption has been made in the above table with respect to completion of the Arrangement. If all Minority Shareholders elect to receive the Cash Consideration, outstanding indebtedness under the revolving bank credit facility would increase by approximately \$43 million and the minority interest would be eliminated. If all Minority Shareholders become entitled to the Share Consideration, and assuming, for purposes of illustration only, that the Home Share Price was \$20 per share, Home Oil would be required to issue 2.1 million Home Shares and the total number of Home Shares outstanding would be approximately 42 million. In this example, the minority interest would also be eliminated and shareholders' equity would increase by approximately \$42 million. The Home Share Price cannot be determined until the Election Deadline.

Description of Share Capital

The authorized share capital of Home Oil consists of an unlimited number of common and preferred shares. There are 39,646,664 common shares issued and outstanding. No preferred shares have been issued by Home Oil.

The common shares entitle the holders thereof to one vote for each share held at all meetings of shareholders, except meetings at which only holders of another specified class or series of shares are entitled to vote separately as a class or series. Subject to the rights of holders of shares ranking senior to the common shares, holders of common shares are entitled to receive any dividends declared thereon by the board of directors of Home Oil and to receive the remaining property of Home Oil in the event of its liquidation, dissolution or winding-up.

The preference shares are issuable in series, with the Home Oil board of directors being authorized to fix the number of shares comprising each series and the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. The preference shares of all series have preference over the common shares and any other shares ranking junior to the preference shares with respect to payment of dividends and distribution of the assets of Home Oil on liquidation, dissolution or wind-up.

Stock Exchange Listings and Trading of Home Shares

The Home Shares are listed for trading on the TSE in Canada under the symbol HOC and on AMEX in the United States under the symbol HO. The TSE is the principal market for Home Shares.

The following table shows the volume of trading and price range for Home Shares during each of the periods indicated:

	The Toronto Stock Exchange			American Stock Exchange		
	Prices		Volume	Prices		Volume
	High	Low		High	Low	
	(Canadian Dollars per Home Share)		(thousands)	(U.S. Dollars per Home Share)		(thousands)
1991						
1st quarter (1)	—	—	—	—	—	—
2nd quarter	18 $\frac{3}{8}$	14 $\frac{3}{4}$	1,429	15 $\frac{3}{4}$	12 $\frac{7}{8}$	56
3rd quarter	15 $\frac{7}{8}$	14 $\frac{3}{8}$	2,385	13 $\frac{3}{4}$	12 $\frac{1}{2}$	98
4th quarter	16 $\frac{1}{2}$	14 $\frac{1}{8}$	3,875	14 $\frac{1}{2}$	12 $\frac{3}{8}$	95
1992						
1st quarter	15 $\frac{3}{8}$	13 $\frac{3}{4}$	2,039	13 $\frac{1}{4}$	11 $\frac{1}{8}$	141
2nd quarter	16 $\frac{5}{8}$	14 $\frac{3}{4}$	1,325	13 $\frac{7}{8}$	12 $\frac{1}{4}$	133
3rd quarter	16 $\frac{1}{4}$	15 $\frac{1}{4}$	1,182	13 $\frac{3}{8}$	12 $\frac{3}{8}$	23
4th quarter	15 $\frac{7}{8}$	14 $\frac{1}{2}$	1,665	12 $\frac{7}{8}$	11 $\frac{3}{8}$	48
1993						
1st quarter	15 $\frac{3}{8}$	13	1,745	12 $\frac{1}{4}$	9 $\frac{3}{4}$	236
April	19 $\frac{1}{2}$	15	3,126	15 $\frac{1}{4}$	12 $\frac{1}{4}$	408
May	20 $\frac{1}{4}$	18 $\frac{1}{8}$	4,873	15 $\frac{7}{8}$	14 $\frac{1}{8}$	175
June	21 $\frac{5}{8}$	19 $\frac{1}{8}$	4,397	16 $\frac{5}{8}$	15 $\frac{1}{8}$	359
July	21 $\frac{1}{8}$	17 $\frac{3}{4}$	2,497	16 $\frac{1}{2}$	13 $\frac{7}{8}$	340
August	22 $\frac{7}{8}$	18	2,862	17 $\frac{3}{8}$	14	37
September (to September 23)	23 $\frac{1}{4}$	20	2,775	17 $\frac{1}{8}$	15	106

Note:

(1) Share trading information concerning Home Oil is only available after May 1, 1991 when Home Oil became a publicly traded corporation.

As at September 23, 1993 the closing trading price of a common share of Home Oil on the TSE and AMEX was \$20 $\frac{1}{8}$ and U.S. \$15 $\frac{1}{8}$ per share, respectively.

Principal Holders of Home Shares

There are 39,646,664 common shares of Home Oil issued and outstanding.

To the knowledge of the directors and senior officers of Home Oil, there is no person or company who owns beneficially, directly or indirectly, or exercises control or direction over, more than 10% of the Home Shares.

The directors and senior officers of Home Oil hold in the aggregate less than 1% of the issued and outstanding Home Shares.

Dividend Policy

Home Oil currently does not pay dividends on the Home Shares and no change in this policy is under consideration by its board of directors. The future payment of dividends on Home Shares will be a matter to be determined from time to time by the board of directors of Home Oil in light of conditions then existing, including Home Oil's earnings, financial requirements and condition, investment opportunities, business considerations and other factors.

Directors and Senior Officers

The following table sets forth the names of the directors, their municipality of residence, the other positions and offices with Home Oil, if any, presently held by them, their present principal occupation, and their principal occupations during the past five years:

Directors

<u>Name</u>	<u>Municipality of Residence</u>	<u>Present Principal Occupation or Employment and Principal Occupations for the Five Year Period Ended September 1, 1993</u>
William A. Dimma (1)	Toronto, Ontario	Deputy Chairman of Royal LePage Limited (real estate company).
E. Susan Evans (3)	Calgary, Alberta	Corporate Director of Home Oil since August, 1993; prior thereto Vice President Law and Corporate Secretary of Encor Inc.
F. William Fitzpatrick (1)	Paradise Valley, Arizona	Corporate Director.
Richard F. Haskayne (2)	Calgary, Alberta	Corporate Director since May, 1991; prior thereto Chairman, President and Chief Executive Officer of Interhome Energy Inc. and President and Chief Executive Officer of Home Oil.
H. Gordon MacNeill (2)	Toronto, Ontario	Chairman of Jannock Limited (building products company) since 1989; prior thereto President and Chief Executive Officer of Jannock Limited.
David E. Powell	Calgary, Alberta	President and Chief Executive Officer of Home Oil since 1991; prior thereto Executive Vice President and Chief Operating Officer of Home Oil.
Clifford W. Rackley (1) (3)	Houston, Texas	Chairman and Chief Executive Officer of Texas Eastern Products Pipeline Company (petroleum products pipeline company) since 1991; prior thereto Corporate Director.

Notes:

- (1) Member of the Board's audit committee.
- (2) Member of the Board's compensation committee.
- (3) Member of the Board's safety and environment committee.

Senior Officers

Information with respect to the name of each of the senior officers of Home Oil (who comprise the executive officers of Home Oil) and such officer's current position, and his principal occupation for the five year period ended September 1, 1993 is set forth in the table in "Information Concerning Scurry-Rainbow — Directors and Senior Officers" under the caption "Senior Officers".

Executive Compensation

Cash Compensation of Officers of Home Oil

During the year ending December 31, 1992, Home Oil had nine senior officers and paid such officers, in the aggregate, \$1,522,833 in cash compensation (salary and corporate bonuses) for services rendered for the year ended December 31, 1992.

Cash Compensation of Directors of Home Oil

In 1992, Home Oil paid each of its directors an annual retainer of \$12,000 and an additional retainer of \$2,000 per annum to each chairman of a Board committee. Directors were also paid a fee of \$600 for each meeting of the Board or a committee thereof attended by them. Director's fees were not paid to directors who were officers or employees of Home Oil. Travelling and living expenses incurred by directors while attending Board or committee meetings were reimbursed by Home Oil.

Retainers and meeting fees paid to all directors, as a group, in respect of the year ended December 31, 1992 amounted to \$168,700.

Pension Plan

Home Oil has a trustee non-contributory pension plan (the "Registered Pension Plan") covering all of its full time employees. Each retiring participant receives an annuity, payable monthly, equal to 1.6% of the average of the participant's highest annual basic compensation during three consecutive years out of the last ten years of credited service ("Final Average Compensation"), multiplied by the number of years of credited service. The retirement benefit under the Registered Pension Plan is subject to a maximum pension as fixed from time to time under the Tax Act. To the extent this limitation applies with respect to the Registered Pension Plan, Home Oil presently intends to pay a supplemental retirement allowance sufficient to provide the annuity to which the participant would be entitled absent the limitation (a "Supplemental Allowance").

The following table sets forth the annual benefits payable under the Registered Pension Plan, together with any Supplemental Allowances, upon retirement to a person with specified years of credited service and Final Average Compensation. The benefits shown assume retirement on December 31, 1992 at age 65 and a pension in the normal form (50% joint and last survivor).

Final Average Compensation	Years of Credited Service				
	10	15	20	25	30
\$ 50,000	\$ 7,600	\$ 11,700	\$ 15,800	\$ 19,900	\$ 24,600
\$100,000	\$16,700	\$ 26,000	\$ 35,200	\$ 44,300	\$ 53,900
\$150,000	\$26,000	\$ 40,200	\$ 54,300	\$ 68,500	\$ 83,100
\$200,000	\$35,300	\$ 54,400	\$ 73,500	\$ 92,600	\$112,300
\$300,000	\$53,600	\$ 82,700	\$111,800	\$141,000	\$170,600
\$400,000	\$71,900	\$111,000	\$150,100	\$189,300	\$229,000

Home Oil has a further plan (the "Supplemental Income Plan") for the benefit of certain senior officers of Home Oil. Each participant in the Supplemental Income Plan is entitled to receive an annuity, commencing on the participant's normal retirement date, payable monthly, equal to that percentage of the average of the participant's highest basic annual compensation during three consecutive years out of the last ten years of participation in the Supplemental Income Plan which is 4% (for each of the first ten years of service), 2% (for each of the next ten years of service) and $\frac{1}{10}$ of 1% (for service in excess of twenty but less than thirty-five years), less any amounts payable to the participant under the Registered Pension Plan. Two of the senior officers named in the table under "Information Concerning Scurry-Rainbow — Directors and Officers" are participants in the Supplemental Income Plan.

In March, 1993, Home Oil entered into an agreement with a Canadian trust company (the "Custodian") to provide for the timely payment of accrued and future amounts owing by Home Oil under the Supplemental Income Plan and the Registered Pension Plan (to the extent benefits thereunder comprise Supplemental Allowances). To support Home Oil's obligations under the agreement, Home Oil obtained a letter of credit, in favour of the Custodian, from a Canadian chartered bank.

The estimated aggregate cost to Home Oil for all pension benefits earned in 1992 under the Registered Pension Plan, the Supplemental Income Plan and with respect to Supplemental Allowances and which are to be paid by Home Oil to its senior officers, assuming retirement at normal retirement age (65), is \$285,000.

Employment Agreements

Home Oil has entered into agreements (the "employment agreements") with all of its senior officers (the "executives"). Each employment agreement provides that, should the executive experience involuntary termination of employment (other than for cause) or constructive dismissal, he will be paid an amount equivalent to two times the sum of the current year's base salary and the highest bonus paid in the preceding three years to such executive and be provided a two year extension of certain existing employment benefits. Unless consented to by the executive, constructive dismissal is deemed to occur when the executive ceases to be an officer of Home Oil or an officer of a successor to a material portion of the assets of Home Oil; or incurs a material decrease in title, position, responsibility, powers or reporting relationships, or incurs a reduction in annual salary, excluding bonuses, or is required to relocate to another province, country or state.

Should all of the executives incur termination of employment (other than for cause) or constructive dismissal as described above, the maximum aggregate cash amounts payable as at December 31, 1992 under all employment agreements would have been \$3,974,000.

Employees' Savings Plan

Home Oil has a savings plan for the benefit of its employees (the "Savings Plan"). Under the Savings Plan, an employee may participate by authorizing payroll deductions to a maximum ranging from 2% (where credited service is less than 1 year) to 5% (where credited service is 3 years or more) of the employee's current salary earnings. Concurrently, with each such employee contribution, Home Oil is required to match that amount by contributing fully paid Home Shares.

All contributions under the Savings Plan are paid to an administrator to be held for the accounts of the participants, subject to the participants' instructions for investment as permitted by the Savings Plan. The amounts in each participant's account are to be distributed upon termination of service and may be withdrawn earlier. Each of Home Oil's senior officers is a participant in the Savings Plan. The contributions by Home Oil in 1992 under the Savings Plan for the account of all such senior officers as a group totalled \$76,142.

Incentive Compensation Plan, 1991

In 1991 Home Oil adopted an incentive compensation plan (the "ICP") under which the Board, in its unfettered discretion, may award cash bonuses to senior officers based on their performance over a year in achieving individual pre-set objectives. The aggregate of all awards which may be granted under the ICP for a year is not to exceed 20% of the total base salaries of the senior officers of Home Oil in the year. At the discretion of the Board, awards may be increased by a further 10% in recognition of extraordinary efforts associated with a major acquisition or disposition by, or reorganization of, Home Oil. Bonuses, in the aggregate amount of \$250,000, under the ICP, were awarded to Home Oil's senior officers with respect to the year 1992.

Directors' and Officers' Insurance

Home Oil maintains insurance for the benefit of both Home Oil and its directors and officers as a group in respect of the performance by them of their duties. The principal amount of insurance purchased is U.S. \$25 million with a U.S. \$1 million corporate deductible in respect of each claim. There is no individual deductible for directors and officers. The premium allocated to and paid by Home Oil for the twelve month period ended December 31, 1992 was \$130,000. The premium is paid without distinction as to directors as a group or officers as a group and the total cost of this insurance is paid by Home Oil.

Stock Options

Options to purchase Home Shares (the "Stock Options") have been granted to certain employees and officers of Home Oil as recommended by the Compensation Committee of the Board. The Stock Options were granted under and pursuant to the terms of the Incentive Stock Option Plan (1991). The exercise price of each of the stock options granted was equal to 100% of the fair market value, being the closing price on the TSE on the last trading day immediately preceding the date of grant. The date of grant, aggregate number of outstanding Home Shares under option to other employees, as a group, the number of option holders in each group and the aggregate number of outstanding Home Shares under option are set forth in the following table:

Date of Grant	Exercise Price	Senior Officers		Other Employees		Total
		Option Holders	Home Shares Under Option	Option Holders	Home Shares Under Option	
September 15, 1991	\$14 $\frac{5}{8}$	8	143,000	18	81,750	224,750
May 7, 1992	16 $\frac{1}{8}$	7	75,500	4	16,000	91,500
August 6, 1992	15 $\frac{1}{2}$	8	76,000	22	68,000	144,000
August 3, 1993	18 $\frac{1}{2}$	9	95,000	21	72,500	167,500
			<u>389,500</u>		<u>238,250</u>	<u>627,750</u>

Auditors, Registrars and Transfer Agents

The auditors of Home Oil are Price Waterhouse, Chartered Accountants, 1200, 425 - 1st Street S.W., Calgary, Alberta.

The transfer agents and registrars of Home Oil are The R-M Trust Company at its principal offices in Calgary, Toronto, Winnipeg, Montreal, Halifax and Vancouver and The Bank of New York (co-transfer agent and co-registrar) at its office in New York City, N.Y.

PART IV — OTHER MATTERS

Canadian Laws and Regulations

Historically, the oil and gas industry in Canada has been the subject of considerable regulation and control by various levels of government. Since the mid-1980s, the regulations and controls are being lessened creating a more open market environment in the Canadian oil and gas industry. Outlined below are some of the principal aspects of the legislation and regulations which affect land tenure, production, prices, royalties and taxation of Scurry-Rainbow and Home Oil and the industry in general.

Land Tenure

In Canada, leases are acquired from the Crown through competitive bidding. In the case of lands owned by parties other than the Crown, the acquisition of leases usually involves the payment of an initial consideration. Leases confer upon the holder the right to explore for, develop and produce petroleum and natural gas. A Crown lease will continue beyond its primary term by virtue of production or deemed production, and a freehold lease will continue beyond its primary term usually by virtue of production. Crown reservations, licences, and permits are acquired from the provinces through competitive bidding and from the federal government by undertaking work commitments that confer upon the holder the right to lease the petroleum and natural gas rights under varying portions of the lands covered. The holder is generally required to make cash payments or to undertake specified amounts of work in order to retain such right.

In Alberta, government oil and gas rights are granted as a licence or lease. Each licence is issued for a term of two to five years, depending on location. Leases may be selected by the licence holder based on the depth of well(s) drilled. Each lease has a primary term of five years and may generally be continued by production or establishment of productive capability.

In British Columbia, government oil and gas rights are conferred as exploration permits, drilling licences and leases. Exploration permits have terms of five to eight years renewable for further periods at the discretion of the government. The holder of an exploration permit is authorized at any time, provided work obligations are current, to apply for leases of up to 50% of the lands covered by the permit. Drilling licences have terms of three to five years and are renewable once for a period of one year. These licences allow the holder to select leases on the basis of the depth of wells drilled. Leases have terms of five or ten years, depending on location, and can be continued by production or demonstration of productive capability.

In respect of any lands acquired pursuant to the *British Columbia Resources Investment Corporation Act* (the "Act") dated March 9, 1978 ten year permits were initially granted with no work commitment. At the end of these ten year permits, the rights can be converted to a second five year permit, if not proven potentially productive, or to a ten year lease. Some rights held under a five year permit can then be converted to a ten year lease if a geophysical program has been undertaken or a well has been drilled. Certain acreage owned by Scurry-Rainbow falls into various categories of the Act.

In Saskatchewan, government oil and gas rights are granted as exploration permits, drilling reservations and leases. Exploration permits have terms of three years and are renewable for up to two further one year periods at the discretion of the government. The holder of a permit may, at any time, provided work obligations have been complied with, select between 40% and 60% of the permit area as leases. Drilling reservations have a term of one year and may be renewed for up to two further one year periods. Provided a well has been drilled on the drilling reservation, leases may be selected for up to 50% of the lands. Leases are issued for primary terms of five years and continue on the basis of production.

In Manitoba, leases have a primary term of five years and may be continued on the basis of production, or may be continued without production for up to an additional five years on the payment of an escalating penalty or rental.

Oil and gas interests in federal lands are governed by the *Canada Petroleum Resources Act* (the "CPRA"). Under the CPRA, lands in the Arctic Islands, Beaufort Sea, Yukon Territory and Northwest Territories and certain Atlantic and Pacific offshore lands are administered by the federal government.

Private owners of oil and gas rights in all Canadian jurisdictions grant leases for varying periods. These leases are generally continued, by the terms of the leases, beyond the primary term (usually one to five years) on the basis of production or deemed production.

Crude Oil Prices and Production

In Canada, producers negotiate sales contracts directly with purchasers at competitive market prices. Crude oil production is sold domestically under short term contracts with various refining companies and other purchasers. For light crude oil export contracts of more than one year, and for medium and heavy crude oil export contracts of more than two years, the prior approval of the National Energy Board ("NEB") is required. Contracts for shorter terms are monitored by the NEB to ensure, among other things, that contracted volumes being exported are excess to foreseeable Canadian requirements.

In Alberta, the Energy Resources Conservation Board can restrict crude oil production from a pool under what is called a Maximum Rate Limitation ("MRL"). Under the current market regime, MRLs are assigned for conservation purposes and are the major factor in controlling pool/well production rates. The objective of MRLs is to prevent waste and achieve the best technical recovery, along with an orderly development of hydrocarbon resources.

Natural Gas Prices and Production

The Canadian natural gas market is a market oriented system with the price and terms of natural gas sales determined through negotiation between buyer and seller. Gas production is sold under long and short term contracts direct to gas users and to marketing companies who allocate their demand among contracted suppliers.

For natural gas removed from Alberta on a long term basis, the provincial government requires each producer to dedicate sufficient reserves to fulfil contractual requirements. Gas removed from Alberta on a short term basis does not require reserve dedication. When granting removal permits the provincial government tries to protect displacement of existing Alberta supplied Canadian core markets. To enforce this mechanism, the provincial government adopted a "core market policy". This policy enables the government to refuse issuance of a removal permit if the sale is likely to displace Canadian core market gas sales. During 1991, the Government of Alberta amended the definition of core market to comprise residential, institutional and commercial users. The provincial government announced in September 1991, that Alberta producers could sell directly to small domestic industrial natural gas users outside Alberta. Prior to this announcement only large industrial users were serviced. The Alberta Department of Energy is continuing to evaluate its core market definition.

Export of natural gas from Canada to the United States requires approval by the NEB and the Government of Canada. Presently, export orders for terms of 2 years or less are approved by NEB order without a public hearing and are valid at any border point. Natural gas export licences for contracts with terms of two years or more may require a public hearing. In August 1991, the NEB stated that it no longer intended to assess whether sufficient reserves were available to fulfil export sales contracts.

In the United States, the deregulation process reached its final stages when the Federal Energy Regulatory Commission introduced its decision on interstate pipeline Rate Design and Comparability Matters ("Order 636"). The purpose of Order 636 is to ensure that transportation service offered by pipelines is comparable in quality for all gas suppliers whether the customer purchased the gas from the pipeline or from another supplier. The two main factors in achieving this are unbundling of service and changes in rate design.

Royalties

Royalties are imposed by governments and by freehold owners on the production of crude oil, natural gas, and related products. In addition, provincial governments levy a freehold mineral tax, or its equivalent, on producing lands not owned by the provinces. The rates of provincial government royalties on crude oil and natural gas (including by-products) are determined by regulation and are generally calculated as a percentage of production. The royalty rates vary depending on well production volume, selling price, type and location of well, recovery method, and date of discovery.

In Alberta, the provincial royalty rate is principally affected by the date of discovery, product type, selling price, the production rate and the availability of applicable incentives. These royalty rates may vary between zero and 40%. Effective January 1, 1993 the Government of Alberta introduced measures intended to provide a modest amount of royalty relief to producers in a low price environment. The revised royalty regime is more sensitive to the price of oil and gas and reduces the maximum rate from 40% to 35%. The natural gas royalty system calculates royalty rates on the basis of a monthly average market price. Natural gas sales are deemed,

for royalty purposes, to have been sold at the greater of the actual sales price or 80% of the government calculated average market price. Under changes announced by the Government of Alberta in October, 1992, effective January 1, 1994, royalties on natural gas will be established at the processing plant outlet rather than at the point of sale and will be determined on the basis of either the weighted average plant outlet price of provincial gas production or a corporate weighted average price. These changes were intended to simplify natural gas royalty reporting and are not expected to materially affect the average royalty burden of Scurry-Rainbow or Home Oil.

To encourage drilling activity, the Government of Alberta has, at various times, introduced incentives which have either reduced or eliminated the payment of royalties for limited periods of time. Current regulations provide royalty incentives for production from new oil wells, reactivated and low productivity wells, horizontal re-entry wells and new deep gas wells.

The Government of Alberta has also put in place incentive programs to encourage the oil producers to proceed with enhanced oil recovery schemes. Under such programs, any incremental production of oil from an eligible project is exempt from crown royalties until such time as the capital and injected product costs required to implement the scheme are recovered. The enhanced oil recovery scheme at Swan Hills Unit No. 1 currently qualifies for this royalty relief.

Maximum crown royalty rates in British Columbia, Saskatchewan, and Manitoba are approximately 40% for old oil and 30% for new oil. Generally, new oil is oil discovered after April 1, 1974 or additional oil obtained as a result of infill drilling or tertiary recovery schemes. Actual royalty rates are significantly less because of the sliding scale nature of the royalty formulas which are significantly influenced by the price received, the rate of production and certain incentives which may be applicable. Current regulations in Saskatchewan and Manitoba provide for royalty relief for oil production from exploration wells based on location and drilling depth, as well as from horizontal wells. British Columbia does not currently provide royalty relief for new wells but owners may continue to benefit from previous incentive programs. In British Columbia, the royalty on gas from crown land, which can be a maximum of approximately 20%, is calculated at the processing plant outlet and is priced based on the greater of actual sales price or the British Columbia Posted Minimum Price.

Royalty on freehold oil and natural gas production typically ranges between 12.5% and 20%, as fixed in the lease.

Taxation

Scurry-Rainbow and Home Oil are subject to Canadian federal and provincial income taxes. The federal rate on regular income, before a federal surtax of 3% of federal tax and after the provincial abatement of 10%, is 28%, while the federal rate on manufacturing and processing income is 23%. This rate is reduced to 22% and 21% for 1993 and 1994, respectively. Effective July 1, 1989, the Government of Canada introduced a Large Corporations Tax ("LCT"), levied at a rate of 0.175% until the end of 1990 and 0.2% thereafter, on taxable capital employed in Canada. Generally, corporations are subject to the greater of LCT or federal surtax. The LCT is not deductible in computing income for income tax purposes. Provincial tax rates ranging from 15.5% to 17% are applied to income subject to tax. Prior to April 1, 1990, the Government of Alberta provided for a 6% abatement in respect of manufacturing and processing income earned in that province. From April 1, 1990 to June 30, 1992, there was no manufacturing and processing abatement in Alberta. Effective July 1, 1992, manufacturing and processing income earned in Alberta is eligible for a 0.5% abatement with an additional 0.5% commencing January 1, 1993.

In computing income to which the federal tax applies, Canadian exploration expenses are fully deductible in the year incurred. Canadian development expenses and the acquisition costs of oil and gas properties are deductible at 30% and 10% per year, respectively, on a declining balance basis. The deductibility of such expenses incurred is reduced to the extent of government assistance received in relation thereto.

Payments made to provincial governments for royalties, certain oil and gas lease rentals, mineral taxes and similar payments are not deductible from income for federal income tax purposes. However, to compensate for these nondeductible payments, a resource allowance of 25% of resource profits is permitted. Such payments made to the governments of Alberta, British Columbia and Saskatchewan in excess of the resource allowance are deductible in computing provincial taxable income in each such province. In addition, the Government of Alberta provides a refundable tax credit based on royalties paid to the province. Prior to 1990, this tax credit, the Alberta Royalty Tax Credit (the "ARTC"), was limited to \$3 million annually for each company or group of associated companies, with certain exceptions. Effective January 1, 1990, the ARTC program was changed. For the years 1990 through

1995, the ARTC ranges from 25% to 85% of up to \$2.5 million of royalties paid to the province depending on the prevailing price of oil.

The Government of British Columbia introduced a capital tax, effective April 1, 1992, for corporations with permanent establishments in that province. The tax is levied at a rate of 0.3% on taxable capital employed in British Columbia and is deductible from income for computing federal and provincial income tax purposes. Effective April 1, 1992, there was an increase in the Saskatchewan resource surcharge from 2% to 3% with a further increase to 3.6% effective April 1, 1993. This surcharge is applied against gross working interest revenue in Saskatchewan and is not deductible from income for federal income tax purposes.

Environmental Considerations

The oil and gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on releases or emission of various substances produced by certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in the imposition of material fines and penalties. Environmental legislation in Alberta has recently undergone a major revision and consolidation pursuant to which approval procedures will become increasingly onerous and stipulated fines and penalties will be substantially increased.

Risks

Scurry-Rainbow and Home Oil are involved in the oil and gas industry which is intensely competitive in all phases. Competition for desirable acreage is substantial and many competitors possess financial resources and technical facilities equal to or greater than those available to such companies. Many such companies not only explore for and produce crude oil and natural gas but also carry on refining operations and market petroleum and other products on a worldwide basis. Like their competitors, Scurry-Rainbow and Home Oil must incur substantial expenditures in locating and acquiring properties, drilling exploratory wells and developing properties with no assurance that crude oil or natural gas will be discovered or, if discovered, that it will be in sufficient quantity to permit commercial operations. There is also competition between the oil and gas industry and other industries with respect to the supply of energy and fuel to industrial, commercial and individual customers. The industry is also subject to considerable government regulation with the consequent risk of change in regulation, and reference is made to "Canadian Laws and Regulations" above for additional information.

