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Scurry-Rainbow Oil Limited

1992 Annual Report

Corporate Profile

Scurry-Rainbow Oil Limited, incorporated in 1954, is engaged in the exploration for and production of, crude oil, natural gas liquids and natural gas in Western Canada.

The Company is one of the largest producers of crude oil in British Columbia, where it operates the West and East Eagle Units and the West Stoddart field, all located near Fort St. John. Scurry-Rainbow also produces oil in Alberta, Saskatchewan and Manitoba. The Company produces natural gas in British Columbia and Alberta and holds oil and gas exploration interests in all four western provinces.

Scurry-Rainbow is 88.1% owned by Home Oil Company Limited.

Table of Contents

Highlights	1
Report to Shareholders	2
Operations Review	4
Exploration and Development	4
Land Activity	5
Drilling Activity	5
Proved Reserves	6
Asset Rationalization	7
Production and Marketing	8
Prices	10
Operating Netbacks	10
Management's Discussion and Analysis	11
Management's Report	17
Auditors' Report	18
Financial Statements and Notes	19
Selected Quarterly Financial Data	27
Ten Year Review	28
Corporate Information	32
Share Information	Inside Back Cover
Glossary of Terms	Inside Back Cover

Highlights

Year ended December 31,	1992	1991	1990
Financial			
(dollars in millions, except per share amounts)			
Revenues	**$ 74.6**	$ 71.7	$ 86.5
Earnings	**$ 8.8**	$ 9.5	$ 22.6
Capital expenditures	**$ 38.0**	$ 41.1	$ 69.8
Cash flow from operations	**$ 42.7**	$ 43.9	$ 57.4
Working capital	**$ (3.4)**	$ (11.1)	$ (10.1)
Per common share			
Earnings	**$ 0.66**	$ 0.71	$ 1.68
Cash flow from operations	**$ 3.17**	$ 3.26	$ 4.27
Dividends	**$ 0.50**	$ 0.50	$ 0.50
Operating			
(before royalties)			
Daily production/sales			
Crude oil (*thousands of barrels*)	**7.1**	7.2	7.7
Natural gas liquids (*thousands of barrels*)	**1.2**	1.1	1.1
	8.3	8.3	8.8
Natural gas (*millions of cubic feet*)	**56.8**	43.0	42.2
Average price (*dollars*)			
Crude oil (*per barrel*)	**$20.21**	$20.14	$24.88
Natural gas liquids (*per barrel*)	**$14.60**	$12.96	$14.37
Natural gas (*per thousand cubic feet*)	**$ 1.45**	$ 1.40	$ 1.69
Drilling activity			
Working interest wells			
Gross	**57**	90	157
Net	**12**	21	41
Gross successful	**37**	57	121
Net successful	**8**	11	30
Gross royalty interest wells (*nonconvertible*)	**3**	58	65
Percentage replacement of production			
Barrels of oil equivalent*	**21**	118	185
Undeveloped oil and gas landholdings			
Gross (*thousands of acres*)	**4,690**	5,917	7,267
Net (*thousands of acres*)	**2,002**	2,610	2,701

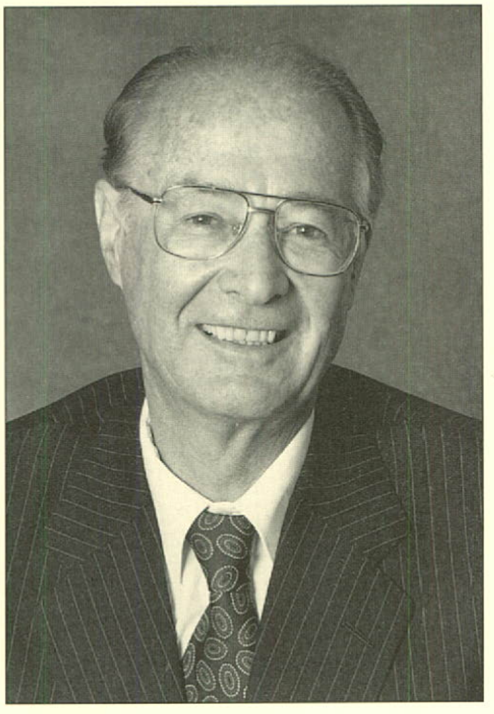
*where ten thousand cubic feet of gas is equated to one barrel of oil

Report to Shareholders

Nineteen ninety-two was a year of consolidation for Scurry-Rainbow as we concentrated on cost reductions and maximizing the value of the asset base through the purchase of additional interests in key strategic areas and the sale of high operating cost, minor interest properties.

1992 Results

In 1992 the Company recorded earnings of $8.8 million, $0.66 per share, compared with $9.5 million, $0.71 per share, earned in 1991. Results in 1991 reflected the receipt of a nonrecurring revenue payment of $2.7 million ($1.6 million after tax) from the Saskatchewan government. Excluding this one time payment, 1992 earnings were 11% higher than the previous year. Cash flow from operations totalled $42.7 million, $3.17 per share, in 1992, down from $43.9 million, $3.26 per share, last year largely due to increased current taxes.



David E. Powell

During 1992 we established record natural gas sales, increased natural gas liquids production and virtually maintained oil production.

Through the asset rationalization program we acquired $16 million of additional interests in a number of key properties and generated proceeds of $10 million from the sale of minor interest properties. The net effect of the 1992 program was the addition of incremental oil and natural gas productive capacity of almost 400 barrels per day and 2.5 million cubic feet per day, respectively, together with a 12% decrease in unit operating costs, key indicators of improved future profitability.

Crude oil production averaged 7,051 barrels per day, down 2% from the previous year. Natural gas liquids production averaged 1,150 barrels per day in 1992, a 5% increase from 1991, and natural gas sales averaged 56.8 million cubic feet per day, a 32% increase over 1991.

Prices increased marginally from 1991. We received an average $20.21 per barrel of oil, compared with $20.14 in 1991, and natural gas prices averaged $1.45 per thousand cubic feet, up from $1.40 last year.

Government Issues

Two important initiatives which emerged in Alberta in 1992 will affect the Company.

Firstly, the Alberta Environmental Protection and Enhancement Act was passed and we expect regulations will be in place by mid to late 1993. As a result, the length and cost of project approvals will likely increase, reflecting greater public input during the approval process and the requirements for environmental impact assessments on individual projects. Also, the Act imposes stringent penalties for environmental offenses and expands the scope of offenses covered by the legislation. We have reviewed operations to ensure they comply with current legislation and will continue to monitor the development of environmental legislation in all operating jurisdictions to confirm continuing compliance.