The marketability of crude oil and natural gas which may be acquired or discovered is affected by numerous factors beyond the owner's control. These factors include market fluctuations, the world price of crude oil, the proximity and capacity of crude oil and natural gas pipelines and processing facilities and government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production, the import and export of crude oil and natural gas and environmental protection. The effect of these factors cannot be predicted.

Scurry-Rainbow's and Home Oil's operations are subject to all of the risks normally incidental to the operation and development of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including the encountering of unexpected formations or pressures, blow-outs and fires, which could result in personal injuries, loss of life and damage to properties of these companies and others. In accordance with customary industry practice, these companies maintain insurance where reasonably advisable however, they are insured against certain of these risks, nor are all such risks fully insurable.

The principal financial risks and uncertainties which Scurry-Rainbow and Home Oil face are those of future oil and gas price levels, and the ability to explore for and develop reserves at an economic cost.

The exploration for, and development of, hydrocarbon reserves is dependent on access of drilling and related equipment to areas where such activities are to be conducted. Seasonal variations, including freeze-up and break-up affect such access in certain circumstances and explain the disproportionate share of exploration and development expenses incurred in the winter season.

The principal markets for natural gas sold by Scurry-Rainbow and Home Oil use such product as a heating fuel. Accordingly, climatic conditions in these markets affect the demand for, and sales of, Scurry-Rainbow's and Home Oil's natural gas. Depending on prevailing conditions, the sales volumes and to a lesser degree the price received for sales of Scurry-Rainbow's and Home Oil's natural gas are generally higher in winter than in summer months.

General Proxy Information

Solicitation of Proxies

The solicitation of proxies will be primarily by mail. In accordance with regulatory requirements, the Corporation will reimburse brokers and other nominees holding Scurry Shares in their names or in the names of their principals, the proper costs incurred by them in sending these solicitation materials to their principals. Scurry-Rainbow has retained MacKenzie Partners, Inc. at an estimated cost of U.S. \$6,000 to assist in the solicitation of proxies from Shareholders in the United States.

No person is authorized to give any information or to make any representation other than those contained in this Circular and, if given or made, such information or representation should not be relied upon as having been authorized. The delivery of this Circular shall not, under any circumstances, create an implication that there has been no change in the information set forth herein since the date of this Circular.

Appointment of Proxy and Discretionary Authority

The persons named in the enclosed form of proxy for the Special Meeting are officers and/or directors of Scurry-Rainbow. **A Shareholder has the right to appoint a person (who need not be a Shareholder) other than persons designated in the form of proxy as proxyholder to attend and act for and on behalf of such Shareholder at the Special Meeting and may exercise such right by inserting the name of such person in the blank space provided in the form of proxy. If a Shareholder appoints a person designated in the form of proxy as proxyholder and does not direct the said proxyholder to vote either in favour of or against the Arrangement Resolution, the proxy shall be voted in favour of the Arrangement Resolution. The enclosed form of proxy confers discretionary authority upon the proxyholders with respect to amendments or variations to the matter identified in the Notice of Special Meeting and other matters which may properly come before the Special Meeting.**

The persons named in the form of proxy will vote the Scurry Shares in respect of which they are appointed in accordance with the direction of the Shareholder appointing them. The Scurry Shares represented by the form of proxy at the Special Meeting will be voted subject to the provisions of the ABCA and, if a choice is specified in the form of proxy with respect to the matter identified therein, the Shares represented by such form of proxy will be voted in accordance with the specifications so made.

The Board of Directors and Management know of no matters to come before the Special Meeting other than the matter referred to in the accompanying Notice of Special Meeting. However, if any other matters should properly come before the Special Meeting, the Scurry Shares represented by proxies in favour of Management proxies will be voted on such matters in accordance with the best judgement of such proxyholder.

Time for Deposit of Proxies

To be used at the Special Meeting, the form of proxy must be deposited with the Corporate Secretary of the Corporation, c/o Montreal Trust Company of Canada, Corporate Trust Department, 411 - 8th Avenue S.W., Calgary, Alberta, Canada T2P 1E7, on or before 4:30 p.m., Calgary time, on the Business Day preceding the date of the Special Meeting. The Corporation may refuse to recognize any form of proxy received after this time.

Revocability of Proxy

A Shareholder who has given a form of proxy may revoke it by instrument in writing executed by the Shareholder or by his or her attorney authorized in writing and deposited either at the office of the Corporate Secretary of the Corporation at any time up to and including the last business day preceding the day of the Special Meeting or with the Chairman of the Special Meeting on the day of the Special Meeting or in any other manner permitted by law.

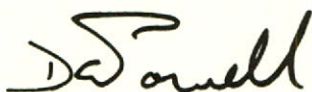
Voting Shares and Record Date

There are 13,462,129 Scurry Shares issued and outstanding. The Board of Directors has fixed September 27, 1993 as the record date for determining Shareholders entitled to Notice of the Special Meeting. Only Shareholders of record at the close of business on September 27, 1993 will be entitled to vote in respect of the Arrangement Resolution at the Special Meeting, except that a person who has acquired Scurry Shares subsequent to such record date will be entitled to vote such Scurry Shares upon making a written request to that effect not later than ten days preceding the date of the Special Meeting to the Corporate Secretary of Scurry-Rainbow at the registered office of Scurry-Rainbow indicated in the Circular and establishing that such person owns such Scurry Shares. On each matter to come before the Special Meeting, each Shareholder is entitled to one vote for each Scurry Share standing in his or her name on the securities register of the Corporation.

Certificate of Scurry-Rainbow

The foregoing contains no untrue statement of material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED the 24th day of September, 1993.



David E. Powell
President and Chief Executive Officer



Allen R. Hagerman
Vice President and Chief Financial Officer

Consent

To the Board of Directors of Scurry-Rainbow Oil Limited

We hereby consent to the inclusion of our valuation report and fairness opinion dated September 20, 1993 to the Special Committee of the Board of Directors of Scurry-Rainbow Oil Limited in the Management Information Circular and Proxy Statement (the "Circular") of Scurry-Rainbow Oil Limited dated September 24, 1993 and to all references thereto and the summary thereof contained in the Circular. We also consent to the filing of such valuation report and fairness opinion with regulatory authorities in accordance with applicable securities laws and policies.

RBC Dominion Securities Inc.

Calgary, Alberta
September 24, 1993

RBC Dominion Securities Inc.

SCHEDULE A
ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. The Arrangement pursuant to Section 186 of the *Business Corporations Act* (Alberta) substantially as set forth in the Plan of Arrangement attached as Appendix 1 to the Arrangement Agreement dated as of September 20, 1993 between Home Oil Company Limited and the Corporation (the "Arrangement Agreement"), which Arrangement Agreement is attached as Schedule B of the Management Information Circular and Proxy Statement of the Corporation accompanying the Notice of this Special Meeting, is hereby authorized and approved;
2. The Arrangement Agreement is hereby ratified, confirmed and approved;
3. Notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, the directors of the Corporation are hereby authorized and empowered to revoke this resolution at any time prior to the issue of a certificate of amendment giving effect to the Arrangement without further approval of the shareholders of the Corporation; and
4. Any director or officer of the Corporation is hereby authorized and empowered, acting for, in the name of and on behalf of the Corporation, to execute or to cause to be executed, and to deliver or to cause to be delivered, all such documents and instruments, and to do or to cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable in order to fulfil the intent of the foregoing paragraphs of this resolution.

SCHEDULE B

ARRANGEMENT AGREEMENT

THIS AGREEMENT made as of the 20th day of September, 1993.

BETWEEN:

HOME OIL COMPANY LIMITED, a corporation incorporated under the laws of Canada ("Home")

— and —

SCURRY-RAINBOW OIL LIMITED, a corporation incorporated under the laws of Alberta ("Scurry")

WHEREAS Scurry intends to propose to its shareholders an arrangement under Section 186 of the Act on the terms and conditions of the Plan of Arrangement annexed hereto as Appendix 1;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the premises and the respective covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Agreement, including the recitals, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings:

"**Act**" means the Business Corporations Act, S.A. 1981, c. B-15, as amended;

"**Arrangement**" means an arrangement under the provisions of Section 186 of the Act on the terms and conditions set forth in the Plan of Arrangement;

"**Business Day**" means a day other than a Saturday, Sunday or a day when banks in the City of Calgary generally are not open for business;

"**Certificate of Amendment**" means the certificate of amendment issued by the Registrar in respect of the Arrangement;

"**Court**" means the Court of Queen's Bench of Alberta;

"**Effective Date**" means the date shown on the certificate of amendment to be issued by the Registrar giving effect to the Arrangement;

"**Final Order**" means the final order of the Court approving the Arrangement;

"**Home**" means Home Oil Company Limited, a corporation incorporated under the Canada Business Corporations Act;

"**Home Shares**" means common shares of Home;

"**Interim Order**" means the order of the Court providing for, among other things, the calling and holding of the Scurry Meeting;

"**Plan of Arrangement**" means the plan of arrangement set out as Appendix 1 hereto and any amendment or variation thereto made in accordance with Section 5.1 hereof;

"**Registrar**" means the Registrar of Corporations or a Deputy Registrar of Corporations for the Province of Alberta, duly appointed under the Act;

"**Scurry**" means Scurry-Rainbow Oil Limited, a corporation incorporated under the Act;

"Scurry Meeting" means the special meeting of holders of Scurry Shares (including any adjournment thereof) to be held to consider and, if thought fit, to approve the Arrangement;

"Scurry Proxy Circular" means the management information circular and proxy statement of Scurry to be sent to the shareholders of Scurry in connection with the Scurry Meeting; and

"Scurry Shares" means the common shares of Scurry.

1.2 Interpretation Not Affected by Headings, Etc.

The division of this Agreement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this Agreement and the schedule hereto and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 Number, Etc.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms, trusts, partnerships and corporations.

1.4 Date For Any Action

If any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.5 Entire Agreement

This Agreement, together with the schedule, the agreements and other documents herein or therein referred to, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties with respect to the subject matter hereof.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Scurry

Scurry represents and warrants to and in favour of Home as follows and acknowledges that Home is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) Scurry is a corporation validly existing under the Act and has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) the execution and delivery of this Agreement and the performance of the transactions contemplated herein have been duly authorized by the board of directors of Scurry and this Agreement constitutes a valid and binding obligation of Scurry enforceable against it in accordance with its terms, subject to the availability of equitable remedies and the enforceability of creditors' rights generally;
- (c) the execution and delivery of this Agreement by Scurry and the performance of the transactions contemplated herein do not and will not (with notice, lapse of time or otherwise):
 - (i) result in a breach or violate any term or provision of the articles or by-laws of Scurry; or
 - (ii) conflict with, result in a breach of or constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, license, permit or authority to which Scurry is a party or by which it is bound or to which any asset of Scurry is subject, or result in the creation of any lien, charge or encumbrance upon any of the assets of Scurry under any such agreement or instrument, or give to others any interest or right, including rights of purchase,

- termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority which would have a material adverse effect on the business or assets of Scurry;
- (d) the financial statements of Scurry as at and for the year ended December 31, 1992 and the unaudited interim financial statements of Scurry as at and for the six months ended June 30, 1993, with the notes thereto (where applicable), present fairly the financial position of Scurry as at the respective dates of such statements and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles applied, except as disclosed, on a consistent basis;
 - (e) the authorized capital of Scurry consists of 200,000,000 common shares and 100,000,000 preferred shares, of which 13,462,129 common shares (and no preferred shares) are issued and outstanding as fully paid and non-assessable;
 - (f) no person has any agreement or option, or any right capable of becoming an agreement or option, for the purchase of any unissued shares of Scurry or any securities convertible or exchangeable into such shares;
 - (g) Scurry is not in breach or violation of any of the terms or provisions of or in default under (i) any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument to which Scurry is a party or by which Scurry is bound or to which any of the assets of Scurry is subject or (ii) any statute or any order, rule or regulation of any court or government or governmental agency or authority having jurisdiction over Scurry or any of its assets, where such breach, violation or default would prevent or materially hinder the completion of the Arrangement or have a material adverse effect on the business or assets of Scurry;
 - (h) To the best of the knowledge of Scurry's officers (having made due inquiry), except to the extent that any violation or other matter referred to in this paragraph 2.1(h) does not have a material adverse effect on the financial condition, operations or business of Scurry:
 - (i) Scurry is not in violation of any applicable federal, provincial, municipal or local laws, regulations, orders, government decrees or ordinances with respect to environmental, health or safety matters (collectively "Environmental Laws");
 - (ii) Scurry has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;
 - (iii) there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes which have not been rectified or are in the process of being rectified on any of the real property owned or leased by Scurry or under Scurry's control, nor has any such real property been used at any time by any person as a landfill or waste disposal site;
 - (iv) there have been no releases, deposits or discharges, in violation of Environmental Laws, of any hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by Scurry;
 - (v) no orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of Scurry;
 - (vi) Scurry has not failed to report to the proper governmental authority the occurrence of any event which is required to be so reported by any Environmental Laws; and
 - (vii) Scurry holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for (A) notifications and conditions of general application to assets of the type owned by Scurry, and (B) obligations under the Land Surface Conservation and Reclamation Act (Alberta), Scurry has not received any notification pursuant to any Environmental Laws that any work, repairs, construction or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws, or any licence, permit or approval issued pursuant thereto, or that any licence, permit or approval referred to above is about to be reviewed, made subject to limitations or conditions, revoked, withdrawn or terminated;

- (i) there has been no material adverse change (or event, condition or state of facts which may reasonably be expected to give rise to any such change) in the assets, financial condition, business or prospects of Scurry since June 30, 1993; and
- (j) the information set forth in the Scurry Proxy Circular in respect of Scurry and its business and assets will be true, correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make a statement therein not misleading in light of the circumstances in which it was made.

2.2 Representations and Warranties of Home

Home represents and warrants to and in favour of Scurry as follows and acknowledges that Scurry is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) Home is a corporation validly existing under the Canada Business Corporations Act and has the corporate power and authority to enter into this Agreement and to perform its obligations hereunder;
- (b) the execution and delivery of this Agreement and the performance of the transactions contemplated herein have been duly authorized by the board of directors of Home and this Agreement constitutes a valid and binding obligation of Home enforceable against it in accordance with its terms, subject to the availability of equitable remedies and the enforcement of creditors' rights generally;
- (c) the execution and delivery of this Agreement by Home and the performance of the transactions contemplated herein do not and will not (with notice, lapse of time or otherwise):
 - (i) result in a breach or violate any term or provision of the articles or by-laws of Home; or
 - (ii) conflict with, result in a breach of or constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, license, permit or authority to which Home is a party or by which it is bound or to which any asset of Home is subject, or result in the creation of any lien, charge or encumbrance upon any of the assets of Home under any such agreement or instrument, or give to others any interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority which would have a material adverse effect on the business or assets of Home;
- (d) the financial statements of Home as at and for the year ended December 31, 1992 and the unaudited interim financial statements of Home as at and for the six months ended June 30, 1993, with the notes thereto (where applicable), present fairly the financial position of Home as at the respective dates of such statements and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles applied, except as disclosed, on a consistent basis;
- (e) the authorized capital of Home consists of an unlimited number of common shares and an unlimited number of preferred shares, of which 39,646,664 common shares (and no preferred shares) are issued and outstanding as fully paid and non-assessable;
- (f) except for options to purchase Home Shares granted under Home's Incentive Compensation Plan (1991), no person has any agreement or option, or any right capable of becoming an agreement or option, for the purchase of any unissued shares of Home or any securities convertible or exchangeable into such shares;
- (g) Home is not in breach or violation of any of the terms or provisions of or in default under (i) any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument to which Home is a party or by which Home is bound or to which any of the assets of Home is subject or (ii) any statute or any order, rule or regulation of any court or government or governmental agency or authority having jurisdiction over Home or any of its assets, where such breach, violation or default would prevent or materially hinder the completion of the Arrangement or have a material adverse effect on the business or assets of Home;
- (h) To the best of the knowledge of Home's officers (having made due inquiry), except to the extent that any violation or other matter referred to in this paragraph 2.2(h) does not have a material adverse effect on the financial condition, operations or business of Home:

- (i) none of Home or its subsidiaries (other than Scurry) is in violation of any Environmental Laws;
 - (ii) each of Home and its subsidiaries (other than Scurry) has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without violation of Environmental Laws;
 - (iii) there have been no spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes which have not been rectified or are in the process of being rectified on any of the real property owned or leased by Home or any of its subsidiaries (other than Scurry) or under their respective control, nor has any such real property been used at any time by any person as a landfill or waste disposal site;
 - (iv) there have been no releases, deposits or discharges, in violation of Environmental Laws, of any hazardous or toxic substances, contaminants or wastes to the earth, air or into any body of water or any municipal or other sewer or drain water system by any of Home or its subsidiaries (other than Scurry);
 - (v) no orders, directions or notices have been issued and remain outstanding pursuant to Environmental Laws relating to the business or assets of Home or any of its subsidiaries (other than Scurry);
 - (vi) none of Home or its subsidiaries (other than Scurry) has failed to report to the proper governmental authority the occurrence of any event which is required to be so reported by any Environmental Laws; and
 - (vii) each of Home and its subsidiaries (other than Scurry) holds all licenses, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, all such licenses, permits and approvals are in full force and effect, and except for (A) notifications and conditions of general application to assets of the type owned by Home, and (B) obligations under the Land Surface Conservation and Reclamation Act (Alberta), none of Home or its subsidiaries (other than Scurry) has received any notification pursuant to any Environmental Laws that any work, repairs, construction or capital expenditures are required to be made by it as a condition of continued compliance with any Environmental Laws, or any licence, permit or approval issued pursuant thereto, or that any licence, permit or approval referred to above is about to be reviewed, made subject to limitations or conditions, revoked, withdrawn or terminated;
- (i) there has been no material adverse change (or event, condition or state of facts which may reasonably be expected to give rise to any such change) in the assets, financial condition, business or prospects of Home since June 30, 1993;
 - (j) the information set forth in the Scurry Proxy Circular in respect of Home and its business and assets will be true, correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make a statement therein not misleading in light of the circumstances in which it was made; and
 - (k) the Home Shares which may be issued pursuant to the Plan of Arrangement will, upon issuance, be validly issued as fully paid and non-assessable and will be free from any restrictions on resale (other than restrictions imposed upon "control persons" of Home) under applicable securities laws of the provinces of Canada.

ARTICLE 3 COVENANTS

3.1 Covenants of Scurry

Scurry covenants and agrees as follows: ♦

- (a) until the Effective Date, Scurry will not perform any act or enter into any transaction or negotiation which might directly or indirectly interfere or be inconsistent with the completion of the transactions contemplated herein;

- (b) to prepare and file the Scurry Proxy Circular in all jurisdictions where the same is required to be prepared and filed by Scurry and mail the same to its shareholders in accordance with National Policy 41 of the Canadian Securities Administrators, the Interim Order and applicable law; and
- (c) to do all such acts and things as may be necessary or desirable in order to give effect to the Arrangement and, without limiting the generality of the foregoing:
 - (i) to use its best efforts to obtain the approval at the Scurry Meeting of its shareholders required for the implementation of the Arrangement;
 - (ii) to use its best efforts to obtain the Interim Order and the Final Order as provided in Section 3.3 hereof;
 - (iii) to use its best efforts to obtain such other consents, orders or approvals as are necessary or desirable for the completion of the Arrangement, including those referred to in Section 4.1 hereof;
 - (iv) to defend vigorously all law suits or other legal proceedings against it challenging this Agreement or the completion of the transactions contemplated herein; and
 - (v) to effect all necessary registrations, filings and submissions of information requested by governmental authorities required to be effected by it in connection with the Arrangement.

3.2 Covenants of Home

Home covenants and agrees as follows:

- (a) until the Effective Date, neither Home nor any of its affiliates (other than Scurry) will perform any act or enter into any transaction or negotiation which might directly or indirectly interfere or be inconsistent with the completion of the transactions contemplated herein;
- (b) Home will provide Scurry with all relevant information relating to Home and its subsidiaries (other than Scurry) and their respective businesses and assets for inclusion in the Scurry Proxy Circular to the standard referred to in paragraph 2.2(j);
- (c) to vote all Scurry Shares held by it in favour of the Arrangement at the Scurry Meeting;
- (d) to do all acts and things as may be necessary or desirable to give effect to the Arrangement and, without limiting the generality of the foregoing:
 - (i) to pay the cash consideration to those holders of Scurry Shares who elect to receive cash for their Scurry Shares in accordance with the terms of the Plan of Arrangement;
 - (ii) to issue the Home Shares to those holders of Scurry Shares who elect or are deemed to have elected to receive Home Shares in accordance with the terms of the Plan of Arrangement;
 - (iii) to apply for and use best efforts to obtain the listing on The Toronto Stock Exchange and the American Stock Exchange, as of the Effective Date or so soon thereafter as is practicable, of the Home Shares which may be issued pursuant to the Arrangement;
 - (iv) to co-operate in obtaining the Interim Order and the Final Order as provided in Section 3.3 hereof;
 - (v) to co-operate in obtaining (or use best efforts to obtain, if the matter is within the control of Home) such other consents, orders or approvals as are necessary or desirable for the completion of the Arrangement, including those referred to in Section 4.1 hereof;
 - (vi) to defend vigorously all law suits or other legal proceedings against it challenging this Agreement or the completion of the transactions contemplated herein; and
 - (vii) to effect all necessary registrations, filings and submissions of information requested by governmental authorities required to be effected by it in connection with the Arrangement; and
- (e) if the Arrangement is completed and any holders of Scurry Shares exercise rights of dissent as provided for under the Plan of Arrangement, to pay the amounts required to be paid to all such shareholders as contemplated by Section 3.1 of the Plan of Arrangement.

3.3 Interim Order and Final Order

Scurry covenants and agrees that it will as soon as practicable apply to the Court pursuant to Section 186 of the Act for the Interim Order providing for, among other things, the calling and holding of the Scurry Meeting for the purpose of considering and, if thought fit, approving the Arrangement. If the required approvals for the Arrangement are obtained, Scurry agrees to take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such fashion as the Court may direct and, as soon as practicable thereafter, and subject to compliance with any other condition provided for in Article 4 hereof, file articles of arrangement pursuant to Subsection 186(10) of the Act and obtain the Certificate of Amendment, provided that such articles of amendment shall only be filed with the prior written consent of Home, acting reasonably.

ARTICLE 4

CONDITIONS

4.1 Mutual Conditions Precedent

The respective obligations of the parties hereto to complete the transactions contemplated by this Agreement and the obligation of Scurry to file articles of arrangement to give effect to the Arrangement shall be subject to satisfaction, on or before the Effective Date, of the following conditions:

- (a) the Arrangement shall have been approved without material amendment at the Scurry Meeting by the requisite majorities of persons entitled to vote thereon as may be determined by the Court or otherwise required in accordance with applicable law and policies of securities regulatory authorities;
- (b) the Interim Order and the Final Order shall have been obtained in form and substance satisfactory to each party hereto, acting reasonably;
- (c) The Toronto Stock Exchange shall have conditionally approved the listing of the Home Shares which may be issued pursuant to the terms of the Plan of Arrangement, subject to compliance with the usual requirements of such exchange;
- (d) all other consents, orders and approvals necessary or that the parties hereto agree are desirable for the completion of the transactions contemplated herein shall have been obtained;
- (e) there shall not be in force any order or decree making illegal, restraining or enjoining the completion of the transactions contemplated herein;
- (f) none of the consents, orders or approvals contemplated herein shall contain terms or conditions or require undertakings or security deemed unacceptable by any of the parties hereto, acting reasonably; and
- (g) this Agreement shall not have been terminated under Article 5.

4.2 Conditions to Obligation of Home

In addition to the conditions set forth in Section 4.1, the obligation of Home to complete the transactions contemplated by this Agreement is subject to the following conditions, any of which may be waived by Home in whole or in part without prejudice to Home's right to rely on any other condition in favour of Home:

- (a) the covenants of Scurry to be performed on or before the Effective Date pursuant to this Agreement shall have been duly performed in all material respects by Scurry;
- (b) except as affected by transactions contemplated by this Agreement, the representations and warranties of Scurry shall be true and correct in all material respects as of the Effective Date, with the same effect as if such representations and warranties had been made at and as of such time, and Home shall have received a certificate dated the Effective Date of a senior officer of Scurry confirming the same;
- (c) exemptions or waivers in a form satisfactory to Home (acting reasonably) shall have been obtained by Scurry from the valuation requirements in respect of Home under Ontario Securities Commission Policy 9.1, Quebec Securities Commission Policy Q-27 and any other law or requirement of any regulatory authority; and
- (d) the Effective Date shall have occurred on or before November 30, 1993.

4.3 Conditions to Obligation of Scurry

In addition to the conditions set forth in Section 4.1, the obligation of Scurry to complete the transactions contemplated by this Agreement is subject to the following conditions, any of which may be waived by Scurry without prejudice to Scurry's right to rely on any other condition in favour of Scurry:

- (a) the covenants of Home to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed in all material respects by Home; and
- (b) except as affected by the transactions contemplated by this Agreement, the representations and warranties of Home shall be true and correct in all material respects as at the Effective Date, with the same effect as if such representations and warranties had been made at and as of such time and Scurry shall have received a certificate dated the Effective Date of a senior officer of Home confirming the same.

4.4 Notice of Non-Compliance

Each of Home and Scurry shall give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof to the Effective Date of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of any party contained herein to be untrue or inaccurate in any material respect, or
- (b) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any party hereunder,

provided that no such notification shall affect the representations or warranties of the parties or the conditions to the obligations of the parties hereunder.

No party may elect not to complete the transactions contemplated herein pursuant to the conditions precedent contained in Sections 4.2 (other than paragraph 4.2(d)) or 4.3 unless, prior to the filing on the Effective Date of articles of arrangement for the purpose of giving effect to the Arrangement, the party intending to rely thereon has delivered a written notice to the party it alleges to be in breach, specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the party delivering such notice is asserting as the basis for the nonfulfillment of the applicable condition precedent. More than one such notice may be delivered by a party.

4.5 Merger of Conditions

The conditions set out in Sections 4.1, 4.2 and 4.3 shall be conclusively deemed to have been satisfied, waived or released by Home and Scurry on the issuance of the Certificate of Amendment.

ARTICLE 5

AMENDMENT AND TERMINATION

5.1 Amendment

This Agreement may at any time and from time to time, before and after the holding of the Scurry Meeting, but not later than the Effective Date, be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of the holders of Scurry Shares, provided that no such amendment shall decrease the consideration to be received by holders of Scurry Shares in exchange for their Scurry Shares without the approval of such holders in the same manner as required for the approval of the Arrangement. This Agreement and the Plan of Arrangement may be amended in accordance with the Final Order but if the terms of the Final Order require any such amendment, the rights of the parties hereto under Sections 4.1, 4.2, 4.3 and 5.2 shall remain unaffected.

5.2 Termination

This Agreement may at any time before or after the holding of the Scurry Meeting (but no later than the Effective Date) be terminated by agreement of the parties hereto without further action on the part of the holders of Scurry Shares.

ARTICLE 6

GENERAL

6.1 Notices

All notices which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally or by telecopy:

in the case of Home addressed to:

Home Oil Company Limited
1600 Home Oil Tower
324 - 8th Avenue S.W.
Calgary, Alberta
T2P 2Z5

Telecopy No.: (403) 232-7678
Attention: Corporate Secretary

and in the case of Scurry addressed to:

Scurry-Rainbow Oil Limited
1600 Home Oil Tower
324 - 8th Avenue S.W.
Calgary, Alberta
T2P 2Z5

Telecopy No.: (403) 232-5520
Attention: Corporate Secretary

or such other address which a party may from time to time advise the other party hereto by notice in writing given in accordance with the foregoing. The date of receipt of any such notice shall be deemed to be the date of delivery thereof or, in the case of notice sent by telecopy, the date of successful transmission thereof (unless transmission is received after the normal business hours, in which case, the date of receipt shall be deemed to be the next Business Day).

6.2 Binding Effect and Assignment

This Agreement and the Arrangement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any rights hereunder or under the Arrangement may be assigned by any party without the prior written consent of the other.

6.3 Waiver

Any waiver or release of any of the provisions of this Agreement shall only be effective if in writing and executed by the party granting same.

6.4 Approval of Scurry

Any provision of this Agreement which requires the approval, consent or waiver of Scurry shall be interpreted as requiring the approval, consent or waiver of a majority of the special committee of the Board of Directors of Scurry appointed to consider the Arrangement, and any such approval, waiver or consent shall be evidenced by a document or other instrument signed by a member of such special committee.

6.5 Expenses

Home shall pay all costs and expenses incurred by Home and Scurry in connection with the Arrangement except that Scurry shall pay all costs and expenses relating to the special committee of the Board of Directors of Scurry (including any advisors to such special committee).

6.6 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and shall be treated in all respects as an Alberta contract.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

HOME OIL COMPANY LIMITED

by: (Signed) D. E. Powell

by: (Signed) R. M. Perrin

SCURRY-RAINBOW OIL LIMITED

by: (Signed) B. F. MacNeill

by: (Signed) E. G. Sheasby

APPENDIX 1

to the Arrangement Agreement Made as of September 20, 1993 Between Home Oil Company Limited and Scurry-Rainbow Oil Limited

PLAN OF ARRANGEMENT UNDER SECTION 186 OF THE BUSINESS CORPORATIONS ACT (ALBERTA)

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings:

"Act" means the Business Corporations Act, S.A. 1981, c. B-15, as amended;

"Arrangement" means an arrangement under the provisions of Section 186 of the Act, on the terms and conditions set forth in this Plan of Arrangement;

"Arrangement Agreement" means the agreement made as of September 20, 1993 between Home and Scurry to which this Plan of Arrangement is set out as Appendix 1;

"Business Day" means a day other than a Saturday, Sunday or a day when banks in the City of Calgary generally are not open for business;

"Court" means the Court of Queen's Bench of Alberta;

"Depository" means Montreal Trust Company of Canada or the Bank of New York;

"Effective Date" means the date shown on the certificate of amendment to be issued by the Registrar giving effect to the Arrangement;

"Election Deadline" means 4:30 P.M. (local time at the place of deposit with the Depository of the Letter of Transmittal and Election Form) on the Business Day immediately prior to the date of the Scurry Meeting or, if the meeting is adjourned, such time on the Business Day immediately prior to the date of such adjourned meeting;

"Exchange Rate" means the exchange rate used to calculate the conversion of Canadian dollars into U.S. dollars based upon the Bank of Canada noon rate on any applicable Business Day;

"Holder" means a registered holder of Scurry Shares immediately prior to the Effective Date or any person who surrenders to the Depository certificates representing Scurry Shares duly endorsed for transfer to such person in accordance with the Letter of Transmittal and Election Form;

"Home" means Home Oil Company Limited, a corporation incorporated under the Canada Business Corporations Act;

"Home Shares" means common shares of Home;

"Home Share Price" means the "weighted average trading price" of Home Shares on The Toronto Stock Exchange for the 10 consecutive trading days ending on the trading day immediately prior to the date of the Scurry Meeting (or, if the meeting is adjourned, immediately prior to the date of such adjourned meeting) and, for this purpose, "weighted average trading price" shall be determined by dividing the aggregate sale price of all Home Shares on The Toronto Stock Exchange during such 10 consecutive trading days by the total number of Home Shares so sold;

"Letter of Transmittal and Election Form" means the letter of transmittal and election form to be forwarded by Scurry to the holders of the Scurry Shares together with the management information circular and proxy statement of Scurry in respect of the Scurry Meeting, for use by Holders in making their election to receive cash or Home Shares for their Scurry Shares;

"Parent Shares" means the Scurry Shares held by Home immediately prior to the Effective Date;

“Registrar” means the Registrar of Corporations or a Deputy Registrar of Corporations for the Province of Alberta, duly appointed under the Act;

“Scurry” means Scurry-Rainbow Oil Limited, a corporation incorporated under the Act;

“Scurry Shares” means the common shares of Scurry;

“Scurry Meeting” means the special meeting of the holders of Scurry Shares (including any adjournment thereof) to be held to consider the Arrangement; and

“U.S.” means the United States of America including the states thereof, the District of Columbia, its territories and possessions.

1.2 Interpretation Not Affected by Headings, Etc.

The division of this Plan of Arrangement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not effect the construction or interpretation of this Plan of Arrangement. The terms “this Plan of Arrangement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this Plan of Arrangement and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 Number, Etc.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms, trusts, partnerships and corporations.

ARTICLE 2

THE ARRANGEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.

2.2 Transfer of Scurry Shares

Subject to Sections 2.3, 2.4 and 3.1, on the Effective Date:

- (a) each of the issued and outstanding Scurry Shares (other than the Parent Shares and Scurry Shares held by Holders who have exercised dissent rights in accordance with Section 3.1 and who are ultimately entitled to be paid fair value for such shares) shall be, and be deemed to be, transferred to Home (free of any claims) in exchange for, at the election of the Holder:
 - (i) \$26.50 Cdn. cash; or
 - (ii) the number of Home Shares obtained when \$26.50 is divided by the Home Share Price; and
- (b) with respect to each Scurry Share to which paragraph 2.2(a) applies:
 - (i) the Holder thereof shall cease to be the holder of such share and such Holder's name shall be removed from the register of Scurry Shares as of the Effective Date; and
 - (ii) Home shall be, and be deemed to be, the transferee of such share (free of any claims) and shall be entered in the register of such shares as the holder thereof as of the Effective Date.

2.3 Election

- (a) To receive the cash consideration specified in subparagraph 2.2(a)(i) for their Scurry Shares, Holders must deposit with the Depositary, prior to the Election Deadline, a duly completed Letter of Transmittal and Election Form indicating their election to receive such cash consideration for their Scurry Shares together with their certificates representing such Scurry Shares or a notice of guaranteed delivery in a form satisfactory to Scurry;

- (b) Subject to paragraphs 2.3(c) and 4.1(d), to receive the Home Shares specified in subparagraph 2.2(a)(ii) for their Scurry Shares, Holders must deposit with the Depositary a duly completed Letter of Transmittal and Election Form indicating their election to receive such Home Shares for their Scurry Shares together with their certificates representing such Scurry Shares;
- (c) Holders who do not deposit with the Depositary a duly completed Letter of Transmittal and Election Form prior to the Election Deadline and otherwise fully comply with the requirements of paragraph 2.3(a) and the Letter of Transmittal and Election Form in respect of an election to receive cash shall be deemed to have elected to receive Home Shares for their Scurry Shares as provided in subparagraph 2.2(a)(ii);
- (d) Any deposit of a Letter of Transmittal and Election Form and accompanying certificates and documents may be made at any of the addresses of the Depositary specified in the Letter of Transmittal and Election Form; and
- (e) Any election by a Holder pursuant to this Section 2.3 shall be in respect of all (and not less than all) of the Scurry Shares held by such Holder.

2.4 Fractional Shares

Notwithstanding anything herein contained, no fractional Home Shares will be issued. Where a Holder elects or is deemed to have elected to receive Home Shares pursuant to Section 2.3 and the aggregate number of Home Shares to be issued to such Holder would result in a fraction of a Home Share being issued, such Holder shall receive, in lieu of such fractional share, a cash payment from Home equal to the fraction of a Home Share otherwise issuable multiplied by the Home Share Price.

ARTICLE 3

RIGHTS OF DISSENT

3.1 Rights of Dissent

Holders may exercise rights of dissent in the manner set forth in Section 184 of the Act in connection with the Arrangement, subject to the following provisions:

- (a) for the purpose of such rights of dissent:
 - (i) the written objection to the resolution approving the Arrangement required to be sent to Scurry by a dissenting shareholder in accordance with the provisions of subsection 184(5) of the Act must be received by Scurry at or before the Scurry Meeting;
 - (ii) the references to "the corporation" or "a corporation" in subsections (3), (7), (10), (12)(a), (13) and (14) of Section 184 of the Act shall be read and construed as references to "Home";
 - (iii) the provisions and requirements set forth in subsections (18), (19) and (20) of Section 184 of the Act shall not apply; and
 - (iv) if an order is rendered by a court against Home in favour of a dissenting shareholder requiring payment of the fair value of such dissenting shareholder's shares, and if, within the 30 day period (the "Payment Period") immediately following the date of such order or, if such order is appealed, the date on which a final determination from which there is no appeal is made by a court of competent jurisdiction relating to such order, whichever date is later, Home fails to make the required fair value payment to such dissenting shareholder, the dissenting shareholder, by written notice delivered to Home within 60 days following the expiration of the Payment Period, may:
 - (A) withdraw his notice of dissent, in which case Home and Scurry are deemed to consent to the withdrawal and, subject to paragraph 3.1(c), the Holder is reinstated to his full rights as a shareholder; or
 - (B) retain his status as a claimant against Home, to be paid in priority to its shareholders;
- (b) shareholders who exercise their rights of dissent and who are ultimately entitled to be paid fair value shall be deemed to have transferred their Scurry Shares to Home as of the Effective Date and:

- (i) the holder thereof shall cease to be the holder of such share and such holder's name shall be removed from the register of Scurry Shares as of the Effective Date; and
- (ii) Home shall be, and be deemed to be, the transferee of such share and shall be entered in the register of such shares as the holder thereof as of the Effective Date;
- (c) shareholders who exercise such rights of dissent and who are ultimately not entitled for any reason to be paid fair value for their Scurry Shares or shareholders who withdraw their dissent in accordance with the rights conferred herein shall be deemed to have participated in the Arrangement on the same basis as the non-dissenting shareholders who elected or were deemed to have elected to receive Home Shares as of and from the Effective Date and the Scurry Shares held by such shareholders shall be deemed to be transferred to Home as of the Effective Date in accordance with Section 2.2; and
- (d) for the purposes of giving any notice or other communication to Home in connection with the exercise of a right of dissent, a shareholder may give such notice or other communication to Home by delivering it to Scurry's offices located at 1600 Home Oil Tower, 324 - 8th Avenue S.W., Calgary, Alberta, T2P 2Z5, Attention: Corporate Secretary.

ARTICLE 4

PAYMENT AND SHARE CERTIFICATES

4.1 Right to Payment and Share Certificates

- (a) Where a Holder has elected in accordance with paragraph 2.3(a) and the Letter of Transmittal and Election Form to receive cash for his Scurry Shares, Home shall forward or cause to be forwarded as soon as practicable following the Effective Date by first class mail (postage prepaid) to the Holder at the address specified in the Letter of Transmittal and Election Form, a cheque in Canadian currency representing the payment required to be made to such Holder pursuant to subparagraph 2.2(a)(i) or, if so requested by such Holder, Home may make such payment in U.S. dollars (for such purpose Canadian dollar amounts shall be converted into U.S. dollar amounts at the Exchange Rate on the Business Day immediately prior to the date of the issuance of the cheque evidencing such payment).
- (b) Where a Holder has elected or is deemed to have elected in accordance with Section 2.3 to receive Home Shares for his Scurry Shares, Home shall forward or cause to be forwarded as soon as practicable following the later of the Effective Date and the date of deposit with the Depositary of a duly completed Letter of Transmittal and Election Form and the certificates representing such Scurry Shares by first class mail (postage prepaid) to the Holder at the address specified in the Letter of Transmittal and Election Form, a certificate representing the number of Home Shares issuable to such Holder pursuant to subparagraph 2.2(a)(ii), together with a cheque in the amount, if any, payable to such Holder pursuant to Section 2.4.
- (c) Subject to Section 3.1, Holders who have elected or are deemed to have elected pursuant to Section 2.3 to receive Home Shares shall be deemed to be the holder for all purposes as of the Effective Date of the number of Home Shares to which they are entitled pursuant to subparagraph 2.2(a)(ii).
- (d) Subject to Section 3.1, at and after the Effective Date, any certificate formerly representing Scurry Shares (other than Scurry Shares held by Home) shall represent only the right to receive cash or Home Shares in accordance with Sections 2.2 and 2.3 and any such certificate formerly representing Scurry Shares not duly surrendered on or prior to the sixth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature against Home or Scurry by a former Holder. On such date, all Home Shares to which the former Holder of such certificate was entitled shall be deemed to have been surrendered to Home, together with all dividends and distributions thereon.



September 20, 1993

The Special Committee of the
Board of Directors
Scurry-Rainbow Oil Limited
1600, 324 - 8th Avenue S.W.
Calgary, Alberta
T2P 2Z5

To the Members of the Special Committee:

RBC Dominion Securities Inc. ("RBC Dominion Securities") understands that Home Oil Company Limited ("Home Oil") proposes to acquire all of the issued and outstanding common shares (the "Common Shares") of Scurry-Rainbow Oil Limited ("Scurry-Rainbow") not owned by Home Oil (the "Minority Common Shares") for, at the option of each Scurry-Rainbow shareholder: (i) cash consideration of \$26.50 per Common Share; or (ii) for each Common Share, the number of common shares of Home Oil (the "Home Oil Common Shares") having a value equal to \$26.50. The number of Home Oil Common Shares to be issued for each Common Share is to be determined by dividing \$26.50 by the weighted average trading price of Home Oil Common Shares on The Toronto Stock Exchange for the ten consecutive trading days ending on the business day immediately prior to the meeting of Scurry-Rainbow shareholders (the "Meeting") to be held to approve the proposed transaction. The weighted average trading price is to be determined by dividing the aggregate sale price of all Home Oil Common Shares on The Toronto Stock Exchange during such ten consecutive trading days by the total number of Home Oil Common Shares sold.

The proposed transaction is to be implemented by way of an arrangement (the "Arrangement") pursuant to a court approved plan of arrangement under the *Business Corporations Act* (Alberta) (the "ABCA"). Under the Arrangement each of the issued and outstanding Minority Common Shares (other than Common Shares held by shareholders who have exercised their rights of dissent and are ultimately entitled to be paid fair value for such Common Shares) will be transferred to Home Oil and exchanged, at the election of the shareholder, for cash or for Home Oil Common Shares.

The terms of the proposed Arrangement will be more fully described in the information circular (the "Information Circular") to be mailed to all Scurry-Rainbow shareholders in connection with the Meeting.

A. Background

The authorized share capital of Scurry-Rainbow consists of 200 million common shares and 100 million preferred shares, all of no par value. As at June 30, 1993, there were no preferred shares outstanding, no securities convertible into common shares or preferred shares outstanding, no options to purchase common shares outstanding and 13,462,129 Common Shares issued and outstanding.

Home Oil owns 11,856,588 Common Shares, representing approximately 88.1% of the Common Shares, with the remaining 1,605,541 Common Shares being held by public shareholders (the "Minority Shareholders").

B. Engagement

On June 23, 1993 Home Oil approached the board of directors of Scurry-Rainbow with a view to determining whether Home Oil and Scurry-Rainbow could discuss, on a confidential basis, whether agreement could be reached on the terms of a transaction which would result in the acquisition by Home Oil of the Minority Common Shares. Upon receiving this request the board of directors of Scurry-Rainbow established a special committee, comprising its four independent directors, to review the request and make its recommendation thereon to the board. At its first meeting, held on the same date, the committee determined that independent financial advisors should be engaged and authorized the solicitation of a proposal from RBC Dominion Securities to act in that capacity. The special committee requested that RBC Dominion Securities provide a written proposal for the provision of services in connection with the proposed transaction. On June 29, 1993, RBC Dominion Securities met with the special committee to present and discuss RBC Dominion Securities' written proposal. The special committee inquired as to RBC Dominion Securities' independence, capabilities and expertise to provide financial advisory services including, if requested, the preparation and delivery of such valuations as the special committee might require, and the provision of RBC Dominion Securities' opinion as to the fairness, from a financial point of view, of a transaction to the Minority Shareholders. As discussions concerning this transaction were terminated by Home Oil, no further steps were taken by the special committee to engage RBC Dominion Securities.

On August 4, 1993, Home Oil presented to the board of directors of Scurry-Rainbow a proposal that Home Oil acquire the Scurry-Rainbow Minority Common Shares at a cash price of \$26.50 per share. The making of such proposal was then publicly announced.

On August 4, 1993, in response to the proposal by Home Oil, the board of directors of Scurry-Rainbow constituted a special committee (the "Special Committee") to consider the Arrangement. RBC Dominion Securities was notified that it would be engaged by the Special Committee to provide financial advice and to complete a valuation of the Common Shares (the "Valuation"). RBC Dominion Securities was also asked to provide its opinion as to the fairness of the Arrangement, from a financial point of view, to the Minority Shareholders (the "Fairness Opinion"). The Valuation and the Fairness Opinion have been prepared in compliance with the provisions of Ontario Securities Commission Policy 9.1 ("Policy 9.1") and Quebec Securities Commission Policy Q-27 ("Policy Q-27").

RBC Dominion Securities was formally engaged by Scurry-Rainbow by way of a written agreement dated August 4, 1993 (the "Engagement Agreement"). RBC Dominion Securities understands that this report, including the Valuation and Fairness Opinion, may be included, subject to the terms of the engagement, in the Information Circular and RBC Dominion Securities has consented thereto. Scurry-Rainbow has agreed to compensate RBC Dominion Securities for its services, to reimburse it for its reasonable out-of-pocket expenses and to indemnify it in certain circumstances. The fees payable to RBC Dominion Securities are not contingent in whole or in part upon the completion of the Arrangement. RBC Dominion Securities will be paid a fee in the amount of \$150,000 for its services pursuant to this engagement.

C. Credentials of RBC Dominion Securities

RBC Dominion Securities is one of Canada's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading, investment research and investment management. RBC Dominion Securities is a leading provider of financial services to the oil and gas industry in the areas of accessing debt and equity capital markets, mergers, acquisitions, divestments, restructurings, valuations and fairness opinions.

The individuals at RBC Dominion Securities primarily responsible for the preparation of the Valuation and Fairness Opinion were Ian D. Bruce, C.A., C.B.V., Vice President and Director with over ten years experience at RBC Dominion Securities in all aspects of investment banking as well as six years prior experience in the valuation and accounting fields, and John P. A. Budreski, Vice President with over six years experience in all aspects of investment banking as well as five years prior experience as an engineer with a major oil and gas company. In addition, other RBC Dominion Securities professionals were involved in specific segments of this engagement.

The Valuation and Fairness Opinion expressed herein are the opinions of RBC Dominion Securities and the form and content of this letter have been approved for release by a committee of its directors, each of whom is experienced in valuation and fairness opinion matters.

D. Independence of RBC Dominion Securities

RBC Dominion Securities is not an insider, associate or affiliate (as such terms are defined in the Securities Act (Ontario)) of Scurry-Rainbow or Home Oil and neither RBC Dominion Securities nor any of its affiliates is an advisor to Home Oil in respect of the proposed transaction.

RBC Dominion Securities acted as a co-lead underwriter in May 1993 in a joint secondary distribution by Gulf Canada Resources Limited ("Gulf Canada") and Olympia & York Developments Limited of 23.6 million common shares of Home Oil for \$396.1 million, and as agent for Federated Pipe Lines Ltd. in October 1992 for a \$27.0 million debenture issue (Home Oil holds a 50% interest in Federated Pipe Lines Ltd.), but otherwise has not acted as an underwriter or financial advisor for either Home Oil or Scurry-Rainbow in the past 24 months.

There are no understandings or agreements between RBC Dominion Securities and Home Oil or Scurry-Rainbow with respect to future business dealings between them.

E. Scope of Review, Assumptions and Limitations

In preparing the Valuation and Fairness Opinion, RBC Dominion Securities has reviewed and relied upon, or carried out, among other things, the following:

- (i) the audited consolidated financial statements of Scurry-Rainbow for each of the five consecutive fiscal years ended December 31, 1992;
- (ii) the unaudited financial statements for Scurry-Rainbow for the three months ended June 30, 1993 and 1992 and the six months ended June 30, 1993 and 1992;
- (iii) information regarding Scurry-Rainbow's undeveloped land holdings and an independent land appraisal prepared by Seaton-Jordan & Associates Ltd. ("Seaton-Jordan") effective June 3, 1993 and dated June 11, 1993;
- (iv) discussions with representatives of Seaton-Jordan regarding its appraisal;
- (v) the internally prepared Scurry-Rainbow budget for fiscal 1993 and a subsequent revision thereto;
- (vi) the internally prepared Scurry-Rainbow financial and operating management report for the six months ended June 30, 1993;
- (vii) detailed information regarding Scurry-Rainbow's estimate of its tax pool balances as at June 30, 1993, and Scurry-Rainbow's 1992 federal and provincial income tax returns;
- (viii) the reserves report dated July 22, 1993 prepared by McDaniel and Associates Consultants Ltd. ("McDaniel"), independent oil and gas reservoir engineering consultants, outlining its June 30, 1993 update to its January 1, 1993 determination of Scurry-Rainbow's proved reserves volumes;
- (ix) discussions with representatives of McDaniel regarding its determination;
- (x) a revised natural gas production profile prepared by McDaniel;
- (xi) the reserves reports prepared by management outlining Scurry-Rainbow's proved and probable reserves volumes and values as at June 30, 1993;
- (xii) information relating to historic and forecast oil, natural gas liquids and natural gas production from fiscal 1992 to 1995;
- (xiii) discussions with representatives of Scurry-Rainbow and Home Oil with regard to the Scurry-Rainbow information, its operations and future prospects, including environmental matters;
- (xiv) public information related to the business, operations, financial performance and stock trading histories of Scurry-Rainbow, Home Oil and other selected public oil and gas companies; and
- (xv) the letter of representation dated the date hereof from an officer of Scurry-Rainbow.

RBC Dominion Securities conducted such analyses, investigations, research and testing of assumptions as were considered by it to be appropriate in the circumstances for the purpose of preparing the Valuation and the Fairness Opinion. RBC Dominion Securities was granted full access to Scurry-Rainbow and Home Oil senior

management and was not, to the best of its knowledge, denied access to any information which might be material to the Valuation or the Fairness Opinion.

RBC Dominion Securities has relied upon, with the Special Committee's approval and as provided for in the Engagement Agreement, and has assumed the completeness, accuracy and fair presentation of, all of the financial and other information, data, advice, opinions and representations obtained by it from public sources or drafts of the Information Circular provided to it by Scurry-Rainbow and its subsidiaries, affiliates or advisors, or otherwise pursuant to the Engagement Agreement. The opinions expressed herein are conditional upon such completeness, accuracy and fairness. RBC Dominion Securities has not attempted to verify the accuracy or completeness of any of such information, data, advice, opinions and representations.

RBC Dominion Securities believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and that its analyses are not necessarily amenable to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. In its analyses and in connection with the preparation of the Valuation and Fairness Opinion, RBC Dominion Securities made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Scurry-Rainbow.

F. Valuation Methodology

(a) Definition of Value

For purpose of this valuation engagement, fair market value is defined as the highest price available in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act, expressed in terms of money or money's worth without any downward adjustment to reflect the fact that the Minority Common Shares do not form part of a controlling interest.

(b) Approach to Value

RBC Dominion Securities has evaluated Scurry-Rainbow using the following valuation approaches, which in its opinion are appropriate for the valuation of oil and gas exploration and development companies:

- (1) **Net Asset Value Approach.** The net asset value ("NAV") approach for Scurry-Rainbow ascribes a separate value for each category of asset and liability utilizing a methodology appropriate in each case; the sum of total assets less total liabilities yields the net common equity value. This approach does not provide for the future addition of reserves through an ongoing exploration and development program.
- (2) **Cash Flow Approach.** RBC Dominion Securities compared the price to cash flow multiples implied by the proposed transaction to the price to cash flow multiples for a group of companies identified by RBC Dominion Securities to be peers of Scurry-Rainbow, to assess the reasonableness of the proposed transaction in the context of current stock market valuations for Scurry-Rainbow and similar companies.
- (3) **Comparison to Recent Transactions.** There have been a number of significant producing property asset acquisitions and "share exchange" corporate acquisitions in the oil and gas sector during 1993. Utilizing a number of general measures, RBC Dominion Securities has reviewed transaction prices against certain key variables, determined levels of and trends in prices paid and compared the value as implied by the proposed transaction to these recent transactions.

It is RBC Dominion Securities' opinion that the NAV approach is the most appropriate methodology to establish the value of oil and gas companies similar to Scurry-Rainbow. For the purpose of considering the proposed transaction, this methodology received the most emphasis in RBC Dominion Securities' analyses and conclusions.

G. Description of Scurry-Rainbow

Scurry-Rainbow is an Alberta corporation engaged in the exploration for and production of crude oil, natural gas liquids and natural gas in western Canada. Management, technical and administrative services are provided to Scurry-Rainbow by Home Oil on a cost of service basis under an agreement dated March 1, 1984 (the "Management Agreement"). The Management Agreement is of indefinite duration and can be terminated by either Home Oil or Scurry-Rainbow at the end of any calendar month by giving 30 days written notice. Consequently,

Scurry-Rainbow has no independent management or employees and the senior officers of Scurry-Rainbow are also the senior officers of Home Oil. References to "management" includes senior officers of Scurry-Rainbow and Home Oil employees providing services under the Management Agreement.

A significant proportion of Scurry-Rainbow's assets are coincident with Home Oil's. Approximately 58% of Scurry-Rainbow's crude oil reserves and approximately 31% of Scurry-Rainbow's natural gas reserves are in properties in which Home Oil also has an interest.

As at June 30, 1993, McDaniel estimated that Scurry-Rainbow had total proved reserves before royalties of 11.2 mmbbls (9.3 mmbbls net after royalties) of crude oil, 4.1 mmbbls (3.0 mmbbls net) of natural gas liquids and 308 bcf (229 bcf net) of natural gas. Management has estimated Scurry-Rainbow's total proved reserves before royalties as at June 30, 1993 at 13.1 mmbbls (11.0 mmbbls net) of crude oil, 7.2 mmbbls (6.3 mmbbls net) of natural gas liquids and 344 bcf (291 bcf net) of natural gas. Management has estimated Scurry-Rainbow probable reserves before royalties as at June 30, 1993 at 9.2 mmbbls of crude oil, 4.2 mmbbls of natural gas liquids and 197 bcf of natural gas.

Production for the first six months of 1993 averaged 5,559 bbls/day of crude oil, 1,371 bbls/day of natural gas liquids and 70.7 mmcf/day of natural gas. Comparable volumes for 1992 were 7,100 bbls/day of crude oil, 1,070 bbls/day of natural gas liquids and 54.6 mmcf/day of natural gas. Discretionary cash flow (cash flow from operations less capitalized general and administration expense) for 1993 has been estimated by RBC Dominion Securities at approximately \$45.1 million or \$3.35 per share. Scurry-Rainbow has no debt outstanding.

Scurry-Rainbow's major producing crude oil and natural gas liquids properties are West Eagle Unit, East Eagle Unit, West Stoddart and Cecil/Royce. These four properties accounted for 46% of Scurry-Rainbow's 1992 crude oil and natural gas liquids production. Scurry-Rainbow's major natural gas properties are South Wapiti, Border Montney Units A & B, Karr, Hamburg and North Coleman, accounting for 59% of 1992 natural gas production.