Secondly, in response to prevailing low product prices and poor industry economics, the Alberta government implemented a new royalty regime in late 1992 which contains a more price sensitive oil royalty structure and royalty relief for new oil discoveries and horizontal re-entry programs. We expect only modest savings on current production but anticipate improved economics for some new exploration and development projects.

Outlook

Planned activities for 1993 focus on developing and optimizing production from key properties, identifying new strategic areas through increased exploration activity and continued asset rationalization. Further cost reductions will be achieved through efficiency measures and innovative operating practices.

The 1993 exploration and development capital program is substantially higher than 1992. Development activities will include infill drilling and the installation of a waterflood scheme at South Pierson, Manitoba, oil and gas development drilling in northeastern British Columbia and installation of additional gas processing facilities in Alberta and northeastern British Columbia.

Exploration activities will include the drilling of more than 40 wells, up from 17 in 1992, directed toward prospects which have the potential to add significant production and reserves. While the majority of activity will be directed toward oil prospects, gas exploration will be undertaken in northeastern British Columbia and in liquids rich gas plays in west central Alberta.

Through its asset rationalization program, Scurry-Rainbow plans to acquire additional interests in strategic operating areas and will continue to sell or swap high cost, minor interest properties.

General

In March 1993 Mr. Lionel Dodd advised that he would not be standing for re-election to Scurry-Rainbow's Board of Directors at the upcoming Annual Meeting. The Company would like to thank Mr. Dodd for his valued contributions.

Dividends

Scurry-Rainbow paid semi-annual dividends of $0.25 per common share on January 1, 1992 and July 1, 1992.

On behalf of the Board of Directors:

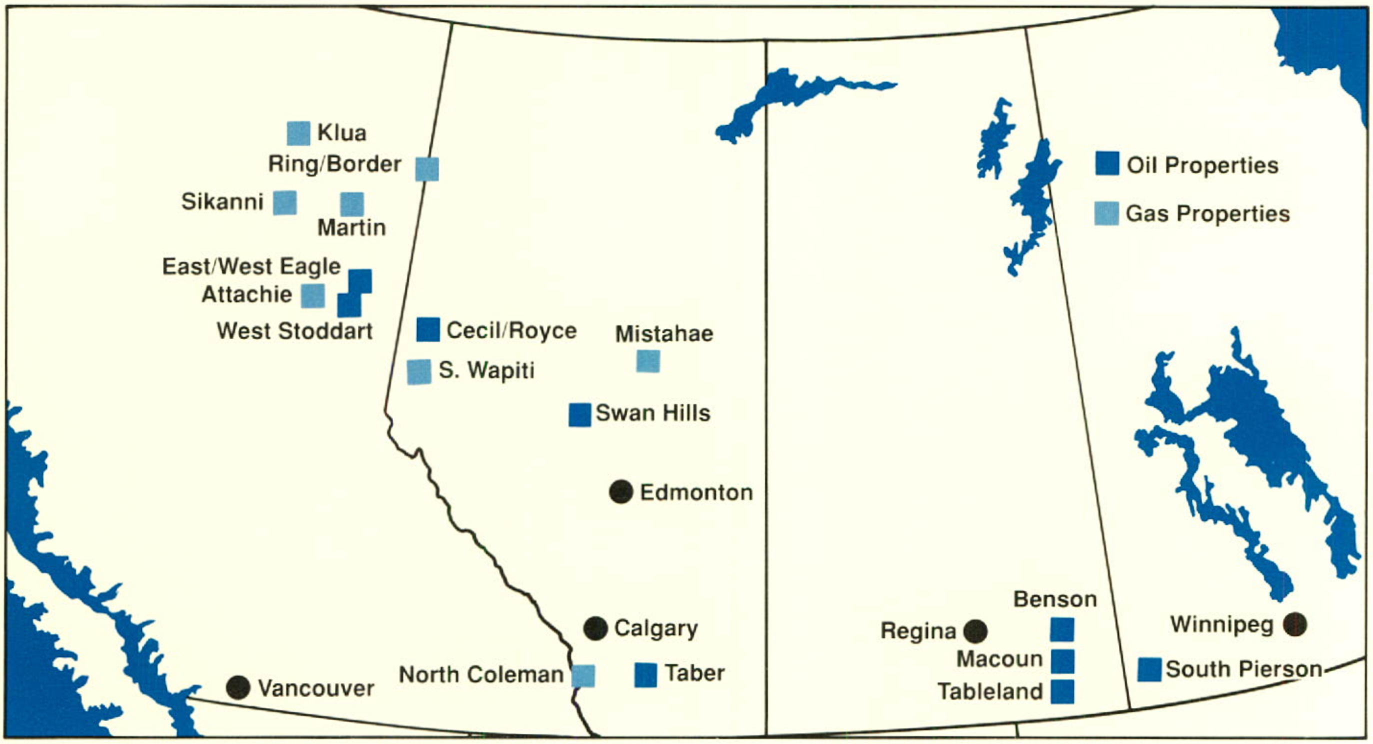
David E. Powell
President & Chief Executive Officer

Calgary, Alberta, Canada
March 19, 1993

Operations Review

In light of poor industry economics, 1992 operating strategies concentrated on enhancing production and improving operating efficiencies. Development projects were primarily directed to optimizing existing production rather than developing new reserves. The modest exploration capital program balanced low and high risk opportunities and was directed toward projects which could generate early cash flow.

Exploration and Development



Northeastern British Columbia

Development drilling at fields in northeastern British Columbia added oil production of a net 155 barrels per day which offset natural declines. In addition, acquisitions of additional interests increased productive capacity in the area by approximately 500 barrels per day.

Saskatchewan

In the Benson area of southern Saskatchewan an exploratory well was completed in the third quarter and is producing a net 60 barrels of oil per day. A detailed 3D seismic program was undertaken in the fourth quarter to select follow-up drilling locations for 1993. Scurry-Rainbow holds a 25% interest in this area.

Also in southern Saskatchewan, under a farmout agreement, a total of six exploration wells were drilled in 1992 and an additional two were still drilling at year end. This program resulted in one oil discovery which will be followed up in 1993. Several 3D seismic programs were conducted recently to determine at least three more well locations which will be drilled under this program during the first quarter of 1993.

Development drilling at Hitchcock/Macoun and Tableland was undertaken in 1992 to further delineate these pools. The program resulted in incremental oil production of 170 net barrels of oil per day. The Company holds a 25% interest in Hitchcock/Macoun and a 34% interest in Tableland.

Manitoba

At the South Pierson field, where a 33% working interest is held, eight wells of a ten well drilling program were completed in 1992 and are producing an aggregate 75 barrels of oil per day, net to the Company. A pilot waterflood was initiated in late 1992. Full implementation of this project will begin in 1993 and has the potential of adding proved reserves of 600,000 barrels.