For the first six months of 1993, Scurry-Rainbow's production, (calculated on a 10:1 barrel of oil equivalent ("BOE") conversion rate for natural gas), was approximately 50% oil and natural gas liquids and 50% natural gas. Using the same conversion rate, its proved reserves base as at June 30, 1993 as evaluated by McDaniel was 34% oil and natural gas liquids (15.9 mmbbls) and 66% natural gas (30.8 mmBOE), and as evaluated by management was 37% oil and natural gas liquids (19.5 mmbbls) and 63% natural gas (33.9 mmBOE).

Scurry-Rainbow markets its natural gas to aggregators and to end users under spot, short to medium term and long term contracts. Approximately 35% of natural gas production is affected by spot prices. Scurry-Rainbow's natural gas production is not currently constrained by lack of markets nor pipeline transmission curtailments. Crude oil production is marketed primarily under market sensitive evergreen contract arrangements and has not been affected by pipeline curtailments.

During the first quarter of 1993, Scurry-Rainbow sold, for \$15.1 million, 50 non-strategic properties which were located primarily in southeastern Saskatchewan and contained interests in approximately 800 wells. The sale reduced daily oil production by approximately 1,000 bbls/day and proved crude oil reserves by approximately 3.2 million barrels.

SELECTED FINANCIAL INFORMATION

(thousands except per share data)

	Six Months ended June 30		Years Ended December 31				
	1993	1992	1992	1991	1990	1989	1988
Operations							
Oil and gas revenue (1)	\$ 38,860	\$ 34,167	\$ 74,027	\$ 70,571	\$ 84,588	\$ 70,211	\$ 67,081
Cash flow from operations	24,596	20,139	42,736	43,863	57,424	50,117	48,122
Earnings	5,668	3,498	8,824	9,535	22,632	18,979	15,112
Dividends	3,366	3,366	6,731	6,731	6,731	6,731	13,462
Per share data: (2)							
Cash flow from operations	\$ 1.83	\$ 1.50	\$ 3.17	\$ 3.26	\$ 4.27	\$ 3.72	\$ 3.57
Earnings	0.42	0.26	0.66	0.71	1.68	1.41	1.12
Dividends	0.25	0.25	0.50	0.50	0.50	0.50	1.00

Financial Position

Total assets	\$393,401	\$378,486	\$384,171	\$388,859	\$379,933	\$349,444	\$324,121
Long-term debt	—	—	—	—	—	—	—
Working capital (deficiency)	6,857	(4,505)	(3,436)	(11,105)	(10,051)	4,167	12,142
Shareholders' equity	240,894	236,631	238,592	236,499	233,695	217,794	205,546

Notes:

(1) Excludes investment income.

(2) Per share data based on 13,462,129 shares outstanding.

SELECTED OPERATING INFORMATION

Crude Oil Reserves

(millions of barrels before royalties)

	as at June 30 1993	as at December 31		
		1992	1991	1990
Proved developed	11.2	13.6	16.6	19.1
Proved undeveloped	1.9	1.7	1.6	3.5
Total proved	13.1	15.3	18.2	22.6
Probable	9.2	10.2	9.8	12.1
Total proved and probable	22.3	25.5	28.0	34.7

Natural Gas Liquids Reserves
(millions of barrels before royalties)

	as at June 30	as at December 31		
	1993	1992	1991	1990
Proved developed	5.5	5.7	6.1	5.9
Proved undeveloped	1.7	1.3	1.2	1.1
Total proved	7.2	7.0	7.3	7.0
Probable	4.2	4.0	4.0	5.2
Total proved and probable	<u>11.4</u>	<u>11.0</u>	<u>11.3</u>	<u>12.2</u>

Natural Gas Reserves
(billions of cubic feet before royalties)

	as at June 30	as at December 31		
	1993	1992	1991	1990
Proved developed	231	229	253	218
Proved undeveloped	113	109	105	137
Total proved	344	338	358	355
Probable	197	193	192	203
Total proved and probable	<u>541</u>	<u>531</u>	<u>550</u>	<u>558</u>

Daily Average Production/Sales

	Six Months ended June 30		Year Ended December 31				
	1993	1992	1992	1991	1990	1989	1988
Crude oil production (bbls)	5,559	7,100	7,051	7,208	7,679	8,021	8,469
Natural gas liquids production (bbls)	1,371	1,070	1,150	1,095	1,085	1,277	1,277
Natural gas sales (mmcf)	70.7	54.6	56.8	43.0	42.2	37.7	37.1

H. Net Asset Value Approach

The NAV approach evaluates all categories of business and financial assets and liabilities on a segmented basis utilizing the valuation methodology most appropriate for each category. The NAV approach ascribes a value to the cash flows expected to be derived from the proved and probable reserves volumes as determined by reservoir engineers, and does not provide for the addition of reserves through reinvestment in an ongoing exploration and development program.

(a) *Effective Date of Valuation*

An effective date of June 30, 1993 was used for the Scurry-Rainbow valuation.

(b) *Oil and Natural Gas Reserves*

The major factors affecting oil and natural gas reserves values include: estimates of volumes, including related principal variables; oil and natural gas pricing assumptions, including related economic factors such as forecasts of foreign exchange and inflation rates; rates of take under long term natural gas sales contracts; general and administrative expense assumptions, and federal and provincial tax incidence assumptions.

(c) *Volumes and Related Principal Variables*

Scurry-Rainbow's proved oil, natural gas liquids and natural gas volumes were determined by McDaniel effective June 30, 1993. McDaniel determined Scurry-Rainbow's proved reserves on a major property basis and reviewed management's evaluation of Scurry-Rainbow's minor properties. Management engineers evaluate Scurry-Rainbow's proved and probable oil, natural gas liquid and natural gas volumes annually and have updated their December 31, 1992 evaluation to June 30, 1993. The management evaluation of Scurry-Rainbow's reserves attributed higher volumes and values than the McDaniel determination. RBC Dominion Securities has relied on the Scurry-Rainbow reserves volumes and values as evaluated by management and supported by the McDaniel determinations.

(d) *Oil and Natural Gas Price Forecast*

Scurry-Rainbow's oil, natural gas liquids and natural gas reserves values were derived utilizing price forecasts which RBC Dominion Securities believes are reasonable and representative of current industry views. In determining the appropriateness of the price forecasts used, RBC Dominion Securities reviewed the published price forecasts of major independent reservoir engineering consulting firms, other forecasts it has access to, and considered price forecasts implicit in recent private market transactions.

Prices utilized for evaluation purposes are set out below for crude oil (West Texas Intermediate at Cushing Oklahoma in US dollars and sweet light at Edmonton in Canadian dollars) and for representative natural gas contracts (CanWest and Pan Alberta purchase approximately 44% of Scurry-Rainbow's current natural gas production volumes). An annual inflation factor of 2.0% for 1993, 2.5% for 1994 and 3.0% thereafter was used and the US/Canadian dollar exchange rate was forecast at \$0.80. In applying the pricing scenarios to the oil and gas assets of Scurry-Rainbow, prices were adjusted to reflect quality differentials, transportation costs and the effects of existing contractual sale arrangements for natural gas.

Price Forecasts

Year	Crude Oil		Natural Gas	
	WTI @ Cushing Ok	Light Crude @ Edmonton	CanWest	Pan Alberta
	(per bbl)		(per mmbtu)	
1993	US\$20.25	C\$23.65	C\$1.43	C\$1.60
1994	21.15	24.80	1.73	1.88
1995	21.95	25.75	1.90	2.03
1996	23.35	27.50	2.10	2.18
1997	24.80	29.20	2.23	2.30
1998	26.05	31.05	2.35	2.43
1999	27.35	32.60	2.50	2.60
2000	28.80	34.35	2.73	2.83
2001	30.30	36.10	2.90	3.00
2002	31.85	38.00	3.13	3.23

(e) *Alberta Royalty Tax Credit*

The Alberta Royalty Tax Credit program ("ARTC") is scheduled to terminate on December 31, 1994. It was assumed that either an extension to the program will occur or another program with similar economic effect will be implemented. Accordingly, no downward adjustment for Scurry-Rainbow was made to reflect the possible discontinuation of the ARTC program. Prior to May 1993, Scurry-Rainbow shared the ARTC entitlement equally with Home Oil and Gulf Canada Resources Limited. Since the sale by Gulf Canada Resources Limited of its Home Oil Common Shares in May 1993, Scurry-Rainbow ARTC values have been estimated based on an equal sharing of the ARTC entitlement with Home Oil.

(f) *Future General and Administration Expense*

It is customary when valuing oil and gas company reserves to deduct an estimate of ongoing general and administration expense from the annual cash flows before calculating an estimate of taxes payable and discounting the resultant annual cash flows. The future general and administration expense is assumed to relate only to the production of existing reserves and is thus lower than a company with an ongoing exploration focus.

Future general and administration expenses were adjusted to reflect the notional cessation of exploration activities as well as the forecast decline in production and related cash flow from Scurry-Rainbow's existing reserves as fields are depleted and abandoned. A sensitivity analysis on general and administration expense was prepared which demonstrated that a 25% change in the general and administrative expense resulted in a \$0.30 per Common Share change in NAV.

(g) *Federal and Provincial Taxation*

Under the NAV approach, oil, natural gas liquids and natural gas assets are valued on an after-tax basis. In the case of valuing the cash flow streams from Scurry-Rainbow's assets, federal and provincial taxes were calculated on an annual basis based on current relevant federal and provincial fiscal regimes, after utilizing tax deductions available from existing tax pools, tax pool additions generated by required capital expenditures and other relevant deductions.

(h) *Discount Rate Selection*

A key determinant in valuing the cash flows derived from oil and gas reserves is the selection of an appropriate discount rate. The discount rate ultimately selected is a function of a number of factors, including the perceived quality of the reserves, engineering risk, economic risk, and risk free rates of return. RBC Dominion Securities has discounted the future after-tax cash flows from Scurry-Rainbow's reserves at discount rates in the range of 10% to 12%. RBC Dominion Securities believes this range of discount rates is consistent with the prevailing economic conditions and adequately reflects economic risk, engineering risk and other factors for companies of the scope and nature of Scurry-Rainbow and is representative of prevailing industry rates.

(i) *Proved Reserves*

The valuation of Scurry-Rainbow's proved reserves was based on estimated annual after-tax cash flows discounted to June 30, 1993 utilizing after-tax discount rates ranging from 10% to 12%. Reserves were valued on an after-tax basis after giving recognition to the value of opening tax pools and additions associated with future capital expenditures required to produce existing reserves. The sensitivity of after-tax reserves values to discount rates and to leverage was reviewed. In addition, certain other qualitative and quantitative measures were also considered, such as reserves life indices, quality of production and operating margins.

(j) *Probable Reserves*

Probable reserves volumes and pre-tax values have been estimated by management and subsequently adjusted by RBC Dominion Securities to reflect a value derived by applying a risk-weighted after-tax proved reserves unit value to the risk adjusted probable reserves volumes. The reduction to the probable reserves volumes and unit value reflects the increased risk associated with this reserves category, and is consistent with industry practice.

(k) *Undeveloped Acreage*

As at June 30, 1993, Scurry-Rainbow owned 2.88 million gross (1.36 million net) acres of undeveloped acreage in western Canada. In a report dated June 11, 1993, Seaton-Jordan set out its opinion as to the market value of Scurry-Rainbow's undeveloped oil and gas acreage as at June 3, 1993. Seaton-Jordan estimated Scurry-Rainbow's

undeveloped western Canada acreage at that time to have a value of \$27.5 million. RBC Dominion Securities has relied upon the results set out in the Seaton-Jordan report. RBC Dominion Securities adjusted the undeveloped acreage value to reflect the value of the tax pools associated with open market purchases of land.

Undeveloped acreage
as at June 30, 1993

	<u>Gross</u> (thousands of acres)	<u>Net</u> (thousands of acres)	<u>Value</u> (millions)	<u>Average Value</u> (per acre)
Alberta	1,135	200	\$12.1	\$60.50
British Columbia	697	497	9.0	18.11
Saskatchewan	1,010	634	6.3	9.94
Manitoba	42	30	0.1	—
Total western Canada	<u>2,884</u>	<u>1,361</u>	<u>\$27.5</u>	<u>20.21</u>

The average unit value of Scurry-Rainbow's undeveloped acreage is lower than industry averages. In discussions with Seaton-Jordan and management, it was noted that there will be significant expiries in both northeastern British Columbia and eastern Saskatchewan positions over the next few years, and that the expiring lands are generally lower cost, trend acreage positions acquired in the late 1980's.

Scurry-Rainbow also has undeveloped acreage holdings in northern Canada totaling 891 thousand gross (59 thousand net) acres. RBC Dominion Securities, after consultation with Seaton-Jordan and discussions with management, estimated the value of these holdings as at June 30, 1993 to be between approximately \$1.0 and \$1.5 million.

(l) ***Other Assets***

Based on discussions with management, RBC Dominion Securities estimated the value of other assets to be in the range of \$3.0 to \$3.5 million. The majority of this value is represented by Scurry-Rainbow's prospective participation in the recently announced contract restructuring payment to be made by Alberta and Southern Gas Co. Ltd. The balance of the value relates to certain interests in coal assets held by Scurry-Rainbow.

(m) ***Working Capital***

Scurry-Rainbow's working capital surplus was valued at face value.

(n) ***Deferred Revenue***

Scurry-Rainbow's deferred production revenue liability relating to natural gas sales prepayments is now a nominal amount and is due within the next 12 months. It has been valued at face value and included in working capital.

(o) ***Abandonment Costs***

Abandonment costs for future equipment removal and site restoration expenses have been estimated by management based on current environmental regulations and standards. Future abandonment costs have been estimated in 1993 terms. RBC Dominion Securities has reviewed these estimates with management and calculated the after-tax present value of this liability by inflating the abandonment cost estimate based on the inflation forecast for the term of the BOE reserves life index, tax affecting such balance and then discounting the resultant amount at the rates used for the proved reserves valuation.

(p) *Net Asset Value Conclusion*

	As at June 30, 1993			
	Book Value	Low	High	Notes
		(millions)		
Assets				
Current	\$ 33.1	\$ 33.1	\$ 33.1	1
Property, plant and equipment				
Proved reserves		239.7	278.2	2
Probable reserves		36.0	41.9	3
ARTC		4.1	4.6	4
		279.8	324.7	
Conventional undeveloped acreage		22.0	22.0	5
Other undeveloped holdings		1.0	1.5	5
Total property, plant and equipment	360.3	302.8	348.2	
Other assets and deferred charges	—	3.0	3.5	6
Total Assets	<u>393.4</u>	<u>338.9</u>	<u>384.8</u>	
Liabilities				
Current	26.2	26.2	26.2	1
Deferred taxes	122.2	—	—	7
Other liabilities	4.1	4.1	3.6	8
Total Liabilities	<u>152.5</u>	<u>30.3</u>	<u>29.8</u>	
Shareholders' Equity	<u>\$240.9</u>	<u>\$308.6</u>	<u>\$355.0</u>	
Shares outstanding		13,462,129		9
Per share	\$17.89	\$22.92	\$26.37	

Notes:

- (1) Current assets and liabilities were based on the June 30, 1993 Scurry-Rainbow unaudited financial statements.
- (2) Proved reserves values were based on management's estimates of volumes and related future cash flows, which were adjusted for estimated future tax and general and administration expense and present valued.
- (3) Probable reserves volumes were estimated by management and valued at 25% of the proved reserves after tax unit value.
- (4) The ARTC value was based on an equal sharing of the entitlement with Home Oil and the assumption that the program continues indefinitely.
- (5) Undeveloped acreage values were estimated by Seaton-Jordan and adjusted by RBC Dominion Securities for associated tax pool value. Frontier acreage was valued based on management estimates.
- (6) The majority of the other asset value is represented by Scurry-Rainbow's participation in the Alberta and Southern Gas Co. Ltd. contract restructuring settlement. The balance represents the estimated value of certain coal assets.
- (7) The deferred tax liability has been valued with the proved reserves.
- (8) Site restoration expenses were estimated by management and the tax affected present value of the liability has been estimated by RBC Dominion Securities.
- (9) Common Shares outstanding as at June 30, 1993; there are no convertible securities or options outstanding.

I. Capitalization of Cash Flow Approach

In assessing the fairness of the Arrangement, RBC Dominion Securities considered the pricing multiples implied by the proposed transaction on the basis of the capitalization of discretionary cash flow and the capitalization of earnings before depreciation, interest and taxes ("EBDIT"). The first of these approaches involves the determination of the ratio of share price to discretionary cash flow, expressed as a multiple as a relative measure of the equity value of the company. The EBDIT capitalization approach is similar except that it involves the determination of the ratio of total value to EBDIT after adjusting for debt, deferred revenue and working capital.

RBC Dominion Securities relied primarily on the multiple of discretionary cash flow approach when comparing stock market valuations. The capitalization of EBDIT approach is typically preferred over the capitalization of discretionary cash flow approach as it allows a comparison of companies that is not affected by differences in capital structure. However, as Scurry-Rainbow incurs a significant cash tax liability and its peers generally are non-cash taxable, the suitability of this comparison is negatively affected.

Cash flow multiples attributed for a specific company are a function of several factors including, among other things, growth prospects, perceived quality of assets and management. RBC Dominion Securities reviewed price/cash flow multiples for four comparable publicly traded oil and gas companies. Peer group companies were selected on the basis of market capitalization, and similarity of operating and financial statistics. Comparative data were compiled using September 7, 1993 share trading prices and RBC Dominion Securities' Energy Research Group discretionary cash flow per share estimates for 1993 and 1994 for each comparable company. In addition, Home Oil was also compared to Scurry-Rainbow as these companies have a number of common properties.

Company	Price per Share (1)	Market Cap (millions)	Price/Cash Flow (2)			Cash Flow CAGR (3)
			1993E	1994E	1995E	
Co-enerco	\$13.38	\$305.3	5.9x	4.8x	3.8x	23%
Inverness Petroleum	11.00	305.9	7.2	5.2	3.8	43
Mark Resources	10.50	293.1	7.4	6.6	5.5	20
Morgan Hydrocarbons	5.50	179.6	6.1	4.4	3.1	36
Average			6.7x	5.3x	4.1x	31%
Home Oil	20.50	812.7	5.9	4.9	4.0	20
Scurry-Rainbow						
Unaffected price (4)	22.00	296.2	6.6	5.9	5.2	10
Proposal	26.50	356.7	7.9	7.1	6.3	10

Notes:

- (1) Closing prices on September 7, 1993.
- (2) RBC DS Energy Research Group estimates for cash flow.
- (3) Cash flow compounded annual growth rates for the period 1992 - 1995.
- (4) Based upon the "unaffected" share price on August 4, 1993.

The peer group companies are trading at multiples to estimated cash flow of 5.9 times to 7.4 times for 1993, 4.4 times to 6.6 times for 1994 and 3.1 times to 5.5 times for 1995. Average trading multiples for the same time periods are 6.7, 5.3 and 4.1 times, respectively.

The peer companies have demonstrated substantial recent growth in cash flows and analysts expect this trend to continue during the 1993 to 1995 time period. Analysts are now evaluating oil and gas companies on the basis of forecast 1994 and 1995 price/cash flow estimates. Current comparable stock market prices reflect these high levels of expected growth. Scurry-Rainbow and Home Oil, with lower projected increases in estimated cash flows, would be expected to trade at somewhat lower multiples.

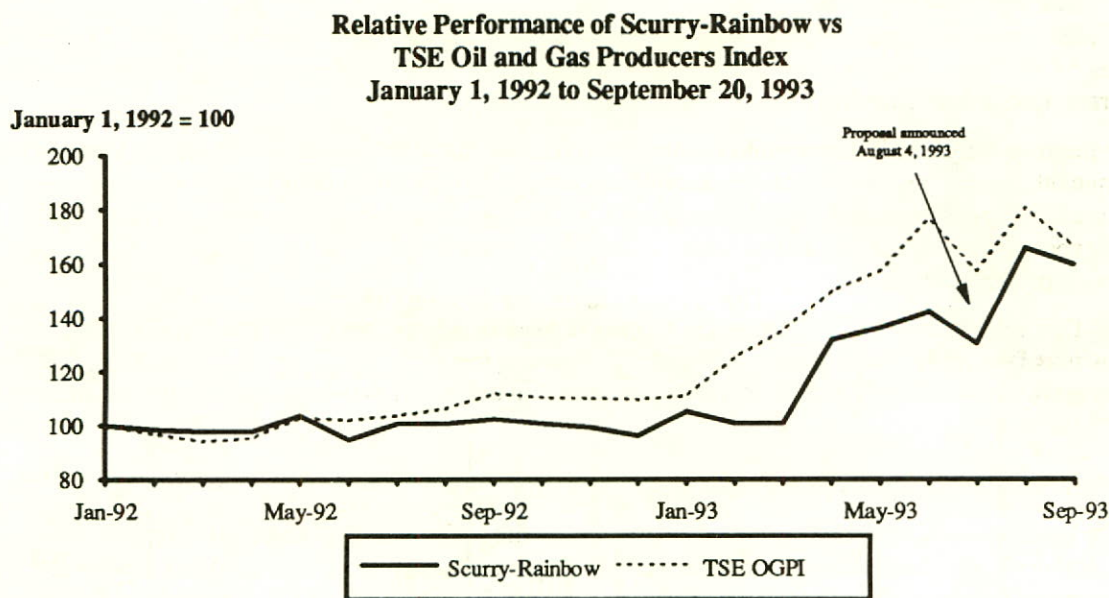
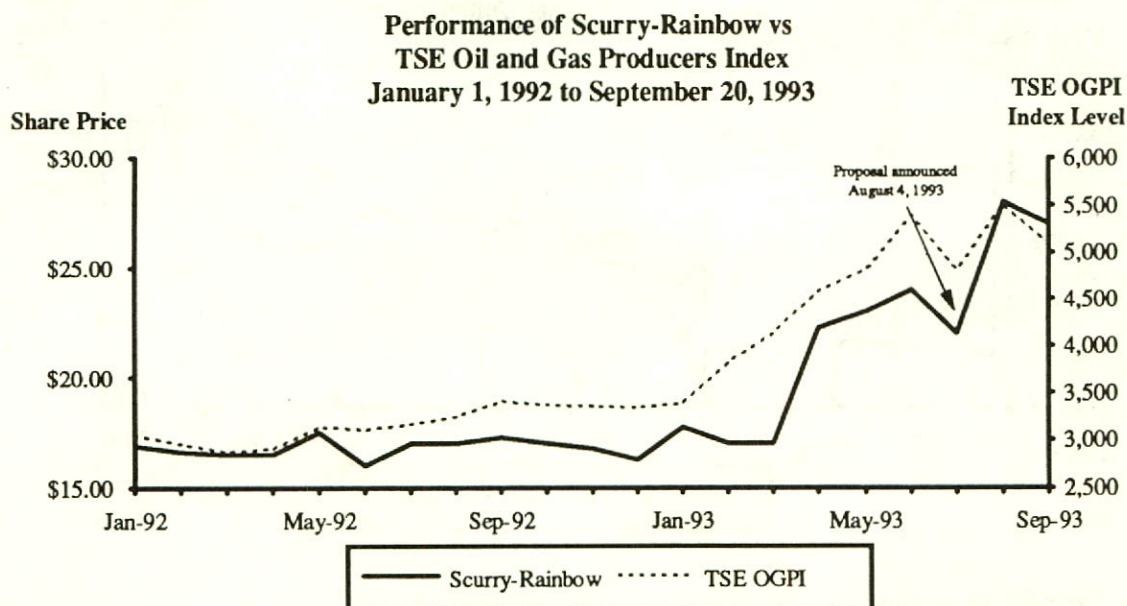
RBC Dominion Securities noted that the proposed price of \$26.50 per Common Share resulted in price to cash flow multiples of 7.1 times 1994 estimated cash flow and 6.3 times 1995 estimated cash flow, and that these multiples were 34% and 54% greater than the peer group average price cash flow multiples estimated for 1994 and 1995 respectively.

J. Comparison to Recent Transactions Approach

There have been a number of acquisitions of oil and gas companies and significant oil and gas property packages in 1993. For certain of these transactions where details relating to purchase price, reserves volumes and expected cash flow were available, RBC Dominion Securities reviewed implied pricing on a number of measures. After reviewing the recent transactions and comparing the characteristics of the target companies to those of Scurry-Rainbow, RBC Dominion Securities believes the implied acquisition multiples for Scurry-Rainbow are reasonable and are above the mid-point of the range of other precedent transactions which have occurred in the oil and gas industry this year.

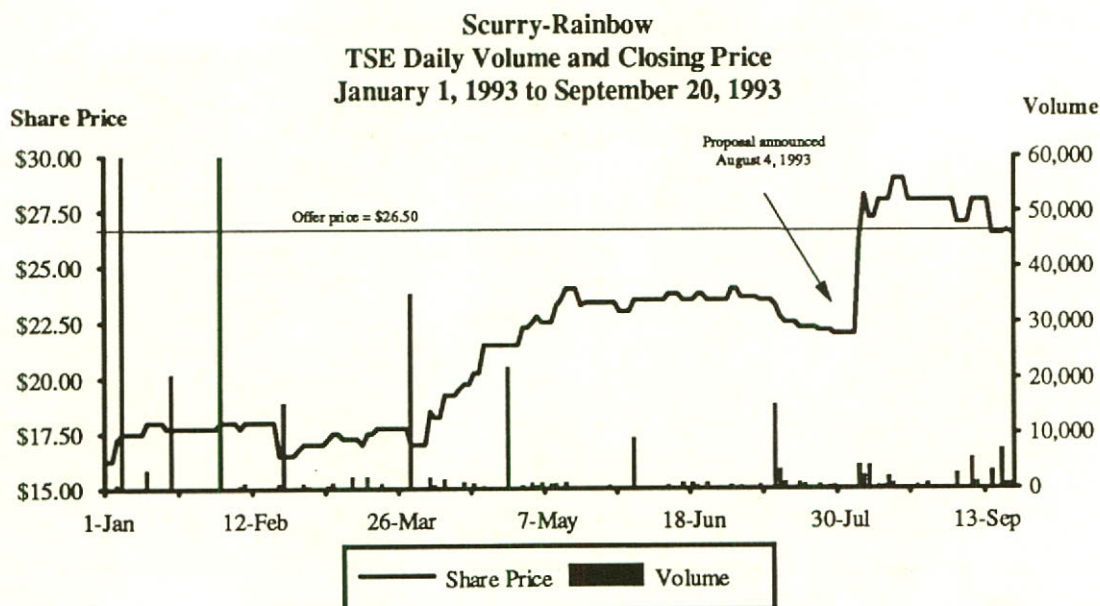
K. Public Equity Market Value Analysis

RBC Dominion Securities has also reviewed and considered the trading history of Scurry-Rainbow on both an absolute basis as well as relative to The Toronto Stock Exchange oil and gas producers index (the "TSE OGPI").



Scurry-Rainbow has enjoyed significant share price appreciation since the spring of 1993; however, it has underperformed the TSE OGPI. This underperformance reflects the superior growth characteristics displayed by a number of Scurry-Rainbow's peers. While Scurry-Rainbow has demonstrated dramatic recent growth in natural gas production volumes, this has been offset by declines in crude oil production with the net result that cash flow growth is modest.