Land Activity

In 1992 the Company took advantage of its significant land base to reduce its level of acreage acquisition, consistent with its operating priorities. During the year the Company purchased 19,750 net acres of undeveloped Crown and freehold rights in Western Canada for $750,000.

The Company's net landholdings at December 31, 1992 totalled 2.0 million acres compared with 2.6 million acres one year ago. Undeveloped lands in Western Canada accounted for 1.9 million net acres, down from 2.5 million net acres last year as properties with lower exploratory potential were relinquished, sold or farmed out.

Oil and Gas Landholdings

	Undeveloped Acreage *(thousands of acres)*			
	December 31, 1992		**December 31, 1991**	
	Gross	**Net**	**Gross**	**Net**
British Columbia	**1,116**	**863**	1,691	1,349
Alberta	**1,250**	**227**	1,632	316
Saskatchewan	**1,356**	**819**	1,371	828
Manitoba	**47**	**32**	56	36
Total Western Canada	**3,769**	**1,941**	4,750	2,529
Northern Canada/Frontier	**921**	**61**	1,167	81
Total	**4,690**	**2,002**	5,917	2,610

Drilling Activity

Scurry-Rainbow participated in the drilling of 57 gross working interest wells in 1992, down from 90 last year. The lower drilling activity reflected poor industry economics and the Company's focus on selective exploration and development opportunities. Exploratory drilling resulted in two oil and two gas wells and development drilling resulted in 30 oil and three gas producers. Nonconvertible gross overriding royalty interests were held in three wells, of which two were oil discoveries.

Proved Reserves

Total proved reserves at year end were approximately 8% lower than the balance one year earlier. Crude oil and natural gas liquids reserves totalled 22 million barrels on December 31, 1992, compared with 26 million barrels the previous year. The decline was due primarily to low reserves additions resulting from the substantially reduced exploration and development program and disappointing drilling results. Natural gas proved reserves of 338 billion cubic feet were down from 358 billion cubic feet at the end of 1991. Record production rates and the substantially reduced natural gas exploration and development program were largely responsible for the decline.

Through its asset rationalization program, the Company upgraded the quality of its reserves base by disposing of low quality reserves and acquiring higher quality reserves which have significant upside potential.

Proved and Probable Reserves
(before royalties)

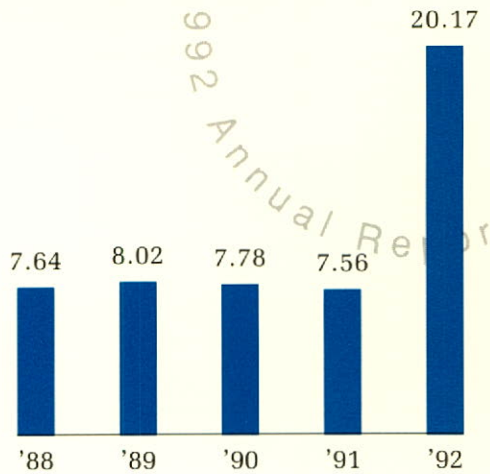
	Crude Oil	Natural Gas Liquids	Natural Gas	Barrels of Oil Equivalent
	(millions of barrels)	*(million of barrels)*	*(billions of cubic feet)*	*(millions of barrels)*
Proved Reserves				
January 1, 1992	**18.2**	**7.3**	**358.4**	**61.4**
Additions	**0.7**	**0.1**	**2.7**	**1.1**
Revisions	**(0.5)**	**(0.2)**	**(6.0)**	**(1.3)**
Acquisitions	**1.5**	**0.3**	**17.0**	**3.5**
Dispositions	**(2.0)**	**(0.1)**	**(13.0)**	**(3.4)**
Production/Sales	**(2.6)**	**(0.4)**	**(20.8)**	**(5.1)**
December 31, 1992	**15.3**	**7.0**	**338.3**	**56.2**
Developed	**13.6**	**5.7**	**229.2**	**42.2**
Undeveloped	**1.7**	**1.3**	**109.1**	**14.0**
	15.3	**7.0**	**338.3**	**56.2**
Probable Reserves				
December 31, 1992	**10.2**	**4.0**	**192.5**	**33.4**
Total Reserves				
December 31, 1992	**25.5**	**11.0**	**530.8**	**89.6**

Based on 1992 production levels, current proved reserves life indices for crude oil and natural gas are 5.9 and 16.3 years, respectively.

Disappointing drilling results and the Company's concentration on optimizing existing production led to few reserves additions through exploration and development. As a result, the Company replaced 22% of its production on a barrel of oil equivalent basis and experienced additions costs of $20.17 per barrel of oil equivalent.

As these results are not satisfactory, efforts are being made to improve performance in 1993, the most important of which is a significantly increased exploratory drilling program.

Additions Cost
(dollars per barrel of oil equivalent)



Asset Rationalization

In 1992 the Company initiated an aggressive asset rationalization program designed to increase its interests in strategic properties while disposing of nonstrategic properties characterized by poor quality reserves, limited development potential, low productivity and high operating costs. During the year the program added incremental oil and gas reserves and productive capacity as a result of $16 million in expenditures for additional interests in key strategic properties. Dispositions encompassed the sale of $10 million of nonstrategic properties and assets. The asset rationalization program, together with gains in operating efficiencies achieved during the year, permitted Scurry-Rainbow, historically a low cost producer, to realize a 12% reduction in unit operating costs from $4.06 in 1991 to $3.57 in 1992.

Disposition activities in 1992 resulted in the sale of Scurry-Rainbow's interests in the Peejay, Workman Frobisher, Sangudo, Wapiti Cardium oil pool and Provost areas which contributed to total disposition proceeds of $10 million.

The Company has agreed to sell, effective January 1993, certain nonstrategic oil and gas properties located primarily in southeastern Saskatchewan for cash proceeds of $15 million. The sales encompass the Company's interests in over 800 wells, producing approximately 1,000 barrels per day, and 117,000 net acres of exploratory lands.

During the third quarter of 1992 the Company disposed of several interests in Alberta properties in exchange for additional interests in the Ring/Border A and B Units straddling the Alberta/British Columbia border. Since late 1988 Scurry-Rainbow has been active in the development of this field which is characterized by long life gas reserves and low operating costs.

A second significant property transaction closed shortly before 1992 year end under which Scurry-Rainbow paid $7 million for a further 15% working interest in West Eagle Unit No. 1, one of the Company's major oil properties. The transaction, effective July 1, 1992, added oil production of about 500 barrels per day.

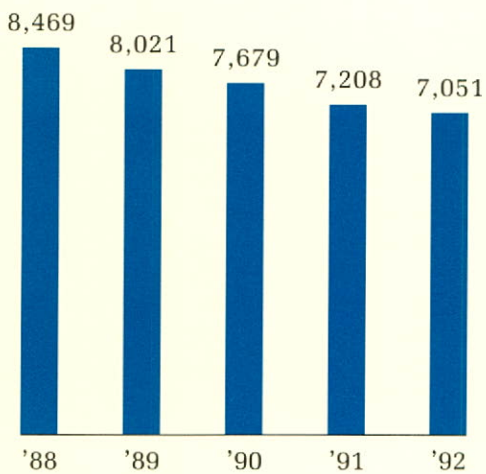
Scurry-Rainbow also purchased an additional 8% interest in Wood River/Bashaw and acquired an interest in Swan Hills Unit No. 1, operated by the Company's parent, Home Oil.

Production and Marketing

Despite property dispositions and natural declines, 1992 crude oil production of 7,051 barrels per day was only marginally lower than 1991. Increased production resulting from optimization programs and the acquisition of additional working interests almost offset the impact of dispositions and natural declines.

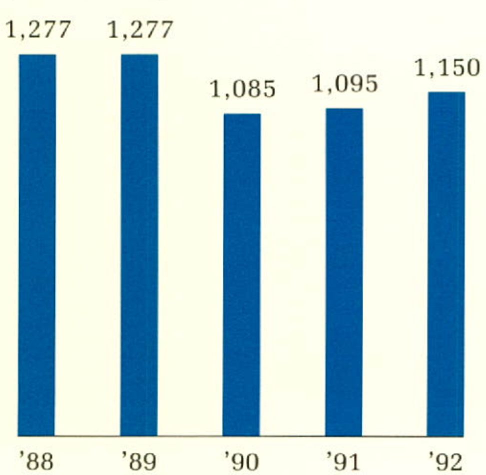
The Company has successfully negotiated a one-year agreement to sell all of its British Columbia oil into the U.S. West Coast market in 1993 in response to refinery shutdowns in the Vancouver area scheduled to take place during the year.

Crude Oil Production
(barrels per day)



Natural gas liquids production averaged 1,150 barrels per day, an increase of 55 barrels per day from 1991, primarily attributable to new production from Ring/Border and the acquisition of a small working interest in Swan Hills Unit No. 1 in Alberta.

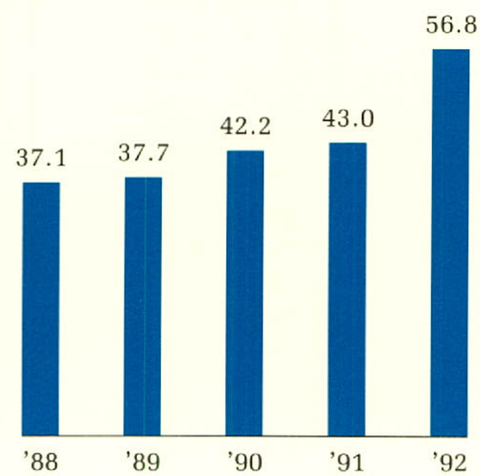
Natural Gas Liquids Production
(barrels per day)



Natural gas sales established a record in 1992, averaging 56.8 million cubic feet per day, 13.8 million cubic feet higher than the previous year. The sharp rise resulted primarily from new gas production coming onstream at Ring/Border and Hamburg and increased production from South Wapiti. Sales from the North Coleman field declined in 1992 due in part to operating difficulties at a nonoperated processing facility.

A significant portion of the increased gas sales volumes were sold to CanWest, an aggregator with markets in British Columbia and the U.S. Pacific Northwest. In addition, Scurry-Rainbow took advantage of high spot prices during the fourth quarter to sell significant volumes of discretionary, uncontracted gas.

Natural Gas Sales
(millions of cubic feet per day)



Average Daily Production/Sales
(before royalties)

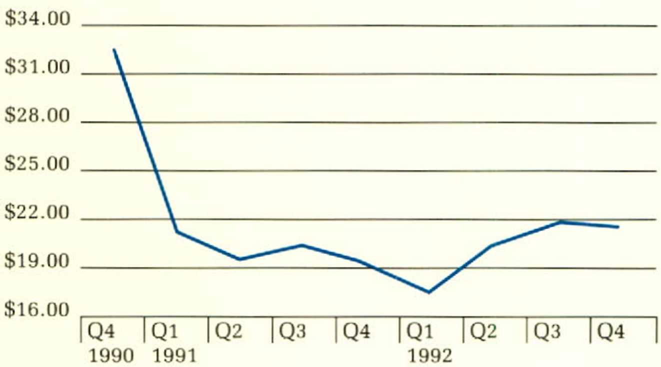
	1992	1991
Crude Oil *(barrels)*		
West Eagle Unit, British Columbia	**1,333**	1,184
East Eagle Unit, British Columbia	**1,083**	1,051
West Stoddart, British Columbia	**740**	669
Cecil/Royce, Alberta	**638**	389
Hitchcock/Macoun, Saskatchewan	**327**	432
South Pierson, Manitoba	**251**	258
Other	**2,679**	3,225
Total	**7,051**	7,208
Natural Gas Liquids *(barrels)*		
Karr, Alberta	**268**	228
South Wapiti, Alberta	**266**	534
Swan Hills, Alberta	**89**	—
Ring/Border, British Columbia	**58**	3
Other	**469**	330
Total	**1,150**	1,095
Natural Gas *(thousands of cubic feet)*		
South Wapiti, Alberta	**11,477**	9,595
Ring/Border, British Columbia	**7,899**	552
Karr, Alberta	**5,173**	4,158
Hamburg, Alberta	**4,924**	581
North Coleman, Alberta	**4,276**	5,584
Sikanni, British Columbia	**4,155**	3,878
Mistahae, Alberta	**2,469**	2,363
West Stoddart, British Columbia	**1,338**	1,015
East Eagle Unit, British Columbia	**1,123**	1,039
Other	**14,008**	14,205
Total	**56,842**	42,970

Prices

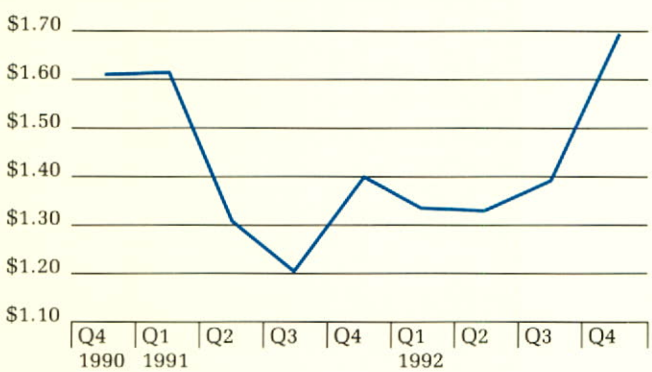
The Company's wellhead price for crude oil averaged $20.21 per barrel in 1992, a minor increase from 1991. Although the West Texas Intermediate average price declined in 1992, it was offset by a lower Canadian/United States exchange rate.