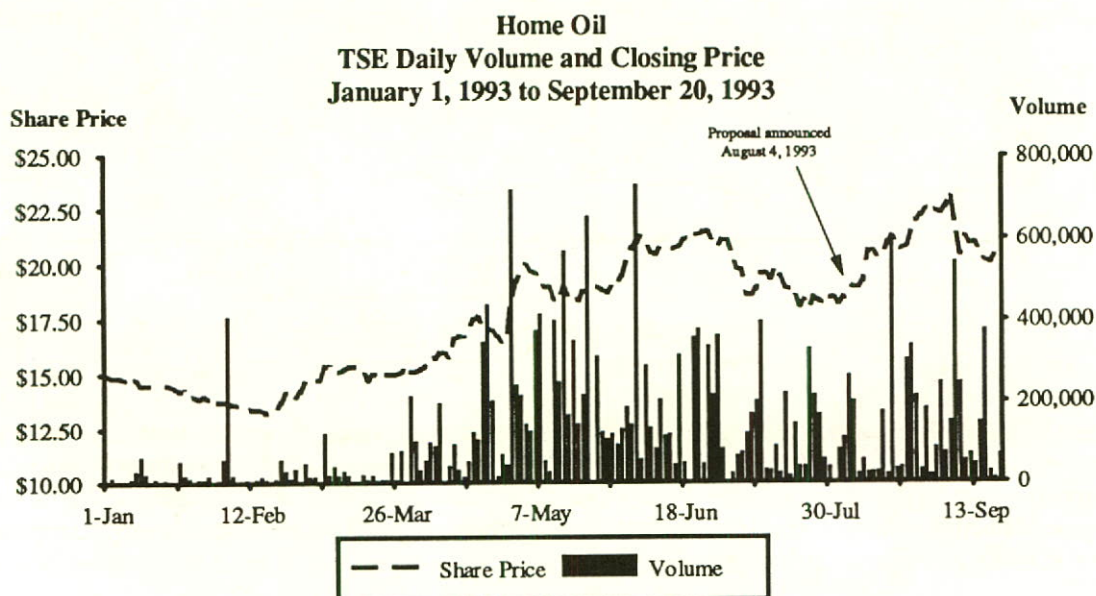
The following chart provides share trading information from The Toronto Stock Exchange for Scurry-Rainbow.



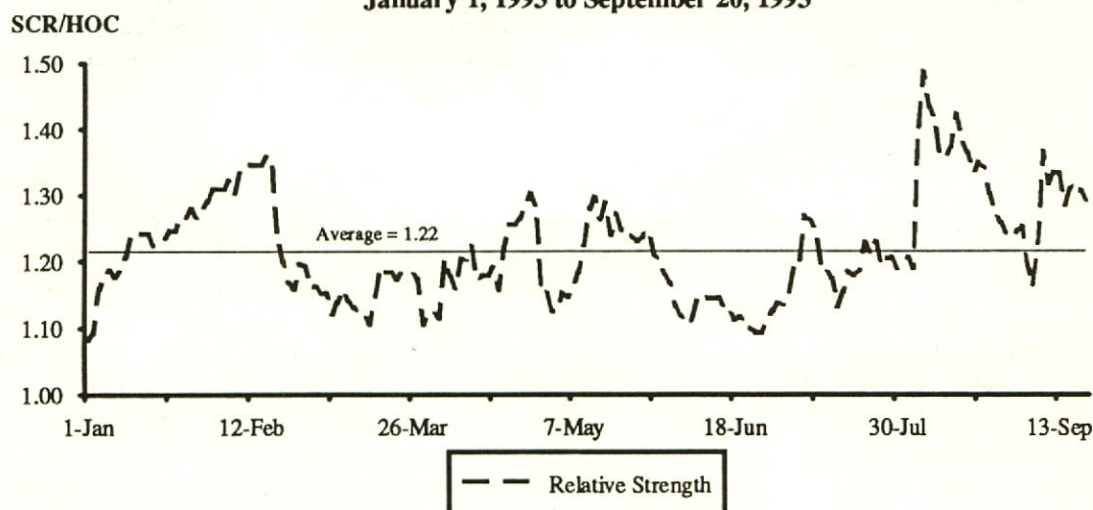
The proposed transaction represents a premium of approximately 17.5% to the 20 day “unaffected” average closing price of \$22.55 for Scurry-Rainbow up to the date of the announcement of the transaction, and a 30.3% premium to the average closing price of \$20.34 for the period from January 1, 1993 to the date of the announcement of the transaction.

L. Share Exchange Alternative

To evaluate the share exchange alternative, the absolute price for Home Oil Common Shares, as well as the ratio of the share prices of Scurry-Rainbow to Home Oil, have been reviewed.



**Scurry-Rainbow Share Price
Divided by Home Oil Share Price
January 1, 1993 to September 20, 1993**



For the period from January 1, 1993 to September 20, 1993, the average ratio of Scurry-Rainbow's share price to Home Oil's was 1.22. For the ten trading days ended September 20, 1993, the weighted average trading price for Home Oil Common Shares was \$21.02 per share which, for purposes of illustration only would, when divided into \$26.50 result in 1.26 Home Oil Common Shares for each Common Share.

M. Prior Valuations

The management of Scurry-Rainbow has represented to RBC Dominion Securities that there have been no prior formal valuations of Scurry-Rainbow prepared by independent parties in the last twenty-four months.

The management of Home Oil annually prepares a year-end net asset valuation of Scurry-Rainbow which is used for corporate planning purposes as a means of measuring changes in Home Oil's assets. In addition, a net asset valuation of Scurry-Rainbow as at June 30, 1993 was prepared by the management of Home Oil to assist it in making its proposal to Scurry-Rainbow. The net asset values per share attributed to Scurry-Rainbow in such valuations during the preceding two years are set out below:

Net Asset Value Per Share

Valuation Date	12% Discount Rate	10% Discount Rate
December 31, 1991	\$18.87	\$20.99
December 31, 1992	22.40	25.19
June 30, 1993	22.05	24.84

RBC Dominion Securities has been advised that a net asset evaluation of Home Oil was prepared in October 1992 by The First Boston Corporation ("FBC") to assist Gulf Canada Resources Limited and GW Utilities Limited ("GW") to evaluate offers they might receive for their shares in Home Oil. In the FBC evaluation a deduction for the Scurry-Rainbow "minority interest" of \$44.7 million to \$53.5 million was set out. RBC Dominion Securities has also been advised of a net asset evaluation of Home Oil as at January 1, 1992 prepared by management of GW which included an allowance for the minority interest in Scurry-Rainbow of \$59 million. Both such net asset evaluations of Home Oil were referred to in GW's management information circular and proxy statement dated February 8, 1993 in connection with the distribution to its shareholders of Home Oil Common Shares.

RBC Dominion Securities has placed no reliance on the Home Oil internal valuations or on the evaluations prepared by or for GW, referred to above.

N. Range of Values Conclusion

Given the basis of the evaluation, the scope of review and subject to the assumptions and limitations noted herein, RBC Dominion Securities concluded that as at June 30, 1993, the fair market value of Scurry-Rainbow's Common Shares was in the range of \$23.00 to \$26.40 per Common Share. RBC Dominion Securities is not aware of any factor or circumstance that would render its conclusion as to such fair market value inapplicable as at the date hereof.

O. Distinctive Value to Home Oil

In the event that the Arrangement becomes effective, the privatization of Scurry-Rainbow should result in the realization of certain benefits by Home Oil. Home Oil management believes that the primary benefits it expects to realize if the Arrangement proceeds are: general and administration expense and operational efficiency savings of approximately \$0.8 to \$1.0 million per annum before tax; the benefits associated with the simplification of Home Oil's corporate structure; and the benefits associated with the elimination of potential conflicts of interest between Home Oil as a major shareholder of Scurry-Rainbow, and Scurry-Rainbow and its Minority Shareholders. As both Home Oil and Scurry-Rainbow are paying cash taxes, no material tax synergies are expected to result from the Arrangement.

P. Fairness Conclusion

Based on and subject to the foregoing, RBC Dominion Securities is of the opinion that, as at the date hereof, the Arrangement is fair from a financial point of view to the Scurry-Rainbow Minority Shareholders for the following principal reasons:

- (i) the proposed price of \$26.50 per Common Share exceeds the high end of the Valuation range;
- (ii) the valuation parameters implicit in the Arrangement compare favourably to those implicit in precedent transactions and to trading values of publicly traded peer companies;
- (iii) the option to receive Home Oil Common Shares at an equivalent level of value to \$26.50 cash provides the opportunity to defer capital gains tax and to participate in the benefits of the combination of Home Oil and Scurry-Rainbow; and
- (iv) Minority Shareholders electing to receive Home Oil Common Shares will enjoy a more liquid market than currently exists for the Common Shares.

Yours truly,

(Signed) RBC Dominion Securities Inc.



September 7, 1993

The Special Committee of the Board of Directors
Scurry Rainbow Oil Limited
1600 Home Oil Tower
324 - 8th Ave. S.W.
Calgary, Alberta
T2P 2Z5

Dear Sirs:

Re: Liquidity of Home Oil Shares

We are acting as financial advisor to you in connection with a proposal (the "Proposal") by Home Oil Company Limited ("Home Oil") to acquire for \$26.50 cash all the outstanding shares of Scurry-Rainbow Oil Limited ("Scurry-Rainbow") not already owned by Home Oil. We understand that the Special Committee is of the view that the interests of the minority shareholders of Scurry-Rainbow (the "Minority Shareholders") may be better served by a modification to the Proposal to enable Minority Shareholders who so wish to receive common shares in Home, rather than a cash payment, in consideration for their common shares in Scurry-Rainbow. We understand Home Oil has advised the Special Committee that Home Oil would consider reasonable modifications to the Proposal but that Home Oil will not entertain any modification that would entail a formal valuation of Home Oil.

Therefore the Special Committee seeks from Home Oil a modification of the Proposal (the "Amended Proposal") to enable each Minority Shareholder to elect to receive, for each Scurry-Rainbow share, either: (a) a cash payment of \$26.50, as contemplated in the Proposal; or (b) that number of common shares in Home Oil the value of which (based upon closing market prices on a specified date or an average of closing trading prices over a specified period) approximates \$26.50 (the closing price of common shares of Home Oil on The Toronto Stock Exchange on August 3, 1993 was \$18.25 per share).

We understand that an application has been made seeking the grant of discretionary relief by the Director of the Ontario Securities Commission from certain of the requirements set forth in its Policy Statement 9.1 and by the Quebec Securities Commission from certain of the requirements set forth in its Policy Q-27. In connection with such application you have requested that we provide our opinion that there is a liquid market in the shares of Home Oil and the market will not be materially less liquid if the Amended Proposal is successfully completed.

Definition of Liquid Market

For purposes of this opinion the term liquid market is defined as a market for the subject securities with sufficient breadth and depth to provide a reasonable opportunity for investors to buy and sell shares without materially impacting the market price.

Liquidity of Home Shares

In considering the liquidity of Home Oil shares we reviewed recent trading volumes. On or about May 19, 1993 a public distribution (the "Public Distribution") of a Home Oil control block formerly owned by Gulf Canada Resources Limited and Olympia & York Development Limited was completed, which increased the publicly-held float of Home Oil shares from 16.0 million shares to 39.6 million shares. In considering the liquidity of Home Oil shares, we reviewed trading volumes for the last 12 months and for the period since the Public Distribution to measure the effect of the increased public float. Our analysis is summarized in the table below:

Average Trading Volume (1)

Period	For 12 Months Ended August 30, 1993	Since Public Distribution May 19, 1993
Daily	88,392	174,229
Weekly	443,595	878,564
Monthly	1,871,357	3,904,109

Note:

(1) Figures indicate combined trading on The Toronto Stock Exchange and the American Stock Exchange.

As indicated in the table above the market for Home Oil shares is liquid.

Pro Forma Impact of Amended Proposal

The result of the Amended Proposal, if successfully completed, would be an increase in the outstanding shares and public trading float of Home Oil. The following table provides an illustration of the pro forma increase in Home Oil shares outstanding, assuming varying percentages of the Scurry-Rainbow minority shares are exchanged for Home Oil shares:

Percentage of Scurry-Rainbow Minority Shares Exchanged	Number of Scurry-Rainbow Shares Exchanged	Number of New Home Oil Shares Issued (1)	Pro-forma Number of Home Oil Shares Outstanding (mm)
0%	0	0	39.6
50%	800,000	1,160,000	40.8
100%	1,610,000	2,334,500	41.9

Note:

(1) Assumes a 1.45 share exchange ratio based on the proposed offer price of \$26.50 and the Home Oil closing price prior to the date of the announcement of the Proposal of \$18.25.

As indicated in the table above the successful completion of the Amended Proposal would result in an increase in the number of Home Oil shares outstanding of up to 2.3 million.

Opinion

Giving consideration to the foregoing it is the opinion of RBC Dominion Securities that the market for shares of Home Oil is liquid and would not be materially less liquid were the Amended Proposal to be successfully completed.

Yours truly,

(Signed) RBC Dominion Securities Inc.

SCHEDULE E

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MANAGEMENT'S REPORT

March 19, 1993

To the Shareholders of Scurry-Rainbow Oil Limited

Management is responsible for the accompanying financial statements and for the accuracy and consistency of all information in this Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that reflect management's judgement and best estimates. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system is augmented by an internal audit function and an established code of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board, which consists of four independent directors, has specific responsibility for this area. The Committee meets with management, internal auditors and independent auditors to review the internal controls, financial statements and auditors' reports. The Committee reports its findings to the Board for its consideration in approving the financial statements and other information for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Company's independent auditors, have examined the financial statements and their report is contained herein.

(Signed) David E. Powell
President & Chief Executive Officer

(Signed) Allen R. Hagerman
Vice President & Chief Financial Officer

AUDITORS' REPORT

February 9, 1993

To the Shareholders of Scurry-Rainbow Oil Limited

We have audited the statement of financial position of Scurry-Rainbow Oil Limited as at December 31, 1992 and 1991 and the statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 1992 in accordance with generally accepted accounting principles.

(Signed) Price Waterhouse
Chartered Accountants
Calgary, Alberta, Canada

SCURRY-RAINBOW OIL LIMITED
STATEMENT OF FINANCIAL POSITION
(dollars in thousands)

	December 31,	
	1992	1991
Assets		
Current Assets		
Cash and short term deposits	\$ 18	\$ —
Advances to parent company (Note 2)	3,909	—
Taxes recoverable	—	1,175
Accounts receivable	11,715	13,732
Inventories	716	613
	16,358	15,520
Other Assets (Note 3)	52	1,366
Property, Plant and Equipment (Note 4)	367,761	371,973
	<u>\$384,171</u>	<u>\$388,859</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness (Note 5)	\$ —	\$ 909
Advances from parent company (Note 2)	—	12,997
Accounts payable	9,030	8,265
Taxes payable	6,482	—
Dividends payable	3,769	3,740
Current portion of deferred production revenue	513	714
	19,794	26,625
Deferred Production Revenue (Note 6)	215	682
Site Restoration Accrual (Note 7)	3,754	3,080
Deferred Taxes	121,816	121,973
	145,579	152,360
Shareholders' Equity		
Capital stock (Note 8)		
Common shares issued 13,462,129	10,922	10,922
Contributed surplus	23,334	23,334
Retained earnings	204,336	202,243
	238,592	236,499
	<u>\$ 384,171</u>	<u>\$ 388,859</u>

Approved by the Board

(Signed) D. E. Powell, Director

(Signed) S. G. Olson, Director

SCURRY-RAINBOW OIL LIMITED

STATEMENT OF EARNINGS

(dollars in thousands, except per share amounts)

	Year ended December 31,		
	1992	1991	1990
Revenues			
Operating, net of royalties	\$ 74,027	\$ 70,571	\$ 84,588
Other (Note 2)	541	1,132	1,866
	<u>74,568</u>	<u>71,703</u>	<u>86,454</u>
Expenses			
Operating	18,252	18,855	17,119
General and administrative	4,860	4,806	4,804
Downsizing	594	1,945	—
Depletion, depreciation and amortization (Note 4)	34,167	28,406	25,804
Interest (Note 2)	852	1,463	1,141
	<u>58,725</u>	<u>55,475</u>	<u>48,868</u>
Earnings Before Taxes	<u>15,843</u>	<u>16,228</u>	<u>37,586</u>
Taxes (Note 9)			
Current	7,176	608	5,019
Deferred	(157)	6,085	9,935
	<u>7,019</u>	<u>6,693</u>	<u>14,954</u>
Earnings	<u>\$ 8,824</u>	<u>\$ 9,535</u>	<u>\$ 22,632</u>
Earnings per Share	<u>\$ 0.66</u>	<u>\$ 0.71</u>	<u>\$ 1.68</u>

STATEMENT OF RETAINED EARNINGS

(dollars in thousands, except per share amounts)

	Year ended December 31,		
	1992	1991	1990
Retained Earnings at Beginning of Year	\$202,243	\$199,439	\$183,538
Earnings	8,824	9,535	22,632
	<u>211,067</u>	<u>208,974</u>	<u>206,170</u>
Dividends	6,731	6,731	6,731
Retained Earnings at End of Year	<u>\$204,336</u>	<u>\$202,243</u>	<u>\$199,439</u>
Dividends per Share	<u>\$ 0.50</u>	<u>\$ 0.50</u>	<u>\$ 0.50</u>

SCURRY-RAINBOW OIL LIMITED

STATEMENT OF CASH FLOWS

(dollars in thousands)

	Year ended December 31,		
	1992	1991	1990
Operating Activities			
Cash flow from operations			
Earnings	\$ 8,824	\$ 9,535	\$ 22,632
Charges (credits) not affecting cash			
Depletion, depreciation and amortization	34,167	28,406	25,804
Deferred taxes	(157)	6,085	9,935
Other	(98)	(163)	(947)
Cash Flow from Operations	42,736	43,863	57,424
Deferred production revenue	(668)	(598)	(1,051)
Changes in noncash working capital	9,043	(3,344)	642
	<u>51,111</u>	<u>39,921</u>	<u>57,015</u>
Investing Activities			
Additions to property, plant and equipment	(38,038)	(41,128)	(69,825)
Proceeds from disposition of property, plant and equipment	10,346	3,931	3,444
Proceeds from sale of Westcoast Oil & Gas Corp., net (Note 2)	—	—	2,542
Changes in noncash working capital	1,311	(6,491)	(2,592)
Other	(177)	(175)	74
	<u>(26,558)</u>	<u>(43,863)</u>	<u>(66,357)</u>
Financing Activities			
Advances from (repayment to) parent company	(12,997)	9,762	3,235
Dividends	(6,731)	(6,731)	(6,731)
Changes in noncash working capital	(898)	911	33
	<u>(20,626)</u>	<u>3,942</u>	<u>(3,463)</u>
Increase (Decrease) in Cash	3,927	—	(12,805)
Cash at Beginning of Year	—	—	12,805
Cash at End of Year	<u>\$ 3,927</u>	<u>\$ —</u>	<u>\$ —</u>

SCURRY-RAINBOW OIL LIMITED

NOTES TO THE 1992 FINANCIAL STATEMENTS

(tabular amounts are expressed in thousands of dollars)

1. Summary of Significant Accounting Policies

The financial statements of Scurry-Rainbow Oil Limited are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee.

(i) *Cash*

Cash, for the purposes of the Statement of Cash Flows, is defined as cash and short term deposits and advances to parent company.

(ii) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific item cost method or the average cost method of inventory valuation.

(iii) *Other Assets*

The Company followed the equity method of accounting for its investment in Minerals Ltd., a 50% owned company (Note 3).

(iv) *Oil and Gas Operations*

Substantially all of the Company's exploration and production activities are conducted jointly with the parent company and others. These financial statements reflect the Company's proportionate interest in such activities.

The full cost method of accounting is followed for oil and gas operations, whereby all exploration and development costs are capitalized. Capitalized costs include land acquisition costs, geological and geophysical costs, lease rentals and related charges applicable to nonproducing properties, costs of drilling both productive and nonproductive wells, and administrative costs related to exploration and development activities. The net book value of such costs, net of related deferred income taxes and the site restoration accrual, is limited by a "ceiling test" amount. This amount is the sum of future net revenues from proved reserves at current prices and costs, plus the lower of cost and estimated fair market value of unproved properties, less estimated future financing, administrative and tax expenses.

Oil and gas costs are depleted using the unit of production method based upon estimated proved reserves, before royalties, as determined by Company engineers. Natural gas reserves and sales are converted to equivalent units of crude oil based on six thousand cubic feet of natural gas to one barrel of crude oil. Future obligations for site restoration costs, including dismantling and abandoning properties, are accrued using the unit of production method. The annual provision is expensed as depletion.

Depreciation of buildings, plant and equipment, other than oil and gas production equipment, is provided on the straight line basis over the estimated service life of each asset. Oil and gas production equipment is depreciated using the unit of production method.

When property, plant and equipment are retired or otherwise disposed of, the net proceeds are credited to the carrying value except for certain major disposals for which the gain or loss is included in earnings.

(v) *Deferred Taxes*

Income taxes are accounted for using the tax allocation basis of accounting. Under this method, deferred income taxes are recorded with respect to differences between depletion, depreciation and other items recorded in the accounts and those claimed for income tax purposes.

(vi) **Comparative Amounts**

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation.

2. **Related Party Transactions**

Home Oil Company Limited ("Home") owns approximately 88.1% of the issued and outstanding shares of the Company. During the year ended December 31, 1992, Home provided certain management, technical and administrative services to the Company at cost which amounted to \$14,144,000 (1991 — \$16,285,000; 1990 — \$16,414,000). Of this amount, \$9,407,000 has been capitalized and allocated to property, plant and equipment (1991 — \$11,394,000; 1990 — \$11,651,000). The Company's share of the cost of Home's 1992 downsizing program was \$594,000 (1991 — \$1,945,000).

The Company borrows from and advances to Home various amounts, and, prior to May 1, 1991 when Home became a stand alone publicly traded company, to Home's parent company, Interhome Energy Inc. The amounts borrowed or advanced carry interest at $\frac{1}{16}\%$ above Home's or Interhome's cost of funds from commercial paper, bankers' acceptances and prime loans, and are repayable on demand. Net interest expense for the year ended December 31, 1992 amounted to \$200,000 (1991 — \$1,410,000; 1990 — \$375,000).

The Company's exploration and production activities are conducted jointly with others including Home and Gulf Canada Resources Limited ("Gulf"), the owner of 22.8% of Home's common shares. The activities are conducted under competitive market terms and in the normal course of business. In September 1992, the Company completed a property swap and purchase transaction with Home and Gulf that resulted in a net cash expenditure to the Company of \$3,955,000 to acquire additional interests in petroleum and natural gas properties.

In 1990, the Company sold Westcoast Oil & Gas Corp., a wholly owned subsidiary, to Home for net proceeds of \$2,542,000.

3. **Other Assets**

Effective September 1, 1992, Scurry-Rainbow sold its investment in Minerals Ltd., a 50% owned company, for \$1,418,000. The sale resulted in a gain of \$229,000 which is included in other income.

4. **Property, Plant and Equipment**

	December 31, 1992		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net
Petroleum and natural gas properties and equipment (full cost) . . .	\$653,077	\$286,764	\$366,313
Undeveloped mining properties	2,640	1,640	1,000
Other	1,231	783	448
	<u>\$656,948</u>	<u>\$289,187</u>	<u>\$367,761</u>

	December 31, 1991		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net
Petroleum and natural gas properties and equipment (full cost) . . .	\$623,830	\$253,981	\$369,849
Undeveloped mining properties	2,590	808	1,782
Other	1,173	831	342
	<u>\$627,593</u>	<u>\$255,620</u>	<u>\$371,973</u>

The oil and gas depletion, depreciation and amortization rate per equivalent barrel of oil, where six thousand cubic feet of natural gas equals one barrel of oil, for the year ended December 31, 1992 amounted to \$5.12 per barrel (1991 — \$4.96; 1990 — \$4.39).

During the year, administrative costs related to exploration and development activities of \$1,940,000 (1991 — \$2,071,000) were capitalized.

At December 31, 1992, the Company had a surplus in its ceiling test based on year end wellhead prices of \$19.87 per barrel for crude oil (1991 — \$18.28) and \$1.71 per thousand cubic feet for natural gas (1991 — \$1.42).

5. Bank Indebtedness

At December 31, 1992, the Company had unutilized bank lines of credit of \$40 million. Upon drawdown, the loans bear interest at prevailing market rates and are unsecured.

6. Deferred Production Revenue

	December 31,	
	1992	1991
Deferred production revenue	\$ 728	\$1,396
Current portion of deferred production revenue	(513)	(714)
	<u>\$ 215</u>	<u>\$ 682</u>

Amounts paid to the Company for gas volumes not yet taken under take or pay contracts are recorded as deferred production revenue. These amounts will be recorded as revenue when the gas to which the payments relate is delivered to the purchaser. Deliveries or repayments are being made over a period ending in 1994.

7. Site Restoration Accrual

The Company's estimate of future removal and site restoration costs is \$14,000,000 of which \$3,754,000 has been accrued to the end of 1992 (1991 — \$3,080,000). During 1992, \$808,000 was included in depletion, depreciation and amortization expenses (1991 — \$199,000). Site restoration expenditures of \$134,000 were incurred in 1992 (1991 — \$184,000) and were charged against the accrual.

8. Capital Stock

The authorized capital stock of the Company consists of 200 million common shares and 100 million preferred shares, all of no par value. At December 31, 1992 and 1991, 13,462,129 common shares were issued and outstanding.

9. Taxes

The tax provision differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to earnings before taxes. The differences result from the items shown in the following table:

	Year ended December 31,		
	1992	1991	1990
Earnings before taxes	\$15,843	\$16,228	\$37,586
Canadian statutory tax rate	44.6%	44.1%	43.6%
Taxes at statutory rate	\$ 7,066	\$ 7,157	\$16,387
Increase (decrease) resulting from:			
Nondeductible Crown royalties	5,786	5,554	6,898
Federal resource allowance	(5,593)	(4,475)	(7,345)
Alberta Royalty Tax Credit	(572)	(1,302)	(858)
Capital taxes	947	757	598
Other	(615)	(998)	(726)
Taxes	\$ 7,019	\$ 6,693	\$14,954
Effective tax rate	44.3%	41.2%	39.8%

Deferred taxes result from timing differences in the recognition of items for tax and financial statement purposes. These differences have arisen principally as a result of claiming capital cost allowance and exploration and development costs for tax purposes in excess of depreciation and depletion in the accounts.

10. Subsequent Event

The Company has entered into agreements to sell, effective January 1, 1993, certain petroleum and natural gas properties for \$15,400,000, all of which will be credited to property, plant and equipment.

11. Contingency

Natural gas from the North Coleman gas field is currently processed, under a contract that expires June 30, 1993, through a gas plant owned and operated by an unrelated company. During 1992, as a result of high processing fees and low sulphur prices, the field operated at break even on a cash basis, but incurred losses after depletion and depreciation. Scurry-Rainbow and its partners are evaluating a number of alternatives to improve the long term economics of the North Coleman field. Certain of these alternatives may necessitate temporarily shutting the field in and not renewing the processing agreement at an estimated after tax cost of \$1 million.

12. United States Accounting Principles

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These principles conform in all material respects with those in the United States ("U.S. GAAP") except for the following:

- (i) Under U.S. GAAP, the discounted future net cash flows from proved oil and gas properties, discounted at 10% over their remaining productive lives, plus the lower of cost or fair market value of unproved properties, net of future taxes, must exceed the net book value of such properties net of deferred taxes and the estimated site restoration accrual, or a write down is required. The price of crude oil and natural gas declined in 1991 resulting in a downward revision in the discounted value of proved reserves computed in accordance with U.S. GAAP. Under these rules, a \$55 million reduction in the carrying value of the Company's oil and gas properties would have been required through a charge to depletion, depreciation and amortization. This reduction would have been partially offset by deferred taxes of \$24 million. At December 31, 1992, after reflecting the 1991 write down, the conditions of this "ceiling test" were met.