The Company's natural gas price during 1992 averaged $1.45 per thousand cubic feet, up $0.05 from 1991. Weak gas prices in the first half of 1992 were offset by a substantial strengthening of prices in the fourth quarter.

Crude Oil Prices
(dollars per barrel at wellhead)



Natural Gas Prices
(dollars per thousand cubic feet at wellhead)



Operating Netbacks

Netbacks are calculated on a unit of production basis by product. In the case of crude oil, sales revenue less operating costs and royalties, is divided by total crude oil production to arrive at the operating netback per barrel of oil. A similar method is employed to determine the netback per thousand cubic feet of natural gas. However, the revenues realized on the sale of gas byproducts, such as natural gas liquids, are combined with those received from natural gas sales, and the cost of extraction is included as a cost of processing the natural gas.

Scurry-Rainbow's operating netbacks increased in 1992 due to the successful disposition of higher operating cost properties and increased operating efficiencies. The Company received an average operating netback of $12.39 per barrel of oil compared with $12.02 per barrel in 1991 as lower operating costs and higher prices offset increased oil royalty expense. The average netback for gas and natural gas liquids was $1.14 per thousand cubic feet, up from $1.11 one year ago as the higher gas price and lower operating and royalty expenses offset lower products revenue. The decline in products revenue reflects the relatively greater production of drier gas in 1992.

Crude Oil
(dollars per barrel)

	1992	1991
Price	**$20.21**	$20.14
Royalty expense	**(3.97)**	(3.75)
Operating expense	**(3.85)**	(4.37)
Netback	**$12.39**	$12.02

Gas and Natural Gas Liquids
(dollars per thousand cubic feet)

	1992	1991
Gas price	**$ 1.45**	$ 1.40
Products revenue	**0.32**	0.48
Royalty expense	**(0.23)**	(0.30)
Operating expense	**(0.40)**	(0.47)
Netback	**$ 1.14**	$ 1.11

Management's Discussion and Analysis

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

(dollars in thousands)	**1992**	1991	1990
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
	$74,027	$70,571	$84,588

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%

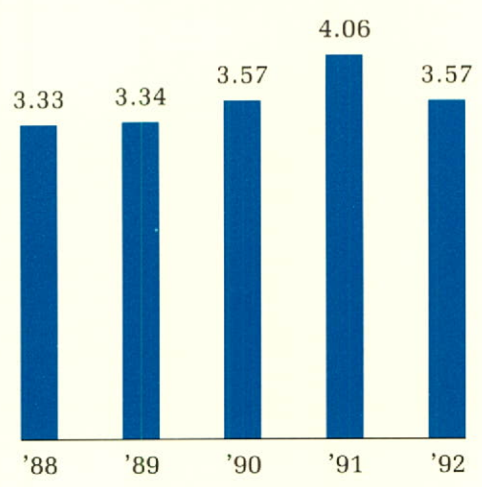
Revenue from natural gas liquids in 1992 increased 20% from 1991 and was up 6% over 1990. Production in 1992 was up approximately 5% over the previous two years reflecting new production, primarily from Ring/Border. The average liquids price increased 13% over last year due to higher quality liquids 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)



General and Administrative Expenses

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

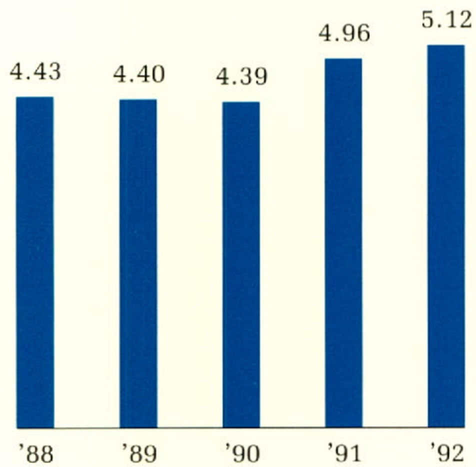
Downsizing Expenses

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)



Taxes

(dollars in thousands)	**1992**	**1991**	**1990**
Current	**$7,176**	$ 608	$ 5,019
Deferred	**(157)**	6,085	9,935
	$7,019	$6,693	$14,954

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.

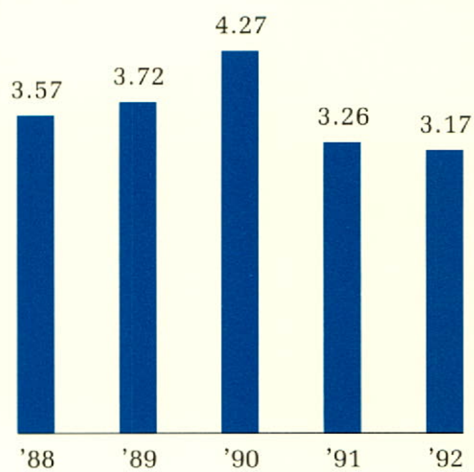
No taxes were deferred in 1992 as a result of a substantially reduced exploration and development program. Taxes were deferred in 1991 and 1990 as current tax deductions for capital programs exceeded depletion and depreciation expenses.

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)

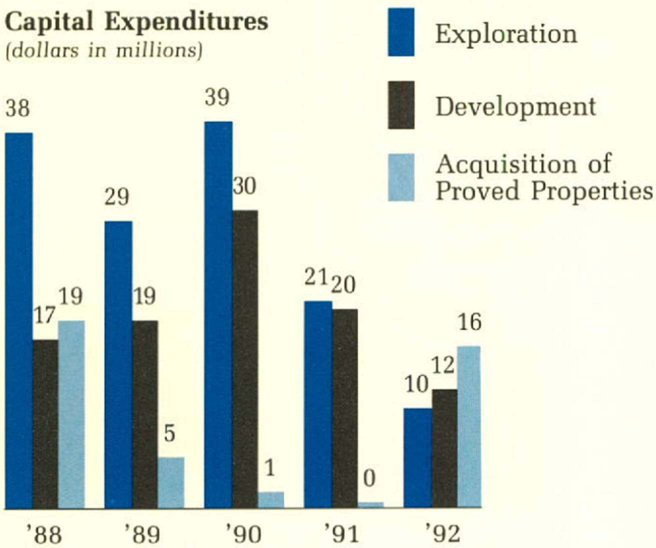


Investing Activities

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)



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 *(dollars in millions)*	**Approximate Change** Earnings	Cash Flow from Operations
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.

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.

D. Powell

David E. Powell
President &
Chief Executive Officer

A. R. Hageman

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.

Price Waterhouse

Price Waterhouse
Chartered Accountants
Calgary, Alberta, Canada

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
	$384,171	$388,859
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
	$384,171	$388,859

Approved by the Board

Director

Director

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
	74,568	71,703	86,454
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
	58,725	55,475	48,868
Earnings Before Taxes	15,843	16,228	37,586
Taxes *(Note 9)*			
Current	7,176	608	5,019
Deferred	(157)	6,085	9,935
	7,019	6,693	14,954
Earnings	$ 8,824	$ 9,535	$ 22,632
Earnings per Share	$ 0.66	$ 0.71	$ 1.68

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
	211,067	208,974	206,170
Dividends	6,731	6,731	6,731
Retained Earnings at End of Year	$204,336	$202,243	$199,439
Dividends per Share	$ 0.50	$ 0.50	$ 0.50

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
	51,111	39,921	57,015
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
	(26,558)	(43,863)	(66,357)
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
	(20,626)	3,942	(3,463)
Increase (Decrease) in Cash	**3,927**	—	(12,805)
Cash at Beginning of Year	**—**	—	12,805
Cash at End of Year	**$ 3,927**	$ —	$ —

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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**
	$656,948	**$289,187**	**$367,761**

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
	$627,593	$255,620	$371,973

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)
	$ 215	$ 682

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	**$11,187**	$(21,465)	$22,632
Earnings (loss) per share under U.S. GAAP	**$ 0.83**	$ (1.59)	$ 1.68

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	**$175,699**	$171,243

(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	$1,203
Taxes paid (refunded)	**$(481)**	$6,151	$1,251

(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.

Selected Quarterly Financial Data (Unaudited)

(dollars in thousands, except per share amounts)

1992 Quarters	First	Second	Third	Fourth	Total
Revenues	$17,183	$17,043	$17,516	$22,826	$74,568
Operating income (1)	$ 3,368	$ 3,576	$ 4,288	$ 5,516	$16,748
Earnings	$ 1,863	$ 1,635	$ 2,276	$ 3,050	$ 8,824
Cash flow from operations	$ 9,997	$10,142	$10,304	$12,293	$42,736
Earnings per share	$ 0.14	$ 0.12	$ 0.17	$ 0.23	$ 0.66
Dividends per share	$ —	$ 0.25	$ —	$ 0.25	$ 0.50

1991 Quarters	First	Second	Third	Fourth	Total
Revenues	$21,797	$16,221	$16,485	$17,200	$71,703
Operating income (1)	$ 8,618	$ 2,826	$ 3,424	$ 3,636	$18,504
Earnings	$ 5,043	$ 1,156	$ 966	$ 2,370	$ 9,535
Cash flow from operations	$15,551	$ 9,736	$ 8,723	$ 9,853	$43,863
Earnings per share	$ 0.37	$ 0.09	$ 0.07	$ 0.18	$ 0.71
Dividends per share	$ —	$ 0.25	$ —	$ 0.25	$ 0.50

(1) Operating income is defined as operating revenues less operating, general and administrative and depletion, depreciation and amortization expenses.

Ten Year Review

(dollars in thousands, except per share amounts)

	Year ended December 31,			
	1992	**1991**	**1990**	**1989**
Statement of Earnings				
Revenues				
Crude oil	**$ 41,891**	$ 45,820	$ 56,956	$ 45,464
Natural gas	**26,489**	18,570	20,898	18,153
Natural gas liquids	**5,184**	4,305	4,873	4,260
Sulphur	**463**	1,876	1,861	2,334
Investment income	**541**	1,132	1,866	2,606
	74,568	71,703	86,454	72,817
Expenses				
Operating and general	**23,706**	25,606	21,923	20,109
Depletion, depreciation and amortization	**34,167**	28,406	25,804	25,546
Other	**852**	1,463	1,141	480
	58,725	55,475	48,868	46,135
Earnings before taxes	**15,843**	16,228	37,586	26,682
Taxes	**7,019**	6,693	14,954	7,703
Earnings	**$ 8,824**	$ 9,535	$ 22,632	$ 18,979
Earnings per share	**$ 0.66**	$ 0.71	$ 1.68	$ 1.41
Statement of Cash Flows				
Cash flow from operations	**$ 42,736**	$ 43,863	$ 57,424	$ 50,117
Deferred production revenue	**(668)**	(598)	(1,051)	(721)
Changes in noncash working capital	**9,043**	(3,344)	642	2,613
	51,111	39,921	57,015	52,009
Investing activities	**(26,558)**	(43,863)	(66,357)	(37,228)
Dividends	**(6,731)**	(6,731)	(6,731)	(6,731)
Financing activities — other	**(13,895)**	10,673	3,268	184
Increase (decrease) in cash	**$ 3,927**	$ —	$ (12,805)	$ 8,234
Cash flow from operations per share	**$ 3.17**	$ 3.26	$ 4.27	$ 3.72
Capital Expenditures				
Exploration	**$ 9,265**	$ 19,688	$ 33,648	$ 24,009
Development	**11,265**	20,394	29,218	18,378
Acquisition of proved properties	**16,449**	50	1,394	4,992
Land acquisitions	**772**	779	5,254	5,412
Other	**287**	217	311	188
	$ 38,038	$ 41,128	$ 69,825	$ 52,979
Working capital (deficiency)	**$ (3,436)**	$ (11,105)	$ (10,051)	$ 4,167
Total assets	**$ 384,171**	$ 388,859	$ 379,933	$ 349,444
Long term debt	**$ —**	$ —	$ —	$ —
Shareholders' equity	**$ 238,592**	$ 236,499	$ 233,695	$ 217,794
Shares outstanding at end of year	**13,462,129**	13,462,129	13,462,129	13,462,129
Dividends per share	**$ 0.50**	$ 0.50	$ 0.50	$ 0.50
Return on average shareholders' equity	**3.7%**	4.1%	10.0%	9.0%