If the Company's financial statements had been presented on the basis of U.S. GAAP, earnings would have been as follows:

	Year ended December 31,		
	1992	1991	1990
Earnings under Canadian GAAP	\$ 8,824	\$ 9,535	\$22,632
Adjustment to depletion, depreciation and amortization, net of taxes	2,363	(31,000)	—
Earnings (loss) under U.S. GAAP	<u>\$11,187</u>	<u>\$(21,465)</u>	<u>\$22,632</u>
Earnings (loss) per share under U.S. GAAP	<u>\$ 0.83</u>	<u>\$ (1.59)</u>	<u>\$ 1.68</u>

Under U.S. GAAP, the following items in the statement of financial position would have been restated to:

	December 31,	
	1992	1991
Property, plant and equipment, net	\$316,905	\$316,973
Deferred taxes	\$ 99,597	\$ 97,973
Retained earnings	<u>\$175,699</u>	<u>\$171,243</u>

- (ii) The Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 95 — "Statement of Cash Flows" requires the following disclosure:

	Year ended December 31,		
	1992	1991	1990
Interest paid	\$ 939	\$1,459	\$1,203
Taxes paid (refunded)	<u>\$(481)</u>	<u>\$6,151</u>	<u>\$1,251</u>

- (iii) In February 1992, FASB issued a revised statement on "Accounting for Income Taxes", SFAS No. 109, which will require companies to recognize current changes in tax rates in recording their deferred income tax liabilities effective for fiscal years beginning after December 15, 1992. The effect of applying this statement has not been determined.

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 19, 1993

Results of Operations provides an analysis of operating results in aggregate as well as on an individual line basis.

Liquidity and Capital Resources discusses the sources which provide the capital available to finance ongoing activities.

Business Risks and Prospects presents management's outlook for the future and the impact industry and business environment changes will have on future results of operations.

The following discussion of the results of operations and financial condition for the three years ended December 31, 1992 should be read in conjunction with the Financial Statements.

RESULTS OF OPERATIONS

Scurry-Rainbow's earnings for 1992 were \$8.8 million, \$0.66 per share, compared with \$9.5 million, \$0.71 per share, in 1991 and \$22.6 million, \$1.68 per share, in 1990. Increased gas sales revenue and lower operating, downsizing and interest expenses were offset by higher depletion, depreciation and amortization expenses. Cash flow from operations during 1992 totalled \$42.7 million, down from the \$43.9 million achieved in 1991 and \$57.4 million in 1990. Increased natural gas sales and lower cash expenses did not compensate for the higher current taxes incurred in 1992. The higher level of earnings and cash flow from operations in 1990 reflected substantially higher oil and gas prices.

Operating Revenues

	1992	1991	1990
	(dollars in thousands)		
Crude oil	\$41,891	\$45,820	\$56,956
Natural gas	26,489	18,570	20,898
Natural gas liquids	5,184	4,305	4,873
Sulphur	463	1,876	1,861
	<u>\$74,027</u>	<u>\$70,571</u>	<u>\$84,588</u>

Operating revenues of \$74.0 million were 5% higher than 1991 but were still below the \$84.6 million achieved in 1990. The 1990 revenues were achieved largely as a result of higher product prices, in particular world oil prices which rose as a result of the Persian Gulf conflict. Average oil and gas prices in 1992 approximated 1991 levels, while crude oil volumes have declined modestly and natural gas sales volumes increased considerably. Natural gas liquids revenues increased due to modestly higher prices. Sulphur prices, which averaged over \$52 per long ton in 1990 and 1991, declined to \$15 per long ton in 1992 and are expected to remain depressed for the near future.

Crude Oil

	1992	1991	1990
Revenue after royalty (dollars in thousands)	\$41,891	\$45,820	\$56,956
Volume (barrels per day)	7,051	7,208	7,679
Price (per barrel)	\$ 20.21	\$ 20.14	\$ 24.88
Royalty rate	19.7%	18.6%	18.3%

Crude oil revenue during 1992 declined \$3.9 million or 9% from 1991, however, revenue in 1991 included a one-time payment of \$2.7 million from the Saskatchewan government as compensation for mineral rights expropriated in error.

Average crude oil production for the year was down 2% from 1991 and down 8% from 1990 levels largely due to the impact of the disposition of nonstrategic properties. Property dispositions during the past two years

resulted in a net decline in production volumes of about 600 barrels per day. Natural production declines in mature fields were offset by increases in production from major operated areas as a result of the implementation of field optimization programs at Cecil/Royce and West Stoddart in late 1991, the 1992 development program and the acquisition of additional working interests.

Production during the fourth quarter of 1992 of 7,707 barrels per day was affected by the closing of a major property acquisition which increased the Company's interest in the West Eagle Unit by 15%. The transaction, which had an effective date of July 1, 1992, added 500 barrels per day to the Company's production base. This transaction, which was recorded in October, increased fourth quarter production by 1,000 barrels per day.

Although the average price of West Texas Intermediate crude oil declined by 4% in 1992 to U.S. \$20.57, this was more than offset by the positive impact of a weaker Canadian dollar which averaged U.S. \$0.83 compared with U.S. \$0.87 in 1991. The 19% decline in price from 1990 levels principally relates to lower world oil prices.

The increase in the royalty rate in 1992 resulted from the expiration of the royalty free period on production from Cecil/Royce.

Natural Gas

	1992	1991	1990
Revenue after royalty (dollars in thousands).....	\$26,489	\$18,570	\$20,898
Volume (thousands of cubic feet per day).....	56,842	42,970	42,222
Price (per thousand cubic feet)	\$ 1.45	\$ 1.40	\$ 1.69
Royalty rate	12.3%	15.4%	19.8%

Natural gas sales reached a record of 56.8 million cubic feet per day, increasing 32% over 1991, as a result of new production from the Ring/Border and Hamburg fields and increased production at South Wapiti. The higher production from these fields was partially offset by reduced volumes at North Coleman due to processing plant operational difficulties. About two-thirds of the increased sales represented higher takes under new and existing long term contracts. The balance was sold into the short term market in order to take advantage of higher prices prevailing during the latter part of the year.

Firming gas prices in the fourth quarter caused Scurry-Rainbow's 1992 average natural gas price to rise five cents per thousand cubic feet. Scurry-Rainbow's average sales price for the fourth quarter was \$1.70 per thousand cubic feet compared to \$1.35 for the first nine months and \$1.40 per thousand cubic feet for the fourth quarter of 1991.

The royalty rate declined from 1991 levels due to the royalty free status on new production from Ring/Border and adjustments relating to prior years. Royalty rates in 1993 are expected to increase due to the expiration of Ring/Border's royalty free period. The reduction in 1991 from 1990 reflected the reduced prices and lower sales from South Wapiti, a high royalty field.

Natural Gas Liquids

	1992	1991	1990
Revenue after royalty (dollars in thousands).....	\$5,184	\$4,305	\$4,873
Volume (barrels per day)	1,150	1,095	1,085
Price (per barrel).....	\$14.60	\$12.96	\$14.37
Royalty rate	15.7%	16.9%	14.4%

Revenue from natural gas liquids in 1992 increased 20% from 1991 and was up 6% over 1990. Production in 1992 was up approximately 5% over the previous two years reflecting new production, primarily from Ring/Border. The average liquids price increased 13% over last year due to higher quality liquids from new production displacing low priced ethane, which is no longer being extracted from certain fields. The royalty rate decline in 1992 resulted from the impact of royalty free production at Ring/Border. The higher royalty rate in 1991 resulted from reduced production from South Wapiti, a field where royalties are assessed on the raw gas produced prior to the extraction of liquids.

Operating Expenses

Operating expenses of \$18.3 million declined by 3% from 1991 despite the increase in production volumes. Unit operating costs declined by approximately 12% to \$3.57 in 1992. This improvement resulted primarily from the asset rationalization program coupled with cost reduction and optimization efforts in operated fields. The higher operating costs in 1991 resulted from the start up of new facilities at West Stoddart, Ring/Border and Cecil/Royce.

Unit Operating Costs

*(dollars per barrel of oil equivalent
where ten thousand cubic feet of gas is equated to one barrel of oil)*

1992	\$3.57
1991	4.06
1990	3.57
1989	3.34
1988	3.33

General and Administrative Expenses

General and administrative expenses totalled \$4.9 million, up slightly from 1991 due to higher safety, environmental and marketing costs.

Downsizing Expenses

A downsizing program was implemented in late 1991 in response to lower activity levels within the Company and the oil and gas industry. The 1991 program, which reduced head office costs, resulted in a charge of \$1.9 million. As a consequence of the ongoing rationalization program, further reductions were made in 1992 at a cost of \$0.6 million.

Depletion, Depreciation and Amortization Expenses

Oil and gas capital costs are depleted using the unit of production method based upon estimated proved reserves. Natural gas reserves and sales are converted to equivalent units of crude oil based on their relative energy content. Depletion, depreciation and amortization expenses rose by 20% to \$34.2 million in 1992 as a result of a 14% increase in equivalent production and a 3% increase in the depletion rate to \$5.12. The depletion rate rose as a result of additions costs exceeding the historical average. The 13% increase in the depletion rate from 1990 to 1991 reflected both higher additions costs and an unfavourable reserves revision at the West Eagle field.

Depletion

(dollars per barrel of oil equivalent)

1992	\$5.12
1991	4.96
1990	4.39
1989	4.40
1988	4.43

Taxes

	1992	1991	1990
	<i>(dollars in thousands)</i>		
Current	\$7,176	\$ 608	\$ 5,019
Deferred	(157)	6,085	9,935
	<u>\$7,019</u>	<u>\$6,693</u>	<u>\$14,954</u>

The Company's effective tax rate of 44.3% on pretax earnings increased from 41.2% in 1991 and 39.8% in 1990. The rates increased over the period as a result of the imposition of a capital tax by the Province of British Columbia in 1992, higher provincial tax rates and nondeductible provincial resource royalties, which exceeded the resource allowance as a result of lower prices and higher average oil royalty rates.

No taxes were deferred in 1992 as a result of a substantially reduced exploration and development program. Taxes were deferred in 1991 and 1990 as current tax deductions for capital programs exceeded depletion and depreciation expenses.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations during 1992 amounted to \$42.7 million compared with \$43.9 million in 1991 and \$57.4 million in 1990. Increased operating revenues and reduced cash expenses during 1992 were more than offset by higher current taxes. Cash flow from operations in 1990 benefited from the higher oil prices that prevailed during the Persian Gulf conflict.

Cash Flow from Operations

(dollars per share)

1992	\$3.17
1991	3.26
1990	4.27
1989	3.72
1988	3.57

Investing Activities

The Company spent \$38.0 million on capital projects during 1992 compared with \$41.1 million in 1991 and \$69.8 million in 1990. The lower level of expenditures in 1992 and 1991 reflected the prevailing economic conditions and the Company's more selective investment strategy. During 1992 a substantial reduction in exploration and development spending was partially offset by acquisitions of proved properties for \$16.4 million.

Reduced exploration and development activity resulted in lower additions to proved reserves. As a result, in 1992, reserves additions from exploration and development replaced only 22% of production, significantly lower than previous years.

Capital Expenditures

(dollars in millions)

	<u>Exploration</u>	<u>Development</u>	<u>Acquisition of Proved Properties</u>
1992	10	12	16
1991	21	20	0
1990	39	30	1
1989	29	19	5
1988	38	17	19

Exploration expenditures during 1992 totalled \$10.0 million, just under half of the \$20.5 million spent in 1991. Activity included the exploration for gas in northeastern British Columbia and oil exploration under a farmout agreement in southern Saskatchewan.

Development programs accounted for \$11.6 million of the 1992 capital expenditures. Major projects included the development and optimization of oil reserves at West Stoddart, development drilling in the South Pierson, South Wapiti and East Eagle fields and the replacement of gas production equipment at North Coleman.

The Company has an ongoing rationalization strategy to dispose of small working interest properties with low upside potential and high administrative and operating costs. The proceeds are reinvested in strategic properties where opportunities exist to add incremental value. In 1992 this program resulted in \$10.3 million of proceeds from the disposition of nonstrategic properties, and acquisitions of \$16.4 million. Additional interests were acquired in West Eagle Unit No. 1, Ring/Border, Wood River/Bashaw and a small interest was obtained in Swan Hills Unit No. 1.

Investing activities will continue to be financed primarily from internally generated funds supplemented, as necessary, by borrowings from the Company's parent. In 1993 Scurry-Rainbow plans to increase its exploration and development program by 70% to \$37 million and will continue its aggressive rationalization program with proceeds from dispositions funding acquisitions.

Financing Activities

During the year Scurry-Rainbow used cash surpluses to repay parent company advances. In 1991 and 1990 shortfalls between internally generated funds and capital requirements were met by borrowing from the parent.

Scurry-Rainbow declared dividends of \$0.50 per share for each of the years 1992, 1991 and 1990.

Liquidity

Scurry-Rainbow continues to be in a strong financial position with almost \$4 million on demand deposit with its parent, no long term debt and unused lines of credit totalling \$40 million with two major Canadian banks. This ensures Scurry-Rainbow's ability to fund its working capital deficit and meet any operating and capital requirements. The settlement of accounts receivable on a monthly basis is expected to provide adequate liquidity to settle trade payables on their due dates.

BUSINESS RISKS & PROSPECTS

The Canadian oil and gas upstream industry continues to face many challenges due to low prices which have resulted in marginal profitability. Scurry-Rainbow has responded to these challenges by introducing focused exploration and development strategies and related asset rationalization and cost control programs to improve Company profitability.

Oil and gas exploration, development and marketing involve numerous business risks. Earnings and cash flow are sensitive to changes in crude oil and natural gas prices, production volumes, government regulation, transportation and market limitations and, in the longer term, to the Company's ability to find and develop reserves economically.

Government regulation and legislation have a significant impact on the industry and the Company. The Province of Alberta recently announced changes to the provincial royalty regime, effective January 1, 1993, which lower the base and maximum royalty rates, increase price sensitivity, establish new lower royalty rates for oil discovered after October 1, 1992, and provide royalty incentives on reactivated, low productivity and horizontal re-entry wells. These changes improve the economics of oil exploration and development and will partially offset the anticipated increase in royalty rates as a result of the expiry of earlier royalty holiday and incentive programs. The increased sensitivity to prices does, however, increase the volatility of royalty rates.

Scurry-Rainbow's operations are designed to have minimal impact on the environment and meet or exceed current government regulations. The Safety and Environment group reports annually to the Audit Committee of the Board of Directors and is responsible for reviewing existing and proposed operations and facilities to ensure compliance with applicable environmental regulations and the Company's environmental policies. In this regard, the Environmental Code of Practice as published by the Canadian Association of Petroleum Producers has been adopted. The Company's practice is to abandon and restore well and facility sites when the assets are no longer required. Scurry-Rainbow has estimated its future liability for abandonment and restoration and has been recording this liability in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby these costs are accrued using the unit of production method. Total estimated future costs are reviewed at least annually and are currently estimated at \$14 million, of which \$3.8 million has been accrued and recorded as a liability. The annual abandonment provision included in depletion, depreciation and amortization expense increased to \$0.8 million in 1992. The Company expects to spend approximately \$1 million on site restoration in 1993.

Oil prices are volatile and dependent on many factors including world supply and demand, political stability, the Canadian/United States dollar exchange rate and transportation and refining patterns. For example, during 1992, both Petro-Canada and Shell Canada Products Limited announced the shutdown of their refineries in Vancouver, effective in the second and third quarters of 1993. These refinery closures have forced Scurry-Rainbow to seek alternative markets for its British Columbia light crude oil. A one-year contract has been negotiated to sell this production to a U.S. refinery in the state of Washington.

Assuming world oil prices average 1992 levels, a modest improvement is anticipated in the average 1993 wellhead oil price due to both a weaker Canadian dollar and an improvement in the quality of the reserves base resulting from asset rationalization activities. Crude oil and natural gas liquids production volumes in 1993 are anticipated to decline by approximately 8% reflecting the full year impact of sales of nonstrategic properties in 1992 and additional sales in 1993. The ongoing rationalization process has resulted in agreements, with effective dates in early 1993, to sell interests in about 50 nonstrategic properties for proceeds of approximately \$15 million. The properties contain about 800 wells located primarily in southern Saskatchewan. The Company's share of crude production from these wells was approximately 1,000 barrels per day in 1992. The sales, which will reduce proved crude oil reserves by about 3.2 million barrels, reflect the Company's objective to dispose of small working interest properties with associated high operating costs. The impact of these sales will be partially offset by increased production from strategic property acquisitions, including the acquisition of an additional 15% interest in the West Eagle Unit effective in July 1992 and the December 1992 acquisition of an 8% interest in Wood River/Bashaw.

Approximately 35% of gas production is affected by spot prices. Spot prices for natural gas in Alberta, which have been depressed, began strengthening in the second half of 1992 due to increased take away capacity at the Alberta border and the onset of seasonal winter weather. The Company expects stronger spot prices to continue into 1993, which should begin to affect longer term contract prices in late 1993. Natural gas prices, however, will continue to be influenced by seasonal changes in demand, supply, competition, pipeline capacity constraints and North American weather patterns. With gas deliverability coming more into balance with demand both in Canada and the United States, the longer term outlook is for continued price improvement.

Alberta and Southern Gas Co. Ltd., which markets gas primarily in California, has made a proposal to restructure its gas supply contracts with Canadian producers. The proposed restructuring, which is to be effective August 1, 1994, results from changes ordered by U.S. regulatory bodies. Scurry-Rainbow is evaluating the terms of the proposed restructuring, which affects about 17% of its gas sales, and expects this gas to be either decontracted and sold into new markets or marketed into California under other arrangements.

The Company currently produces approximately six million cubic feet per day of gas from the North Coleman area, in southern Alberta, which is processed by a third party under a contract that expires June 30, 1993. Economics are currently marginal due to high processing fees and low sulphur prices. In an effort to improve the economics, Scurry-Rainbow and its partners are evaluating a number of alternatives to reduce the processing fees. If economics cannot be improved, the field may be temporarily shut in, necessitating a penalty payment to the plant owner.

Overall, the Company expects natural gas sales to increase modestly from 1992 levels as a result of higher rates of take under existing contracts and a continuation of prices which allow short term sales to be attractive. However, as a result of the significant growth in natural gas sales in recent years, the Company's surplus productive capacity has narrowed and thus significant future growth in gas sales is dependent upon developing additional proved reserves.

Operating expenses are anticipated to continue to decline modestly both in total and on a unit basis in 1993 as a result of sales of properties with relatively high operating costs along with achievement of further operational efficiencies in key properties. Depletion, depreciation and amortization is expected to increase with the depletion rate per equivalent barrel estimated to rise by approximately 3% in 1993.

Based on 1992 production and sales volumes and existing tax and royalty legislation, the estimated annual effect on the financial results of a change in each of the following factors is set out below:

Financial Sensitivities

	<u>Approximate Change</u>	
	<u>Earnings</u>	<u>Cash Flow from Operations</u>
	(dollars in millions)	
Crude oil prices (U.S. \$1 per barrel)	\$1.3	\$1.3
Natural gas prices (Cdn. \$0.10 per thousand cubic feet)	\$1.2	\$1.2
Crude oil production (500 barrels per day)	\$1.3	\$1.8
Natural gas sales (5 million cubic feet per day)	\$0.6	\$1.5
Average royalty rate (1% change)	\$0.8	\$0.8
Exchange rate (U.S. \$0.01)	\$0.4	\$0.4

A \$37 million development and exploration program is planned for 1993. Approximately 55% of the planned expenditures will relate to development activities with an emphasis on oil projects. Major projects include infill drilling and waterflood installation at South Pierson, development drilling in northeastern British Columbia and South Wapiti, and installation of gas processing facilities at Attachie and Sikanni. Exploration expenditures are expected to account for 45% of the program with the majority of the activity directed toward oil prospects in southern Alberta. Gas exploration will be targeted to prospects in northeastern British Columbia where reserves can be dedicated to a long term sales contract and to liquids rich gas prospects in west central Alberta.

A significant portion of the 1993 capital program is discretionary and can be modified to reflect changes in the economic and operating environment.

Assuming stable product prices, Scurry-Rainbow's ongoing strategies of asset rationalization, cost control and operational efficiencies are expected to result in an improvement in 1993 financial results.

SCURRY-RAINBOW OIL LIMITED
STATEMENT OF FINANCIAL POSITION

	June 30, 1993	December 31, 1992
	(unaudited, except for December 31, 1992; dollars in thousands)	
Assets		
Current Assets		
Cash and short term deposits	\$ 304	\$ 18
Advances to parent company	12,954	3,909
Accounts receivable		
Trade	11,190	10,645
Other	8,100	1,070
Inventories	503	716
	<u>33,051</u>	<u>16,358</u>
Property, Plant and Equipment (full cost)	360,297	367,761
Other Assets	53	52
	<u>\$393,401</u>	<u>\$384,171</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 19,607	\$ 9,030
Taxes payable	2,562	6,482
Dividends payable	3,793	3,769
Current portion of deferred production revenue	232	513
	<u>26,194</u>	<u>19,794</u>
Deferred Production Revenue	—	215
Site Restoration Accrual	4,138	3,754
Deferred Taxes	122,175	121,816
	<u>152,507</u>	<u>145,579</u>
Shareholders' Equity		
Capital stock		
Common shares issued 13,462,129	10,922	10,922
Contributed surplus	23,334	23,334
Retained earnings	206,638	204,336
	<u>240,894</u>	<u>238,592</u>
	<u>\$393,401</u>	<u>\$384,171</u>

SCURRY-RAINBOW OIL LIMITED

STATEMENT OF EARNINGS

	Six months ended June 30,	
	1993	1992
	(unaudited; dollars in thousands, except per share amounts)	
Revenues	\$39,201	\$34,226
Expenses		
Operating	7,585	8,804
General and administrative	2,604	2,399
Depletion, depreciation and amortization	18,569	16,020
Interest	97	447
	<u>28,855</u>	<u>27,670</u>
Earnings Before Taxes	<u>10,346</u>	<u>6,556</u>
Taxes		
Current	4,319	2,432
Deferred	359	626
	<u>4,678</u>	<u>3,058</u>
Earnings	<u>\$ 5,668</u>	<u>\$ 3,498</u>
Earnings Per Share	<u>\$ 0.42</u>	<u>\$ 0.26</u>
Dividends Per Share	<u>\$ 0.25</u>	<u>\$ 0.25</u>

SCURRY-RAINBOW OIL LIMITED
STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	1993	1992
	(unaudited; dollars in thousands)	
Operating Activities		
Earnings	\$ 5,668	\$ 3,498
Charges (credits) not affecting cash flow from operations		
Depletion, depreciation and amortization	18,569	16,020
Deferred taxes	359	626
Other	—	(5)
Cash Flow From Operations	<u>24,596</u>	<u>20,139</u>
Changes in noncash working capital	(2,133)	2,631
Deferred production revenue	(496)	(494)
	<u>21,967</u>	<u>22,276</u>
Investing Activities		
Exploration and development expenditures	(17,719)	(12,010)
Acquisitions of proved properties	(16,233)	(2,559)
Proceeds from sale of assets	23,282	4,895
Changes in noncash working capital	1,435	3,179
Other	(52)	(29)
	<u>(9,287)</u>	<u>(6,524)</u>
Financing Activities		
Repayments to parent company	—	(11,559)
Changes in noncash working capital	17	(827)
Dividends	(3,366)	(3,366)
	<u>(3,349)</u>	<u>(15,752)</u>
Increase in Cash	9,331	—
Cash at Beginning of Period	3,927	—
Cash at End of Period	<u>\$ 13,258</u>	<u>\$ —</u>

Cash is defined as cash and short term deposits and advances to parent company.

SCHEDULE F

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MANAGEMENT'S REPORT

March 16, 1993

To the Shareholders of Home Oil Company Limited

Management is responsible for the accompanying consolidated financial statements and for the accuracy and consistency of all information in this Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that reflect management's judgement and best estimates. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system is augmented by an internal audit function and an established code of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board has specific responsibility for this area and is comprised of three directors, the majority of whom are not officers or employees of the Company or any of its affiliates. The Committee meets with management, internal auditors and independent auditors to review the internal controls, financial statements and auditors' reports. The Committee reports its findings to the Board for its consideration in approving the financial statements and other information for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Company's independent auditors, have examined the consolidated financial statements and their report is contained herein.

(Signed) David E. Powell
President & Chief Executive Officer

(Signed) Allen R. Hagerman
Vice President & Chief Financial Officer

AUDITORS' REPORT

February 9, 1993

To the Shareholders of Home Oil Company Limited

We have audited the consolidated statement of financial position of Home Oil Company Limited as at December 31, 1992 and 1991 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 1992 in accordance with generally accepted accounting principles.

(Signed) Price Waterhouse
Chartered Accountants
Calgary, Alberta, Canada

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(dollars in millions)

	December 31,	
	1992	1991
Assets		
Current Assets		
Accounts receivable		
Trade	\$ 51.1	\$ 57.3
Other	3.9	25.9
Inventories	8.3	9.2
	63.3	92.4
Investment in Federated Pipe Lines Ltd.	13.3	13.8
Property, Plant and Equipment (Note 3)	1,304.7	1,375.7
Other Assets	9.2	10.5
	<u>\$1,390.5</u>	<u>\$1,492.4</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness	\$ 1.7	\$ 2.7
Accounts payable and accrued liabilities	48.4	57.9
Interest payable	7.7	11.6
Taxes payable	11.8	—
Current portion of long term debt (Note 4)	—	0.6
Current portion of deferred production revenue (Note 5)	5.0	5.2
	74.6	78.0
Long Term Debt (Note 4)	426.5	527.7
Deferred Credits (Note 5)	22.4	26.9
Deferred Taxes	438.6	438.6
Minority Interest	28.5	28.2
	<u>990.6</u>	<u>1,099.4</u>
Shareholders' Equity		
Capital stock (Note 6)		
Common shares issued 39,644,414	100.0	100.0
Contributed surplus	153.6	153.6
Retained earnings	146.3	139.4
	<u>399.9</u>	<u>393.0</u>
	<u>\$1,390.5</u>	<u>\$1,492.4</u>

Approved by the Board:

(Signed) D. E. Powell, Director

(Signed) W. A. Dimma, Director

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF EARNINGS
(dollars in millions, except per share amounts)

	Year ended December 31,		
	1992	1991	1990
Revenues			
Operating, net of royalties	\$273.3	\$266.2	\$325.8
Investment and other income (Note 7)	7.9	6.9	7.8
	<u>281.2</u>	<u>273.1</u>	<u>333.6</u>
Expenses			
Operating	68.2	71.4	71.1
General and administrative	16.6	20.3	19.6
Restructuring and downsizing	2.8	11.2	2.0
Depletion, depreciation and amortization (Note 3)	127.1	113.9	105.4
Interest (Notes 8 and 10)	44.8	54.1	43.4
Minority interest	1.1	1.1	2.7
	<u>260.6</u>	<u>272.0</u>	<u>244.2</u>
Earnings Before Taxes	<u>20.6</u>	<u>1.1</u>	<u>89.4</u>
Taxes (Note 9)			
Current	13.7	(0.2)	12.1
Deferred	—	1.7	10.9
	<u>13.7</u>	<u>1.5</u>	<u>23.0</u>
Earnings (Loss)	<u>\$ 6.9</u>	<u>\$ (0.4)</u>	<u>\$ 66.4</u>
Earnings (Loss) per common Share (Note 6)	<u>\$ 0.17</u>	<u>\$ (0.01)</u>	<u>\$ 1.68</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(dollars in millions)

	Year ended December 31,		
	1992	1991	1990
Retained Earnings at Beginning of Year	\$139.4	\$142.7	\$ 87.9
Earnings (Loss)	6.9	(0.4)	66.4
	<u>146.3</u>	<u>142.3</u>	<u>154.3</u>
Dividends			
Common shares	—	2.5	10.0
Preferred shares	—	0.4	1.6
	<u>—</u>	<u>2.9</u>	<u>11.6</u>
Retained Earnings at End of Year	<u>\$146.3</u>	<u>\$139.4</u>	<u>\$142.7</u>

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in millions)

	Year ended December 31,		
	1992	1991	1990
Operating Activities			
Earnings (loss)	\$ 6.9	\$ (0.4)	\$66.4
Charges (credits) not affecting cash flow from operations			
Depletion, depreciation and amortization	127.1	113.9	105.4
Deferred taxes	—	1.7	10.9
Amortization of exchange on U.S. debt	5.3	(0.2)	—
Other	(1.3)	1.0	(0.2)
Cash Flow from Operations	138.0	116.0	182.5
Changes in noncash working capital	(1.6)	14.7	4.7
Deferred production revenue	(6.7)	(5.6)	(5.6)
	<u>129.7</u>	<u>125.1</u>	<u>181.6</u>
Investing Activities			
Capital expenditures	(85.6)	(135.3)	(196.7)
Proceeds from sale of assets (Note 10)	42.6	34.1	30.0
Changes in noncash working capital	29.2	(27.8)	(49.1)
Other	0.2	1.2	5.9
	<u>(13.6)</u>	<u>(127.8)</u>	<u>(209.9)</u>
Financing Activities			
Advances from (repayments to) Interhome Energy Inc.	—	(60.7)	43.8
Proceeds from (repayment of) long term debt (Note 2)	(112.1)	291.0	(3.1)
Reduction of capital (Note 2)	—	(221.4)	—
Dividends	—	(2.9)	(11.6)
Changes in noncash working capital	(1.0)	2.5	—
Other	(3.0)	(5.8)	(0.8)
	<u>(116.1)</u>	<u>2.7</u>	<u>28.3</u>
Increase in Cash	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

HOME OIL COMPANY LIMITED
NOTES TO THE 1992 CONSOLIDATED FINANCIAL STATEMENTS
(tabular amounts expressed in millions of dollars)

1. Summary of Significant Accounting Policies

The consolidated financial statements of Home Oil Company Limited are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All subsidiaries are wholly owned except for Scurry-Rainbow Oil Limited of which 88.1% is owned. The Company's 50% interest in Federated Pipe Lines Ltd. ("Federated"), which the Company operates, is accounted for using the equity method.