Year ended December 31,		Three months ended December 31,	Year ended September 30,			
1988	1987	1986	1986	1985	1984	1983
$ 42,451	$ 57,193	$ 10,807	$ 49,496	$ 68,137	$ 67,356	$ 57,056
18,040	14,204	2,937	17,213	20,461	18,722	17,943
3,980	4,561	632	4,612	3,038	3,036	2,599
2,610	1,902	747	2,443	2,931	1,317	1,381
3,196	3,338	937	5,888	8,315	5,077	3,367
70,277	81,198	16,060	79,652	102,882	95,508	82,346
20,630	16,875	4,027	17,066	17,300	15,750	14,437
26,927	24,064	5,110	20,166	16,942	15,715	15,029
596	326	196	669	792	965	1,040
48,153	41,265	9,333	37,901	35,034	32,430	30,506
22,124	39,933	6,727	41,751	67,848	63,078	51,840
7,012	16,798	2,519	23,997	37,716	38,180	29,377
$ 15,112	$ 23,135	$ 4,208	$ 17,754	$ 30,132	$ 24,898	$ 22,463
$ 1.12	$ 1.72	$ 0.31	$ 1.32	$ 2.25	$ 1.86	$ 1.68
$ 48,122	$ 42,620	$ 12,489	$ 45,978	$ 62,213	$ 61,831	$ 52,704
321	(497)	(23)	(121)	(409)	1,635	941
(12,528)	29,512	2,821	(8,957)	14,173	(27,365)	(14,069)
35,915	71,635	15,287	36,900	75,977	36,101	39,576
(64,957)	(40,514)	(8,221)	(43,720)	(51,183)	(44,402)	(15,513)
(13,462)	(6,731)	(3,366)	(6,731)	—	—	—
(3,943)	(134)	(10)	(52)	(992)	(730)	(1,487)
$ (46,447)	$ 24,256	$ 3,690	$ (13,603)	$ 23,802	$ (9,031)	$ 22,576
$ 3.57	$ 3.17	$ 0.93	$ 3.42	$ 4.64	$ 4.62	$ 3.94
$ 25,789	$ 23,344	$ 5,009	$ 22,969	$ 24,994	$ 23,194	$ 9,760
16,860	10,587	2,576	19,250	17,062	15,598	9,355
18,870	812	—	—	(1,321)	1,840	—
11,821	7,574	753	3,427	5,203	4,421	773
623	381	57	139	298	139	315
$ 73,963	$ 42,698	$ 8,395	$ 45,785	$ 46,236	$ 45,192	$ 20,203
$ 12,142	$ 50,420	$ 59,517	$ 58,777	$ 63,427	$ 53,877	$ 35,688
$ 324,121	$ 334,314	$ 314,114	$ 311,053	$ 309,709	$ 255,153	$ 210,630
$ —	$ 3,990	$ 4,124	$ 4,134	$ 4,189	$ 6,897	$ 7,720
$ 205,546	$ 203,896	$ 187,492	$ 186,650	$ 175,627	$ 143,947	$ 119,049
13,462,129	13,462,129	13,462,129	13,462,129	13,462,129	13,391,780	13,391,780
$ 1.00	$ 0.50	$ 0.25	$ 0.50	$ —	$ —	$ —
7.4%	11.8%	8.9%	9.8%	18.9%	18.9%	20.8%

	Year ended December 31,			
	1992	1991	1990	1989
Production/Sales Data				
Crude oil				
Barrels per day	**7,051**	7,208	7,679	8,021
Average price per barrel	**$20.21**	$20.14	$24.88	$19.44
Average royalty rate	**19.7%**	18.6%	18.3%	18.2%
Natural gas liquids				
Barrels per day	**1,150**	1,095	1,085	1,277
Average price per barrel	**$14.60**	$12.96	$14.37	$10.41
Average royalty rate	**15.7%**	16.9%	14.4%	12.2%
Natural gas				
Thousands of cubic feet per day	**56,842**	42,970	42,222	37,706
Average price per thousand cubic feet	**$ 1.45**	$ 1.40	$ 1.69	$ 1.63
Average royalty rate	**12.3%**	15.4%	19.8%	19.0%
Sulphur				
Long tons per day	**90**	120	120	126
Average price per long ton	**$15.03**	$52.44	$52.47	$63.09
Average royalty rate	**5.9%**	18.6%	19.1%	19.4%
Drilling Activity *(working interest wells)*				
Gross exploratory				
Oil	**2**	6	9	5
Gas	**2**	9	26	21
Dry	**13**	27	30	26
Gross development				
Oil	**30**	32	59	59
Gas	**3**	10	27	8
Dry	**7**	6	6	5
Total	**57**	90	157	124
Net exploratory				
Oil	**0.43**	0.75	2.74	2.28
Gas	**0.23**	2.87	8.80	8.23
Dry	**3.07**	8.97	10.45	4.64
Net development				
Oil	**6.64**	5.56	10.41	10.07
Gas	**0.42**	1.56	7.71	1.58
Dry	**1.15**	1.37	1.15	1.10
Total	**11.94**	21.08	41.26	27.90
Proved Reserves *(before royalties)*				
Crude oil *(thousands of barrels)*	**15,316**	18,242	22,567	22,801
Natural gas liquids *(thousands of barrels)*	**7,022**	7,298	6,994	7,462
Natural gas *(billions of cubic feet)*	**338**	358	355	297
Sulphur *(thousands of long tons)*	**1,042**	1,072	1,092	1,041
Oil and Gas Landholdings *(thousands of acres)*				
Gross undeveloped	**4,690**	5,917	7,267	6,868
Net undeveloped	**2,002**	2,610	2,701	2,535
Gross developed	**736**	764	777	788
Net developed	**115**	114	115	109

Year ended December 31,		Three months ended December 31,	Year ended September 30,			
1988	1987	1986	1986	1985	1984	1983
8,469	8,600	8,001	7,543	7,101	7,304	7,227
$16.63	$22.20	$ 17.78	$ 22.77	$34.26	$33.42	$29.16
17.6%	17.9%	17.4%	21.1%	23.3%	24.6%	26.1%
1,277	1,122	821	849	369	405	371
$ 9.63	$12.58	$ 9.71	$ 17.76	$28.37	$26.92	$24.82
11.6%	11.5%	13.8%	16.2%	20.6%	23.8%	22.2%
37,067	28,196	23,557	24,845	24,391	21,711	20,622
$ 1.66	$ 1.69	$ 1.71	$ 2.37	$ 2.73	$ 2.84	$ 2.80
19.9%	18.2%	20.9%	19.7%	16.0%	16.9%	14.9%
126	76	81	58	104	67	62
$67.11	$81.51	$116.45	$134.00	$90.23	$63.74	$67.10
15.5%	16.1%	14.4%	14.6%	14.4%	15.3%	9.6%
27	45	18	46	65	31	4
17	8	6	30	51	23	1
43	50	10	66	94	59	4
86	82	29	156	129	102	28
10	6	3	13	27	22	7
18	13	5	28	47	35	9
201	204	71	339	413	272	53
5.33	8.15	3.64	4.56	6.68	5.07	1.20
1.86	2.09	0.68	1.30	2.69	2.23	0.08
6.78	10.03	1.65	6.34	5.25	4.99	1.49
13.54	7.43	2.56	17.67	9.40	15.81	6.87
1.70	1.37	0.19	0.80	0.74	0.61	0.42
4.85	5.01	1.11	4.73	4.24	2.45	1.87
34.06	34.08	9.83	35.40	29.00	31.16	11.93
23,173	19,963	21,680	22,064	19,675	17,203	15,945
4,801	4,087	2,160	2,214	2,183	1,975	1,610
259	206	207	207	202	193	179
725	308	300	305	324	341	367
6,779	4,802	5,345	5,943	4,424	3,388	3,561
2,474	1,155	1,154	1,217	1,143	1,072	1,350
778	737	646	623	639	776	730
109	102	94	96	97	131	124

Corporate Information

Board of Directors

\+ **Robert G. Black, Q.C.**
Barrister and Solicitor
Calgary, Alberta

Fred Callaway
Vice President, Corporate
Home Oil Company Limited
Calgary, Alberta

Lionel G. Dodd
Chief Operating Officer
O&Y Enterprises Inc.
Toronto, Ontario

Allen R. Hagerman
Vice President and
Chief Financial Officer
Home Oil Company Limited
Calgary, Alberta

\+ **Brian F. MacNeill**
President and
Chief Executive Officer
Interprovincial Pipe Line
System Inc.
Edmonton, Alberta

\+ **Stanley G. Olson**
Company Director
Spokane, Washington

David E. Powell
President and
Chief Executive Officer
Home Oil Company Limited
Calgary, Alberta

\+ **E. Gordon Sheasby**
Company Director
Calgary, Alberta

\+ Member of Audit Committee

Senior Officers

David E. Powell
President &
Chief Executive Officer

Fred Callaway
Vice President, Corporate

Stewart D. Gossen
Vice President, Property
Consolidation

Allen R. Hagerman
Vice President &
Chief Financial Officer

Andrew P. Holder
Vice President, Exploration

Richard C. Osborne
Vice President, Marketing
& Pipelines

Robert M. Perrin
Vice President and
General Counsel

Bruce W. Sherley
Vice President, Production

Douglas E. Deakin
Corporate Secretary

Investor Relations

Scurry-Rainbow Oil Limited
1600 Home Oil Tower
324 Eighth Avenue S.W.
Calgary, Alberta
T2P 2Z5
Telephone: (403) 232-7101
Facsimile: (403) 232-7678

Auditors

Price Waterhouse
Calgary, Alberta

Stock Transfer Agent and Registrar

Montreal Trust Company of Canada
Calgary, Toronto, Montreal and
Vancouver

Shareholder enquiries:
(403) 267-6555

Co-Transfer Agent and Co-Registrar

The Bank of New York
New York City, New York
(212) 815-2286

Form 20-F

The Company files an Annual Report with the Securities and Exchange Commission of the United States. The 1992 report is known as the Annual Report on Form 20-F. Copies of the Form 20-F are available to shareholders, free of charge, upon written request to the Corporate Secretary at the corporate address.

Annual General Meeting

The Annual Meeting of Shareholders will be held at 2:30 p.m. on Friday, May 14, 1993 in the Company's head office, 29th floor Auditorium, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, Canada. This Annual Report is being mailed with the Notice of Meeting, Management Proxy Circular and Form of Proxy to all shareholders of record March 25, 1993.

Share Information

	Prices			
	Toronto Stock Exchange (Cdn. dollars)		American Stock Exchange (U.S. dollars)	
	High	Low	High	Low
Year ended December 31, 1992				
1st quarter	17½	16¼	15⅝	14⅛
2nd quarter	17¾	16	14⅞	13⅜
3rd quarter	17½	16	14¾	13½
4th quarter	17½	16	14⅝	12
Year ended December 31, 1991				
1st quarter	24¾	22¾	21⅛	19¾
2nd quarter	25	24¼	21⅞	20½
3rd quarter	24⅞	22½	21⅜	19¾
4th quarter	22½	17½	20	14½

At December 31, 1992, the Company had 13,462,129 common shares issued and outstanding, held by 2,875 shareholders.

Stock Exchange Listings	Symbols
Toronto Stock Exchange	SCR
American Stock Exchange	SRB

Glossary of Terms

Additions Cost: Total western Canadian exploration and development expenditures, excluding acquisitions and injected miscible fluids, divided by the proved reserves additions resulting from these activities, expressed in dollars per barrel of oil equivalent.

Completion: The work necessary to prepare an oil or gas well for production.

Development Well: A well drilled inside an established oil or gas field or zone.

Exploratory Well: A well drilled outside an established oil or gas field or zone.

Gross: Includes the interests of others.

Gross Overriding Royalty Interest: A royalty usually reserved under a farmout arrangement which is ordinarily calculated and paid as a percentage of gross production before other deductions, such as operating costs, are made. This royalty may be either convertible or non-convertible. The former permits the owner to exchange (convert) this royalty to a working interest.

Miscible Flood: A method of tertiary recovery in which miscible fluids are injected into a reservoir to displace additional oil from the reservoir rock which would not be recovered under primary or secondary methods.

Natural Gas Liquids: Hydrocarbons liquefied and removed from natural gas during processing.

Net: Excludes the interests of others.

Operator: The company responsible for the actual operation of a program or facility.

Percentage Replacement of Production: The portion of annual production replaced by reserves additions from exploration and development activities, including injected miscible fluids, expressed as a percentage.

Proved Reserves: The estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing operating and economic conditions.

Proved Reserves Life Index: Proved reserves remaining at the end of the current year divided by the current year's production, expressed in years.

Royalty: The share of oil and gas which belongs to the owner of the resource.

Tertiary Recovery: Techniques for the recovery of crude oil which go beyond the more conventional secondary recovery techniques of pressure maintenance and waterflooding.

Waterflood: One method of secondary recovery in which water is injected into a reservoir to displace additional oil from the reservoir rock.

Working Interest: The operating interest under an oil and gas lease. Companies holding the working interests are responsible for their share of the costs.

Metric Conversion Factors

1 kilometre	=	0.62 miles
1 metre	=	3.28 feet
1 hectare	=	2.47 acres
1 cubic metre	=	6.2898 barrels (petroleum liquids)
1 cubic metre	=	35.49373 cubic feet (natural gas)
1 tonne	=	0.984 long tons (sulphur)

Recycled Paper

In keeping with the Company's commitment to environmental stewardship, recycled paper was used throughout this report.

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Printed in Canada