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

Foreign Currency Translation

Monetary assets and liabilities are translated at the rate of exchange in effect at the date of the Statement of Financial Position. Translation gains and losses relating to long term monetary assets and liabilities are deferred and amortized to earnings over their remaining term.

Cash

Cash, for the purposes of the Statement of Cash Flows, is defined as cash and short term deposits, which are highly marketable securities with an original maturity of three months or less. Operating cash requirements or surpluses increase or decrease a committed revolving long term bank facility and accordingly are shown on the Statement of Cash Flows under Financing Activities as "Proceeds from (repayment of) long term debt".

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific item cost method or the average cost method of inventory valuation.

Property, Plant and Equipment

The full cost method of accounting is followed for oil and gas operations, whereby all exploration and development costs are capitalized. Capitalized costs include land acquisition costs, geological and geophysical costs, lease rentals and related charges applicable to nonproducing properties, costs of drilling both productive and nonproductive wells and administrative costs related to exploration and development activities. The net book value of such costs, net of related deferred income taxes and the site restoration accrual, is limited by a "ceiling test" amount. This amount is the sum of future net revenues from proved reserves at current prices and costs, plus the lower of cost and estimated fair market value of unproved properties, less estimated future financing, administrative and tax expenses.

Oil and gas costs are depleted using the unit of production method based upon estimated proved reserves, before royalties, as determined by Company engineers. Natural gas reserves and sales are converted to equivalent units of crude oil based on six thousand cubic feet of natural gas to one barrel of crude oil. Future obligations for site restoration costs, including dismantling and abandoning properties, are accrued using the unit of production method. The annual provision is expensed as depletion.

Depreciation of buildings, plant, pipeline and equipment, other than oil and gas production equipment, is provided on the straight line basis over the estimated service life of each asset. Oil and gas production equipment is depreciated using the unit of production method.

When property, plant and equipment are retired or otherwise disposed of, the net proceeds are credited to the carrying value except for certain major disposals for which the gain or loss is included in earnings.

Deferred Taxes

Income taxes are accounted for using the tax allocation basis of accounting. Under this method, deferred income taxes are recorded with respect to differences between depletion, depreciation and other items recorded in the accounts and those claimed for income tax purposes.

Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation.

2. Corporate Restructuring

Pursuant to a Plan of Arrangement effective May 1, 1991, Home Oil Company Limited was separated from its parent company, Interhome Energy Inc. ("Interhome"), and became a stand alone publicly traded company. The result of the Arrangement was to transfer Interhome's interest in Home Oil directly to Interhome shareholders.

Under the terms of the Arrangement, Home Oil repaid all advances from Interhome and assumed the obligations with respect to the payment of principal and interest on certain indebtedness of Interhome totalling \$221.4 million. The assumption of long term debt resulted in a corresponding decrease in shareholders' equity.

3. Property, Plant and Equipment

	December 31, 1992		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net
Petroleum and natural gas properties and equipment (full cost)	\$2,292.6	\$1,013.6	\$1,279.0
Other			
Mining properties	7.3	5.3	2.0
Pipeline carrier property	13.6	8.3	5.3
LPG plant and equipment	6.8	4.2	2.6
Land, buildings and other equipment	40.0	24.2	15.8
	<u>67.7</u>	<u>42.0</u>	<u>25.7</u>
	<u>\$2,360.3</u>	<u>\$1,055.6</u>	<u>\$1,304.7</u>

	December 31, 1991		
	Cost	Accumulated Depletion, Depreciation and Amortization	Net
Petroleum and natural gas properties and equipment (full cost)	\$2,255.0	\$915.7	\$1,339.3
Other			
Mining properties	7.3	1.1	6.2
Pipeline carrier property	25.2	16.2	9.0
LPG plant and equipment	8.3	4.4	3.9
Land, buildings and other equipment	40.7	23.4	17.3
	<u>81.5</u>	<u>45.1</u>	<u>36.4</u>
	<u>\$2,336.5</u>	<u>\$960.8</u>	<u>\$1,375.7</u>

The oil and gas depletion, depreciation and amortization rate per equivalent barrel of oil, where six thousand cubic feet of natural gas equals one barrel of oil, for the year ended December 31, 1992, amounted to \$5.10 per barrel (1991 — \$4.94; 1990 — \$4.60).

During the year administrative costs related to exploration and development activities of \$7.0 million (1991 — \$8.5 million) were capitalized.

At December 31, 1992, the Company had a surplus in its ceiling test based on year end wellhead prices of \$20.24 per barrel for crude oil (1991 — \$19.25) and \$1.68 per thousand cubic feet for natural gas (1991 — \$1.36).

The carrying value of petroleum and natural gas properties and equipment included an \$11 million credit relating to the proceeds received on a partial disposition of an interest in an oil sands lease. During 1992, depletion, depreciation and amortization expense has been reduced and the carrying value of petroleum and natural gas properties increased by this amount. The Company currently has no plans to develop the remainder of this property.

The carrying value of the Company's undeveloped coal mining properties was reduced from \$6.2 million to \$2.0 million during the year through a charge to depletion, depreciation and amortization expense. Other assets were also reduced by \$4.6 million in 1992 through a charge to depletion, depreciation and amortization expense. These adjustments reflect the Company's estimate of the decline in value of these assets.

4. Long Term Debt

	Maturity	December 31,	
		1992	1991
Oil Indexed Debenture, unsecured	2000	\$200.0	\$200.0
9.875% Sinking Fund Debentures, unsecured	1998	25.2	33.6
11.0% Debentures, unsecured	1995	125.0	125.0
Revolving Bank Credit Facility, unsecured	1994		
Canadian dollars		—	54.1
U.S. dollars (U.S. \$60.0; 1991 — \$100.0)		76.3	115.6
		426.5	528.3
Current Portion of Long Term Debt		—	(0.6)
Long Term Debt		<u>\$426.5</u>	<u>\$527.7</u>

The Oil Indexed Debenture bears interest at a fixed rate of 5.0% per annum plus a variable rate of up to 16.8% per annum based upon the average price of crude oil. In 1992, the interest rate averaged 6.9% (1991 — 14.3%) and was 7.2% at the end of 1992 (1991 — 16.5%) (Note 10).

In March 1992, the Company completed an interest rate swap relating to the Oil Indexed Debenture which effectively fixes the interest rate at 8.263% beginning February 1, 1993 through to its maturity in October 2000.

The Company has a committed revolving bank credit facility in the amount of Canadian \$195 million which expires in June 1994. This facility is available in any combination of Canadian or U.S. dollar amounts and may be drawn down on a revolving basis. Interest rates on the Canadian and U.S. dollar portions of the facility averaged 7.7% and 4.9%, respectively, during 1992 (1991 — 9.3% and 6.4%); the interest rate on the outstanding U.S. debt at the end of 1992 was 4.0%. At December 31, 1992, the unutilized portion of this facility amounted to approximately \$119 million.

The amounts of long term debt maturities and sinking fund requirements for the years ending December 31, 1993 through 1997 are \$0.0 million, \$76.3 million, \$126.8 million, \$3.0 million and \$3.0 million, respectively.

5. Deferred Credits

	December 31,	
	1992	1991
Deferred production revenue	\$ 6.6	\$13.4
Less: Current portion	(5.0)	(5.2)
	1.6	8.2
Site restoration accrual	14.0	12.4
Pension accrual	6.8	6.3
	<u>\$22.4</u>	<u>\$26.9</u>

Amounts paid to the Company for gas volumes not yet taken under take or pay contracts are recorded as deferred production revenue. These amounts will be recorded as revenue when the gas to which the payments relate is delivered to the purchaser. Deliveries or repayments are being made over a period ending in 1994.

The Company's estimate of future removal and site restoration costs is \$50 million, of which \$14.0 million has been accrued to the end of 1992 (1991 — \$12.4 million). During 1992, \$2.9 million was included in depletion, depreciation and amortization expense (1991 — \$0.5 million). Site restoration expenditures of \$1.3 million were incurred in 1992 (1991 — \$0.5 million) and were charged against the accrual.

6. Capital Stock

The authorized capital stock of the Company consists of an unlimited number of common and preferred shares. At December 31, 1992 and 1991, 39,644,414 common shares were issued and outstanding.

Earnings per share have been computed using the average number of shares outstanding of 39.6 million shares. There would have been no material dilution of earnings per share if outstanding stock options had been exercised during the year.

Certain employees of the Company have been granted options to purchase unissued common shares of the Company.

	Year ended December 31,	
	1992	1991
Shares under option at beginning of year	227,000	—
Options granted	235,500	227,000
Shares under option at end of year	<u>462,500</u>	<u>227,000</u>

	Expiry Date	
	Option Price per Share	Number of Shares
September 15, 2001	\$14.625	227,000
May 7, 2002	\$16.125	91,500
August 7, 2002	\$15.500	144,000
		<u>462,500</u>

At December 31, 1992, 187,500 common shares were reserved for the granting of additional options.

7. Investment and Other Income

	Year ended December 31,		
	1992	1991	1990
Equity earnings of Federated Pipe Lines Ltd.	\$4.3	\$4.3	\$4.2
Interest and dividends	0.7	1.1	1.7
Other	2.9	1.5	1.9
	<u>\$7.9</u>	<u>\$6.9</u>	<u>\$7.8</u>

8. Interest Expense

	Year ended December 31,		
	1992	1991	1990
Long term debt	\$44.3	\$51.8	\$32.8
Short term borrowings	0.5	2.3	10.6
	<u>\$44.8</u>	<u>\$54.1</u>	<u>\$43.4</u>

9. Taxes

The tax provision differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to earnings before taxes. The differences result from the items shown in the following table:

	Year ended December 31,		
	1992	1991	1990
Earnings before taxes	\$ 20.6	\$ 1.1	\$ 89.4
Canadian statutory tax rate	44.5%	44.2%	43.8%
Taxes at statutory rate	\$ 9.2	\$ 0.5	\$ 39.2
Increase (decrease) resulting from:			
Nondeductible resource royalties	22.0	19.3	23.2
Federal resource allowance	(20.0)	(16.9)	(25.9)
Alberta Royalty Tax Credit	(1.2)	(1.8)	(1.7)
Capital taxes	2.8	2.7	2.3
Equity earnings	(1.9)	(2.1)	(2.0)
Utilization of loss carry forward	—	—	(8.5)
Other	2.8	(0.2)	(3.6)
Taxes	<u>\$ 13.7</u>	<u>\$ 1.5</u>	<u>\$ 23.0</u>
Effective tax rate	<u>66.5%</u>	<u>136.4%</u>	<u>25.7%</u>

Deferred taxes result from timing differences in the recognition of items for tax and financial statement purposes. These differences have arisen principally as a result of claiming capital cost allowance and exploration and development costs for tax purposes in excess of depreciation and depletion in the accounts.

10. Related Party Transactions

Prior to the effective date of the Arrangement as described in Note 2, the Company borrowed various amounts from Interhome. These short term loans carried interest at $\frac{1}{16}\%$ above Interhome's cost of funds from commercial paper and bankers' acceptances. Interest of \$2.1 million was charged in 1991 (1990 — \$10.0 million) on these short term loans. In addition, Interhome provided certain management and administrative services to the Company and in return Interhome was provided with facilities and administrative services. The net cost to the Company amounted to \$4.5 million in 1991 (1990 — \$5.7 million). As part of the Arrangement, certain assets and liabilities were exchanged between Home Oil and Interhome. The liabilities assumed included \$125 million of 11% debentures.

In June 1992, the Company sold the Cremona pipeline system to Federated Pipe Lines Ltd. for \$6.5 million, resulting in a pretax gain of \$1.7 million.

The Company's Oil Indexed Debenture is held by a wholly owned subsidiary of Gulf Canada Resources Limited ("Gulf"), which owns approximately 22.8% of the Company's outstanding common shares. The Company's exploration and production activities are conducted jointly with others, including Gulf, under competitive market terms and in the normal course of business. During 1992, the Company transferred petroleum and natural gas properties to Gulf valued at \$11.3 million in exchange for interests in other petroleum and natural gas properties, valued at \$5.4 million, and cash proceeds of \$5.9 million.

11. Subsequent Event

The Company has entered into various agreements to sell, effective January 1, 1993, certain petroleum and natural gas properties for \$23.8 million, all of which will be credited to property, plant and equipment.

12. Pension Plan

The Company has noncontributory defined benefit pension plans which cover substantially all employees. The plans are funded by the Company based on independent actuarial valuations. Plan assets are invested primarily in publicly traded equity and fixed income securities. Retirement benefits are based on the employees' years of service and salaries during the last years of employment. The cost of pensions is based on the projected benefits and is charged to earnings as services are rendered. The cost reflects management's best estimates of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes to assumptions are amortized over the expected average remaining service lives of the employees of approximately 13 years.

Based on an actuarial valuation dated January 1, 1992, the status of the plans was:

	December 31,	
	1992	1991
Pension plan assets at market values	\$78.6	\$77.7
Projected benefit obligations	80.6	76.0
Excess (deficiency) of pension plan assets over projected benefit obligations	<u>\$ (2.0)</u>	<u>\$ 1.7</u>

The Company's pension cost for the year ended December 31, 1992, was \$2.1 million (1991 — \$4.1 million; 1990 — \$3.7 million).

The most significant economic assumptions made in the measurement of the pension costs and projected benefit obligations of the pension plan were as follows:

	Year ended December 31,		
	1992	1991	1990
Discount rate	8.5%	8.5%	8.5%
Average rate of salary increases	6.5%	6.5%	6.5%
Average rate of return on pension plan assets	8.5%	8.5%	8.5%

13. Postretirement Benefits Other Than Pensions

The Company provides group health care and life insurance benefits to retirees, their spouses and qualified dependants. The cost of providing these benefits, which is charged against earnings and funded in the year incurred, amounted to \$0.2 million (1991 — \$0.1 million; 1990 — \$0.1 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 16, 1993

Results of Operations provides an analysis of operating results in aggregate as well as on an individual line basis. **Liquidity and Capital Resources** discusses the sources which provide the capital available to finance ongoing activities. **Business Risks and Prospects** presents management's outlook for the future and the impact industry and business environment changes will have on future results of operations.

The following discussion of the results of operations and financial condition for the three years ended December 31, 1992 should be read in conjunction with the Consolidated Financial Statements. On May 1, 1991, pursuant to a Plan of Arrangement, Home Oil was separated from Interhome Energy Inc. and became a stand alone, publicly traded company. The effect of this corporate restructuring was to transfer Interhome's interest in Home Oil directly to Interhome's shareholders.

RESULTS OF OPERATIONS

In 1992 Home Oil earned \$6.9 million, \$0.17 per share, compared with a loss during 1991 of \$0.4 million, \$(0.01) per share, and 1990 earnings of \$66.4 million, \$1.68 per share. Cash flow from operations amounted to \$138 million compared with \$116 million in 1991 and \$183 million in 1990. Significant improvements in both earnings and cash flow, compared with 1991, were achieved principally as a result of higher gas sales and reduced expenses. All categories of expense were reduced with the exception of depletion, depreciation and amortization, which increased largely as a result of higher production volumes. In addition, 1992 earnings reflected a gain on the sale of the Cremona pipeline system. Higher earnings and cash flow from operations in 1990 resulted from substantially higher product prices and tax recoveries on the realization of certain capital losses.

Operating Revenue

	1992	1991	1990
	(dollars in millions)		
Crude oil	\$141	\$151	\$195
Natural gas	92	72	79
Natural gas liquids	30	25	31
Sulphur	1	4	5
Pipeline and other	9	14	16
	<u>\$273</u>	<u>\$266</u>	<u>\$326</u>

Operating revenue of \$273 million improved from \$266 million in 1991 but declined from \$326 million in 1990. The significantly higher revenue in 1990 resulted from higher product prices, in particular world oil prices which rose as a result of the Persian Gulf conflict. In 1992 crude oil revenue declined by 7% from 1991 primarily due to lower production as a result of property dispositions made throughout the year. Natural gas and natural gas liquids revenues both improved as a result of increased sales volumes. Sulphur revenues declined significantly as excess supply has led to a collapse of world prices. Sulphur prices, which averaged over \$50 per long ton in 1990 and 1991, declined to less than \$15 per long ton in 1992 and are expected to remain depressed for the near future. Pipeline and other revenue declined in 1992 principally due to the sale of the Cremona pipeline system to Federated Pipe Lines Ltd. on June 30, 1992, which reduced revenue by approximately \$3 million. Lower throughput on the Manyberries pipeline and reduced marketing fee income, as a result of lower sulphur prices, also contributed to the decline.

Crude Oil

	1992	1991	1990
Revenue after royalty (dollars in millions)	\$ 141	\$ 151	\$ 195
Volume (barrels per day)	22,839	23,763	25,019
Price (per barrel)	\$20.80	\$20.58	\$25.57
Royalty rate	18.9%	17.0%	16.5%

Average crude oil production volumes declined by 4% and 5% during each of the last two years largely due to the impact of the disposition of nonstrategic properties. Property disposition activities during the past two years resulted in a net decline in production volumes of about 2,000 barrels per day. Natural production declines in mature fields were offset by increased production resulting from exploration and development programs.

Reported production during the fourth quarter of 1992 of 23,061 barrels per day was affected by the closing of a major property swap and acquisition which increased the Company's interest in the West Eagle unit by 15%. The transaction, which had an effective date of July 1, 1992, added 500 barrels per day to the Company's production base but affected fourth quarter reported production by 1,000 barrels per day.

Home Oil's average price per barrel for 1992 improved slightly over 1991 reflecting changes in world oil prices and Canadian/United States exchange rates. Although the average price of West Texas Intermediate crude oil declined by 4% in 1992, to U.S. \$20.57, this was more than offset by the positive impact of a weaker Canadian dollar which averaged U.S. \$0.83 compared with U.S. \$0.87 in 1991. The 19% decline in the price from 1990 levels principally relates to lower world oil prices.

The increase in the average royalty rate to 18.9% results from the expiry of the royalty free period on Cecil/Royce production and reduced royalty incentives on enhanced recovery production.

Natural Gas

	1992	1991	1990
Revenue after royalty (dollars in millions)	\$ 92	\$ 72	\$ 79
Volume (millions of cubic feet per day)	214	173	160
Price (per thousand cubic feet)	\$1.38	\$1.37	\$1.62
Royalty rate	14.9%	17.4%	16.2%

Natural gas sales reached a new Company record of 214 million cubic feet per day, an increase of 24% and 34% over 1991 and 1990 levels, respectively. Full year production from Ring/Border, as well as increases in production from most other fields, supplied new long term sales contracts and higher rates of take under existing contracts. Increased production from Leismer to offset competitive drainage, and new production from Hamburg was sold primarily in the short term market to take advantage of higher prices prevailing during the latter part of the year.

Firming gas prices in the fourth quarter caused the 1992 average natural gas price to rise one cent per thousand cubic feet over the 1991 price. The average sales price for the fourth quarter was \$1.64 per thousand cubic feet compared to \$1.28 for the first nine months of 1992 and \$1.33 per thousand cubic feet for the fourth quarter of 1991.

The average royalty rate for the year dropped to 14.9% as a result of royalty free production from the Ring/Border field and adjustments arising from prior years. Royalty rates in 1993 are expected to return to previous levels due to the expiration of the Ring/Border royalty free period.

Natural Gas Liquids

	1992	1991	1990
Revenue after royalty (dollars in millions)	\$ 30	\$ 25	\$ 31
Volume (barrels per day)	8,034	6,588	6,532
Price (per barrel)	\$12.25	\$12.80	\$15.66
Royalty rate	16.7%	17.6%	17.6%

Sales of natural gas liquids rose approximately 22% from the 1991 and 1990 level due to reduced reinjection into the enhanced oil recovery project at Mitsue Gilwood and as a result of higher production at Swan Hills. Generally, liquids prices have tracked changes in the price of crude oil, with the exception of ethane, where prices declined from last year due to oversupply.

The effective royalty rate declined in 1992 as a result of adjustments arising from prior years.

Investment and Other Income

	1992	1991	1990
	(dollars in millions)		
Equity earnings of Federated Pipe Lines Ltd.....	\$4	\$4	\$4
Interest and dividends	1	1	2
Other	3	2	2
	<u>\$8</u>	<u>\$7</u>	<u>\$8</u>

Other income in 1992 includes a gain of \$2.6 million on the sale of the Cremona pipeline system and associated linefill.

Operating Expenses

	1992	1991	1990
	(dollars in millions)		
Oil and gas	\$ 66	\$ 68	\$ 67
Pipeline and other	2	3	4
	<u>\$ 68</u>	<u>\$ 71</u>	<u>\$ 71</u>
Oil and gas operating costs per BOE*	<u>\$3.44</u>	<u>\$3.88</u>	<u>\$3.86</u>

*Where ten thousand cubic feet of gas is equated to one barrel of oil

Oil and gas operating expenses declined slightly from 1991 and 1990 despite an increase in production volumes. Unit operating costs declined by approximately 11% to \$3.44 in 1992. The improvement resulted from the disposition of high operating cost properties and the effects of cost reduction and optimization efforts in operated fields.

Pipeline operating costs are down as a result of the disposition of the Cremona pipeline system.

General and Administrative Expenses

General and administrative expenses of \$17 million were reduced by almost \$4 million in 1992 reflecting savings resulting from downsizing and other cost reduction programs.

Restructuring and Downsizing Expenses

Home Oil implemented a downsizing program in September 1991 in response to lower activity levels both within the Company and the oil and gas industry. The head office staff was reduced by 25% resulting in a charge of \$8 million. Selected field staff reductions and a further head office staff reduction of approximately 10% were implemented in November 1992 at a cost of \$3 million. In 1991 and 1990 the Company also incurred expenses of \$3 million and \$2 million, respectively, on the Interhome corporate restructuring.

Depletion, Depreciation and Amortization Expenses

	1992	1991	1990
	(dollars in millions)		
Oil and gas	\$124	\$107	\$ 98
Other	3	7	7
	<u>\$127</u>	<u>\$114</u>	<u>\$105</u>

Oil and gas capital costs are depleted using the unit of production method based upon estimated proved reserves with natural gas reserves converted to equivalent units of crude oil based on their relative energy content. Oil and gas depletion, depreciation and amortization expenses rose by 16% in 1992 as a result of a 13% increase in equivalent production and a 3% increase in oil and gas depletion rates. The per equivalent barrel depletion rate was \$5.10 compared with \$4.94 in 1991 and \$4.60 in 1990. The oil and gas depletion rate has increased because of revisions to proved reserves and recent years' additions cost exceeding the historical average.

Interest Expense

Interest expense of \$45 million in 1992 was \$9 million lower than 1991 and was approximately the same as 1990. The assumption of \$221 million of debt in May 1991, pursuant to the corporate restructuring of Interhome, accounted for higher 1991 costs. The decline in 1992 reflects the reduction of outstanding debt by \$102 million during the current year and a decline in the average interest rate on the \$200 million Oil Indexed Debenture ("OID"), partially offset by \$5 million of foreign exchange losses on U.S. dollar denominated debt. The interest rate on the OID varies with the West Texas Intermediate crude oil price and averaged 6.9% for 1992, 14.3% for 1991 and 14.5% in 1990. The interest rate for January 1993 was 7.2% and beginning February 1, 1993, the Company has arranged an interest rate swap which effectively fixes the interest rate on the OID at 8.263% until its maturity in October 2000. This transaction will permit Home Oil to benefit from future crude oil price increases which would otherwise be largely offset by higher interest rates under the OID.

Taxes

	<u>1992</u>	<u>1991</u>	<u>1990</u>
	(dollars in millions)		
Current	\$14	\$—	\$12
Deferred	—	2	11
	<u>\$14</u>	<u>\$ 2</u>	<u>\$23</u>

The effective tax rate on 1992 earnings before taxes was 67% compared with 136% in 1991 and 26% in 1990. The effective rates were higher in 1992 and 1991 as capital taxes levied by provincial and federal governments do not vary with declining income levels, and nondeductible provincial resource royalties exceeded the resource allowance as a result of lower prices and higher average oil royalty rates. The effective rate in 1990 was unusually low due to income tax recoveries of \$9 million from the utilization of capital losses. No taxes were deferred in 1992 due to a relatively modest capital program. Taxes were deferred in 1991 and 1990 as current tax deductions for capital expenditures exceeded depletion and depreciation expenses.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations totalled \$138 million compared with \$116 million in 1991 and \$183 million in 1990. The 19% increase in 1992 over 1991 is due to increased revenues and lower interest, operating, administrative and downsizing expenses, partially offset by higher current taxes. Cash flow from operations in 1990 benefited from the higher oil prices that prevailed during the Persian Gulf conflict.

Investing Activities

Capital Expenditures

	<u>1992</u>	<u>1991</u>	<u>1990</u>
	(dollars in millions)		
Exploration	\$20	\$ 46	\$ 82
Development	31	60	80
Miscible fluids	18	22	24
Other	3	7	8
Excluding acquisitions of proved properties	72	135	194
Acquisitions of proved properties	14	—	3
	<u>\$86</u>	<u>\$135</u>	<u>\$197</u>
Proceeds from sale of assets	<u>\$43</u>	<u>\$ 34</u>	<u>\$ 30</u>

Capital expenditures have declined by approximately one-third in each of the past two years. Selective exploration and development programs reflect both the Company's response to difficult economic times for the industry and the priority attached to its debt reduction strategy. The reduced levels of activity, particularly exploration, coupled with a focus on oil optimization projects resulted in significantly lower additions to proved reserves. As a result, in 1992, reserves additions only replaced 37% of production, significantly lower than previous years.

In 1992 exploration and development activities were supplemented by acquisitions of proved properties of \$14 million. Additional interests were acquired through purchases or swaps in several strategic core properties, including Swan Hills, Ring/Border, West Eagle, Mitsue Gilwood, Wood River/Bashaw and Turner Valley.

During the past two years the Company has realized proceeds of \$77 million from dispositions of nonstrategic properties in Western Canada. The objective of this asset rationalization program is to dispose of nonstrategic assets which have limited upside potential and dedicate the proceeds to acquire further interests in fields where the Company has strategic and competitive advantages or toward long term debt reduction. In 1990 the proceeds on sale of assets principally related to the disposition of the remainder of Home Oil's international properties. During 1992 Home Oil agreed to sell most of its properties located in southeastern Saskatchewan effective January 1, 1993.

Net investing activities were financed from internally generated funds in 1991 and 1992. In 1990 internally generated funds were supplemented by borrowings from Interhome to finance the more extensive capital program. Home Oil expects to fund its 1993 capital program, estimated at approximately \$120 million, including approximately \$20 million of acquisitions, out of cash flow from operations.

Financing Activities and Capitalization

During 1992 Home Oil used the proceeds from sale of assets and cash flow from operations in excess of capital expenditures to reduce outstanding debt by \$102 million or approximately 20%. The majority of the debt retired related to borrowings under a \$195 million revolving term credit facility. This facility, which expires in 1994, can be drawn down in either Canadian or U.S. dollars at interest rates of $\frac{5}{8}$ of one percent over Canadian Bankers' Acceptances or the U.S. London Interbank Offer Rate, respectively.

Capitalization

	1992		1991		1990	
	Amount	%	Amount	%	Amount	%
(dollars in millions)						
Long Term Debt						
Oil Indexed Debenture, due 2000	\$200	24	\$200	21	\$200	24
9 $\frac{7}{8}$ % Debentures, due 1998	25	3	33	4	36	4
11% Debentures, due 1995	125	15	125	14	—	—
Revolving Term Credit Facility, due 1994	76	10	170	18	—	—
	426	52	528	57	236	28
Equity	400	48	393	43	620	72
Total	\$826	100	\$921	100	\$856	100

The Company's ratio of debt to equity improved to 52:48 at the end of 1992. Debt at the end of 1992 comprised approximately 18% U.S. denominated floating rate, 35% Canadian denominated fixed rate and 47% OID debt. An interest rate swap has effectively fixed the OID's interest rate at 8.263%, effective February 1, 1993, thus increasing the proportion of fixed rate debt to 82%. The \$76 million floating rate debt outstanding at December 31, 1992 was denominated in U.S. dollars, with foreign exchange rate exposure, as it provides a partial hedge against U.S. denominated crude oil prices and access to lower interest rates prevailing in the U.S.

Liquidity

A working capital deficit of \$11 million existed at the end of 1992. The settlement of trade accounts receivable on a monthly basis is expected to provide adequate liquidity to settle trade payables on their due dates. The

\$119 million unutilized portion of the Company's revolving bank credit facility provides additional liquidity to fund ongoing working capital and operating requirements.

Management considers the ratio of long term debt to cash flow from operations to be a key indicator of long term liquidity. At December 31, 1992, the Company's long term debt of \$426 million represented 3.1 years of cash flow from operations compared with 4.6 years at the end of 1991. During the next two years the Company proposes to further improve this ratio to a target level of approximately two years by utilizing both cash flow from operations in excess of capital expenditures and the proceeds from asset sales to further reduce debt. Management believes the achievement of this target will enhance the financial soundness of the Company and will provide the necessary flexibility to take advantage of future investment opportunities.

The Dominion Bond Rating Service and the Canadian Bond Rating Service have assigned ratings of BBB(high) and B++, respectively, to the Company's outstanding debt.

The Canadian oil and gas upstream industry continues to face many challenges due to low prices which have resulted in marginal profitability. Home Oil has responded to these challenges by introducing focused exploration and development strategies and related asset rationalization and cost control programs to improve profitability.

Oil and gas exploration, development and marketing involve numerous business risks. Earnings and cash flow are sensitive to changes in crude oil and natural gas prices, production volumes, government regulation, transportation and market limitations and, in the longer term, to the Company's ability to economically find and develop reserves.

Government regulation and legislation have a significant impact on the industry and the Company. The Province of Alberta recently announced changes to the provincial royalty regime, effective January 1, 1993, which lower the base and maximum royalty rates, increase price sensitivity, establish new lower royalty rates for oil discovered after October 1, 1992, and provide royalty incentives on reactivated, low productivity and horizontal re-entry wells. These changes improve the economics of oil exploration and development and will partially offset the anticipated increase in royalty rates as a result of the expiry of earlier royalty holiday and incentive programs. The increased sensitivity to prices does, however, increase the volatility of royalty rates.

Home Oil's operations are designed to have minimal impact on the environment and meet or exceed current government regulations. The Safety and Environment group, comprised of 13 individuals, reports regularly to the Safety and Environment Committee of the Board of Directors and is responsible for reviewing existing and proposed operations and facilities to ensure compliance with applicable environmental regulations and Home Oil's environmental policies. In this regard, the Environmental Code of Practice published by the Canadian Association of Petroleum Producers has been adopted. The Company's practice is to abandon and restore well and facility sites when the assets are no longer required. Home Oil has estimated its future liability for abandonment and restoration and has been recording this liability in accordance with the recommendations of the Canadian Institute of Chartered Accountants, whereby these costs are accrued using the unit of production method. Total estimated future costs are reviewed at least annually and are currently estimated at \$50 million, of which \$14 million has been accrued and recorded as a liability. The annual abandonment provision included in depletion, depreciation and amortization expenses increased to \$3 million in 1992. Actual expenditures on site restoration amounted to \$1 million in 1992 and are expected to be approximately \$3 million in 1993.

Oil prices are volatile and are influenced by many factors, including world supply and demand, political stability, the Canada/United States dollar exchange rate and transportation availability. For example, during the fourth quarter of 1992 the Company's crude oil sales to eastern markets were reduced by about 1,200 barrels per day due to apportionment on the Interprovincial Pipe Line system. While alternate markets were found for substantially all of the displaced production, it attracted a modestly lower price.

The Company's earnings and cash flow will be more sensitive to fluctuations in the price of crude oil as a result of fixing the interest rate on the OID. Assuming world oil prices are unchanged from 1992 levels, a modest improvement is anticipated in the average 1993 wellhead price due to both a weaker Canadian dollar and an improvement in the quality of the reserves base resulting from asset rationalization activities. Crude oil and natural gas liquids production volumes in 1993 are anticipated to decline by approximately 5% reflecting the full year impact of sales of noncore properties in 1992 and additional sales in 1993, partially offset by core property acquisitions. Production resulting from exploration and development programs is expected to offset the impact of natural decline.

Approximately 40% of gas production is affected by spot prices. Spot prices for natural gas in Alberta, which have been depressed, began strengthening in the second half of 1992 due to increased take away capacity at the Alberta border and the onset of seasonal winter weather. The Company expects stronger spot prices to continue into 1993, which should begin to affect longer term contract prices in late 1993. Natural gas prices, however, will continue to be influenced by seasonal changes in demand, supply, competition, pipeline capacity constraints and North American weather patterns. With gas deliverability coming more into balance with demand, both in Canada and the U.S., the longer term outlook is for continued price improvement.

Alberta and Southern Gas Co. Ltd., which markets gas primarily in California, has made a proposal to restructure its gas supply contracts with Canadian producers. The proposed restructuring, which is to be effective August 1, 1994, results from changes ordered by U.S. regulatory bodies. Home Oil is evaluating the terms of the proposed restructuring, which affects about 5% of its gas sales, and expects this gas to be either decontracted and sold into new markets or marketed into California under other arrangements.

Overall, the Company expects natural gas sales to increase modestly from 1992 levels as a result of higher rates of take under existing contracts and a continuation of prices which allow short term sales to be attractive. However, as a result of the significant growth in natural gas sales in recent years, the Company's surplus productive capacity has narrowed and thus significant future growth in gas sales is dependent upon developing additional proved reserves.

Operating expenses are anticipated to continue to decline both in total and on a unit basis in 1993 as a result of sales of properties with relatively high operating costs along with achievement of further operational efficiencies. Depreciation, depletion and amortization is expected to continue to increase with the depletion rate per barrel of oil equivalent estimated to rise by approximately 3% in 1993.

Based on 1992 production and sales volumes and existing tax and royalty legislation, the estimated annual effect on the financial results of a change in each of the following factors is set out below:

Financial Sensitivities

	Approximate Change	
	Earnings	Cash Flow from Operations
	(dollars in millions)	
Crude oil prices (U.S. \$1 per barrel)	\$4	\$5
Natural gas prices (Cdn. \$0.10 per thousand cubic feet)	\$4	\$5
Crude oil production (500 barrels per day)	\$1	\$2
Natural gas sales (10 million cubic feet per day)	\$1	\$3
Average royalty rate (one percentage point)	\$3	\$3
Exchange rate (U.S. \$0.01)	\$1	\$2

A \$100 million development and exploration program is budgeted for 1993. Approximately \$50 million of the planned expenditures will relate to development of core properties with an emphasis on oil projects. Major development plans include infill drilling and waterflood installation at South Pierson and Manyberries, optimizing existing waterflood and miscible flood recovery projects at Swan Hills and Mitsue Gilwood, drilling horizontal wells in selected fields in southern Alberta and expanding gas processing facilities in the Attachie area. In addition, about \$20 million is earmarked for acquiring fluids for the miscible flood projects.

Exploration expenditures are planned to increase by 50% to \$30 million with the program providing for participation in approximately 40 gross wells. Emphasis will be on drilling oil prospects in southern Alberta. In addition, significant expenditures will be targeted toward gas prospects in northeastern British Columbia where reserves can be dedicated to an existing long term sales contract and to liquids rich gas plays in west central Alberta.

As in past years, a significant portion of the 1993 exploration and development program is discretionary and can be adjusted to reflect changes in the economic and operating environment. The program will continue to be held below anticipated cash flow from operations in order to permit further debt reduction.

While asset sales and acquisitions are difficult to forecast with any degree of certainty, Home Oil is committed to a significant asset rationalization program to dispose of nonstrategic assets through sales or swaps and to increase interests in selected core properties. Agreements are in place to sell the Company's interest in about 950 wells

in early 1993 for approximately \$24 million. The Company's share of crude oil production from these wells, which are located in over 60 noncore properties in southeastern Saskatchewan and central and southern Alberta, was about 1,500 barrels per day in 1992. The sales will result in a reduction of proved crude oil reserves of about 4.5 million barrels and proved gas reserves of about 2.5 billion cubic feet. A portion of the proceeds from dispositions have been budgeted to purchase additional interests in core properties. These proposed acquisitions, combined with additions from the planned 1993 exploration and development program, are expected to replace a significant portion of the reserves and production that are being sold or produced. Total proceeds from asset sales are expected to exceed acquisition expenditures by approximately \$20 million, all of which will be applied to debt reduction.

Assuming stable product prices, Home Oil's ongoing strategies of asset rationalization, cost control and emphasis on core operations are expected to result in further improvements in 1993 financial results. In addition, the application to debt reduction of cash flow from operations in excess of capital expenditures and net proceeds from asset rationalization activities is projected to result in further improvement of the Company's financial position by the end of 1993.

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 1993	December 31, 1992
	(unaudited, except for December 31, 1992; dollars in millions)	
Assets		
Current Assets		
Accounts receivable		
Trade	\$ 55.2	\$ 51.1
Other	10.5	3.9
Inventories	5.1	8.3
	70.8	63.3
Investment in Federated Pipe Lines Ltd.	13.6	13.3
Property, Plant and Equipment (full cost)	1,258.3	1,304.7
Other Assets	5.9	9.2
	<u>\$1,348.6</u>	<u>\$1,390.5</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness	\$ 0.8	\$ 1.7
Accounts payable and accrued liabilities	41.9	48.4
Interest payable	8.0	7.7
Taxes payable	8.9	11.8
Current portion of deferred production revenue	2.8	5.0
	62.4	74.6
Long Term Debt	389.9	426.5
Deferred Credits	22.0	22.4
Deferred Taxes	436.0	438.6
Minority Interest	28.7	28.5
Shareholders' Equity	409.6	399.9
	<u>\$1,348.6</u>	<u>\$1,390.5</u>

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

	Six months ended June 30,	
	1993	1992
	(unaudited; dollars in millions, except per share amounts)	
Revenues		
Operating, net of royalties	\$143.0	\$127.1
Investment and other income	4.7	5.4
	<u>147.7</u>	<u>132.5</u>
Expenses		
Operating	27.5	33.1
General and administrative	9.4	8.3
Depletion, depreciation and amortization	68.7	64.0
Interest	21.6	22.3
Minority interest	0.7	0.4
	<u>127.9</u>	<u>128.1</u>
Earnings Before Taxes	<u>19.8</u>	<u>4.4</u>
Taxes		
Current	12.8	2.6
Deferred	(2.6)	(0.6)
	<u>10.2</u>	<u>2.0</u>
Earnings	<u>\$ 9.6</u>	<u>\$ 2.4</u>
Earnings Per Share	<u>\$ 0.24</u>	<u>\$ 0.06</u>

HOME OIL COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	1993	1992
	(unaudited; dollars in millions)	
Operating Activities		
Earnings	\$ 9.6	\$ 2.4
Charges (credits) not affecting cash flow from operations		
Depletion, depreciation and amortization	68.7	64.0
Deferred taxes	(2.6)	(0.6)
Amortization of exchange on U.S. debt	3.4	0.9
Other	(1.6)	(2.4)
Cash Flow from Operations	77.5	64.3
Changes in noncash working capital	(1.3)	(10.3)
Deferred production revenue	(3.9)	(4.2)
	<u>72.3</u>	<u>49.8</u>
Investing Activities		
Exploration and development expenditures	(46.7)	(36.1)
Acquisitions of proved properties	(9.5)	(2.6)
Proceeds from sale of assets	38.2	20.9
Changes in noncash working capital	(15.4)	26.5
Other	0.1	0.6
	<u>(33.3)</u>	<u>9.3</u>
Financing Activities		
Repayment of long term debt	(37.0)	(55.5)
Changes in noncash working capital	(0.8)	(2.2)
Other	(1.2)	(1.4)
	<u>(39.0)</u>	<u>(59.1)</u>
Increase in Cash (1)	<u>\$ —</u>	<u>\$ —</u>

(1) Cash is defined as cash and short term deposits which mature in three months or less.

SCHEDULE G

IN THE COURT OF QUEEN'S BENCH OF ALBERTA JUDICIAL DISTRICT OF CALGARY

IN THE MATTER OF Section 186 of the *Business Corporations Act (Alberta)*, being Chapter B-15 of the Statutes of Alberta, 1981, as amended;

AND IN THE MATTER OF a proposed arrangement involving Scurry-Rainbow Oil Limited and its shareholders and Home Oil Company Limited.

BEFORE THE HONOURABLE
CHIEF JUSTICE W. K. MOORE
IN CHAMBERS

) At the Court House, in the City of Calgary,
) in the Province of Alberta, on Thursday
) the 23rd day of September, 1993

INTERIM ORDER

UPON THE APPLICATION by Petition of Scurry-Rainbow Oil Limited ("Scurry-Rainbow");

AND UPON reading the said Petition, and the Affidavit of Robert M. Perrin and the documents referred to therein, filed;

AND UPON hearing counsel for the Petitioner and Home Oil Company Limited ("Home Oil");

IT IS HEREBY ORDERED that:

1. Scurry-Rainbow shall call, hold and conduct a special meeting (the "Special Meeting") to consider, and if deemed advisable, to pass, with or without variation, a resolution (the "Arrangement Resolution") approving a proposed arrangement involving Scurry-Rainbow and its shareholders and Home Oil (the "Arrangement"). A copy of the Arrangement Agreement (in substantially final form) is attached as Schedule "B" to the Notice of Special Meeting of Shareholders, Notice of Petition, Management Information Circular and Proxy Statement (the "Information Circular") which is Exhibit "A" to the Affidavit of Robert M. Perrin, sworn the 23rd day of September, 1993, filed.
2. The Meeting shall be called, held and conducted in accordance with the ABCA and the Articles of Incorporation and the By-Laws of Scurry-Rainbow subject to what may be provided hereafter.
3. Scurry-Rainbow shall mail the Information Circular in substantially the form contained in Exhibit "A" to the Affidavit of Robert M. Perrin filed herein, with such amendments thereto as counsel for Scurry-Rainbow may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of the Order sought herein, to the holders of Scurry-Rainbow Common Shares (the "Scurry Shares"), to the directors and auditors of Scurry-Rainbow, and to the Alberta Securities Commission, by mailing the same by prepaid ordinary mail to such persons in accordance with the ABCA at least 21 days prior to the date of the Special Meeting; and that such mailing shall constitute good and sufficient service of notice of the Petition, the Special Meeting and the hearing in respect of the Petition.
4. The accidental omission to give notice of the Meeting, or the non-receipt of such notice by one or more of the persons specified in paragraphs 3 and 7 hereof, shall not invalidate any resolution passed or proceedings taken at the Meeting.
5. The majorities required to pass the Arrangement Resolution shall be:
 - (a) two-thirds of the votes cast by all shareholders present in person or by proxy at the Special Meeting; and

- (b) a simple majority of the votes cast by shareholders present in person or by proxy at the Special Meeting, after excluding the votes which, to the knowledge of Scurry-Rainbow, Home Oil and their respective directors and senior officers, after reasonable inquiry, attach to Scurry Shares which are held, or are beneficially owned or over which control or direction is exercised, directly or indirectly by Home Oil, the directors and senior officers of Home Oil and Scurry-Rainbow (other than members of the Special Committee of the board of directors of Scurry-Rainbow) and any other person or company excluded for the purpose of the minority approval requirements of Ontario Securities Commission Policy 9.1 and Quebec Securities Commission Policy Q-27.

6. The holders of Scurry Shares shall have the right to dissent from the Arrangement Resolution in accordance with the provisions of Section 184 of the ABCA, as modified by Section 3.1 of the Plan of Arrangement which is Schedule "A" to the Arrangement Agreement, which is Schedule "B" to the Information Circular.

7. The only persons entitled to notice of the Meeting shall be the registered holders of Scurry Shares at the close of business on the 27th day of September, 1993, the directors and officers of Scurry-Rainbow, and the Alberta Securities Commission and the only persons entitled to be represented and to vote at the Meeting, either in person or by proxy, shall be such holders, subject to the provisions of Section 132 of the ABCA.

8. Upon approval of the Arrangement at the Meeting in the manner set forth in this Order, Scurry-Rainbow may apply before this Court for approval of the Arrangement, which application (the "Final Application") shall be heard before me at the Court House, 611 - 4th Street S.W., in the City of Calgary, on Monday, the 8th day of November, 1993, at 2:00 p.m. or so soon thereafter as counsel may be heard.

9. The mailing of the Information Circular referred to in paragraph 3 above in accordance with the provisions of this Order shall constitute good and sufficient service in respect of the Petition upon all persons who are entitled to receive such notice pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings, and service of the Affidavit of Robert M. Perrin, filed herein, is dispensed with except as to service on the Alberta Securities Commission.

10. Any holder of Scurry Shares and any interested person may appear on the application for the approval of the Arrangement, provided that such holder or person shall file with this Court and serve upon the solicitors for Scurry-Rainbow on or before the 1st day of November, 1993 a Notice of Appearance setting out the address for service in respect of such holder or person and indicating whether such holder or person intends to oppose the application or to make submissions thereat together with any evidence or materials which are to be presented to this Court, such Notice of Appearance to be effected by delivery, at the address set forth below:

Macleod Dixon
Barristers and Solicitors
3700, 400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

Attention: John J. Marshall, Q.C.

11. In the event the Final Application is adjourned, only those persons who have filed and served a Notice of Appearance shall be served with notice of the adjourned date.

12. Scurry-Rainbow shall be entitled at any time to seek leave to vary this Order.

"W. K. Moore"

C.J.C.Q.B.A.

ENTERED this 23rd day of September, 1993

"James McLaughlin"

Clerk of the Court of Queen's Bench of Alberta

SCHEDULE H

RIGHT OF DISSENT

1. Capitalized terms used in this Schedule H shall have the meanings ascribed to them in the Circular.
2. Pursuant to the Interim Order, a shareholder has the right to dissent (the "Dissent Right") from the Arrangement Resolution and to be paid the fair value of his Scurry Shares if the Arrangement is implemented and the shareholder provides Scurry-Rainbow with a written objection to the Arrangement Resolution at or before the Special Meeting and otherwise complies with the steps set forth in this Schedule H.
3. In addition to any other right he may have, a shareholder who complies with these provisions is entitled to be paid by Home Oil the fair value of the Scurry Shares held by him in respect of which he dissents, determined as of the close of business on the last business day before the day on which the Arrangement Resolution is approved by Shareholders.
4. A dissenting shareholder may only claim under the Dissent Right with respect to all the Scurry Shares held by him or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
5. A dissenting shareholder shall send to Scurry-Rainbow a written objection to the Arrangement Resolution so as to be received by Scurry-Rainbow at or before the Special Meeting.
6. An application may be made to the Court, by originating notice after the adoption of the Arrangement Resolution, by Home Oil, or by a shareholder if he has sent an objection to Scurry-Rainbow under paragraph 5, to fix the fair value in accordance with paragraph 3 of the Scurry Shares of a Shareholder who dissents under the Dissent Right.
7. If an application is made under paragraph 6, Home Oil shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors of Home Oil to be the fair value of the Scurry Shares.
8. Unless the Court otherwise orders, an offer referred to in paragraph 7 shall be sent to each dissenting shareholder
 - (a) at least 10 days before the date on which the application is returnable, if Home Oil is the applicant, or
 - (b) within 10 days after Home Oil is served with a copy of the originating notice, if a shareholder is the applicant.
9. Every offer made under paragraph 7 shall be made on the same terms and contain or be accompanied by a statement showing how the fair value was determined.
10. A dissenting shareholder may make an agreement with Home Oil for the amount to be paid by Home Oil for his Scurry Shares in the amount of Home Oil's offer under paragraph 7 or otherwise, at any time before the Court pronounces an order fixing the fair value of the Scurry Shares.
11. A dissenting shareholder
 - (a) is not required to give security for costs in respect of an application under paragraph 6, and
 - (b) except in special circumstances shall not be required to pay the costs of the application or appraisal.
12. In connection with an application under paragraph 6, the Court may give directions for
 - (a) joining as parties all dissenting shareholders who have not made an agreement with Home Oil under paragraph 10 and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representation,
 - (b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,
 - (c) the payment to the Shareholder of all or part of the sum offered by Home Oil for the Scurry Shares,
 - (d) the deposit of the share certificates with the Court or with Scurry-Rainbow or its transfer agent,
 - (e) the appointment and payment of independent appraisers, and the procedures to be followed by them,
 - (f) the service of documents, and
 - (g) the burden of proof on the parties.

13. On an application under paragraph 6, the Court shall make an order

- (a) fixing the fair value of the Scurry Shares in accordance with paragraph 3 of all dissenting shareholders who are parties to the application,
- (b) giving judgment in that amount against Home Oil and in favour of each of those dissenting shareholders, and
- (c) fixing the time within which Home Oil must pay that amount to a shareholder.

14. On

- (a) the Arrangement becoming effective,
- (b) the making of an agreement under paragraph 10 between Home Oil and the dissenting shareholder as to the payment to be made by Home Oil for his Scurry Shares, whether by the acceptance of Home Oil's offer under paragraph 7 or otherwise, or
- (c) the pronouncement of an order under paragraph 13,

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid by Home Oil the fair value of his Scurry Shares in the amount agreed to between Home Oil and the shareholder or in the amount of the judgment, as the case may be.

15. Until one of the events mentioned in paragraph 14 occurs,

- (a) the shareholder may withdraw his dissent, or
- (b) the Corporation may rescind the resolution,

and in either event proceedings under the Dissent Right shall be discontinued.

16. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the Shareholder ceases to have any rights as a Shareholder by reason of paragraph 14 until the date of payment.

17. If an order is rendered by a court against Home Oil in favour of a dissenting shareholder requiring payment of the fair value of such dissenting shareholder's shares, and if, within the 30 day period (the "Payment Period") immediately following the date of such order or, if such order is appealed, the date on which a final determination from which there is no appeal is made by a court of competent jurisdiction relating to such order, whichever date is later, Home Oil fails to make the required fair value payment to such dissenting shareholder, the dissenting shareholder, by written notice delivered to Home Oil within 60 days following the expiration of the Payment Period, may:

- (a) withdraw his notice of dissent, in which case Home Oil and Scurry-Rainbow are deemed to consent to the withdrawal and, subject to paragraph 19, the shareholder is reinstated to his full rights as a shareholder; or
- (b) retain his status as a claimant against Home Oil, to be paid in priority to its shareholders.

18. Shareholders who exercise the Dissent Right and who are ultimately entitled to be paid fair value shall be deemed to have transferred their Scurry Shares to Home Oil as of the Effective Date.

19. Shareholders who exercise the Dissent Right and who are ultimately not entitled for any reason to be paid fair value for their Scurry Shares or who withdraw their dissent in accordance with these provisions shall be deemed to have participated in the Arrangement on the same basis as the non-dissenting shareholders who elected or were deemed to have elected to receive Home Shares as of and from the Effective Date and the Scurry Shares held by such shareholders shall be deemed to have been transferred to Home Oil as of the Effective Date.

20. For the purposes of giving any notice or other communication to Home Oil in connection with the exercise of a Dissent Right, a shareholder may give such notice or other communication to Home Oil by delivering it to Scurry-Rainbow's offices located at 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5, Attention: Corporate Secretary.

Proxies for the Special Meeting should be deposited with Montreal Trust Company of Canada at the office set forth below. Facsimile proxies will be accepted.

Montreal Trust Company of Canada
411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7
Telephone: (403) 267-6555 (collect)
Facsimile: (403) 267-6529

The **Letter of Transmittal and Election Form**, certificates for Scurry Shares and any other required documents should be sent or delivered by each Shareholder or such Shareholder's broker, dealer, bank, trust company or other nominee to the Depositary at one of the following offices:

VANCOUVER
Montreal Trust
Company of Canada
Montreal Trust Centre
510 Burrard St.
Vancouver, B.C.
V6C 3B9

CALGARY
Montreal Trust
Company of Canada
411 - 8th Avenue S.W.
Calgary, Alberta
T2P 1E7

TORONTO
Montreal Trust
Company of Canada
151 Front St. West
8th Floor
Toronto, Ontario
M5J 2N1

MONTREAL
Montreal Trust
Company of Canada
1800 McGill College Avenue
Montreal, Québec
H3A 3K9

HALIFAX
Montreal Trust
Company of Canada
P.O. Box 2187
1690 Hollis Street
Halifax, Nova Scotia
B3J 3C5

UNITED STATES

By mail:

The Bank of New York
Tender and Exchange Department
P.O. Box 11248
Church Street Station
New York, New York
U.S.A. 10286-1248

By delivery:

The Bank of New York
Tender and Exchange Department
101 Barclay Street
Receive & Deliver Window
— Street Level
New York, New York
U.S.A. 10286

Any **questions and requests for assistance** may be directed by Shareholders in Canada to Montreal Trust Company of Canada at its office in Calgary listed above and by Shareholders in the United States to the U.S. Information Agent at the address and telephone number listed below. Additional copies of this document and Letter of Transmittal and Election Form may be obtained without charge on request in Canada from Montreal Trust Company of Canada at any of the offices listed above and in the United States from the U.S. Information Agent.

U.S. Information Agent:

MacKenzie Partners, Inc.
156 Fifth Avenue
New York, New York
U.S.A. 10010

(212) 929-5500
or
Toll-free (800) 322-2885

