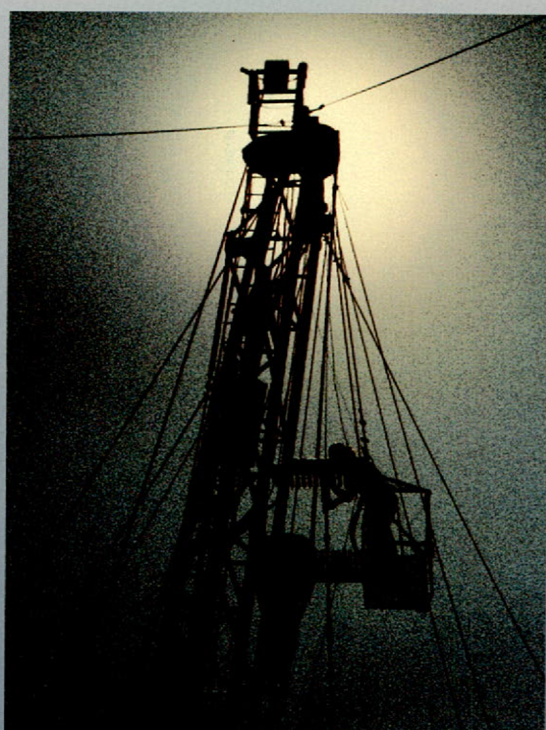
# Scurry-Rainbow Oil Limited





1991 Annual Report

## *Corporate Profile*

Scurry-Rainbow Oil Limited, incorporated in 1954, is primarily engaged in the exploration for, and the development 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. Significant volumes of oil and gas are also produced in Alberta, Saskatchewan and Manitoba. In addition, Scurry-Rainbow holds oil and gas exploration interests in the western provinces and the Beaufort Sea, as well as undeveloped coal reserves in southern Alberta and British Columbia.

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

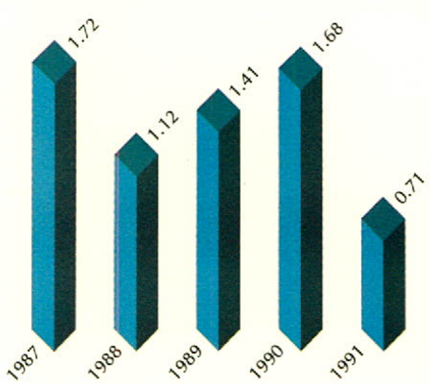
## *Contents*

# *Highlights*

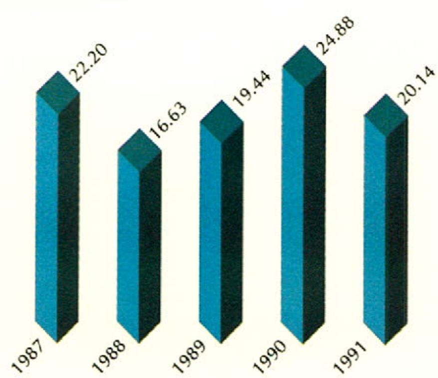


| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| ***Financial** (dollars in thousands, except per share amounts)* | | | |
| Revenue | **$ 71,703** | $ 86,454 | $72,817 |
| Earnings | **$ 9,535** | $ 22,632 | $18,979 |
| Capital expenditures | **$ 41,128** | $ 69,825 | $52,979 |
| Cash from operations | **$ 43,863** | $ 57,424 | $50,117 |
| Working capital | **$(11,105)** | $(10,051) | $ 4,167 |
| Per Common Share | | | |
| Earnings | **$ 0.71** | $ 1.68 | $ 1.41 |
| Cash from operations | **$ 3.26** | $ 4.27 | $ 3.72 |
| Dividends | **$ 0.50** | $ 0.50 | $ 0.50 |
| ***Operating** (before royalties)* | | | |
| Daily Production/Sales | | | |
| Crude oil *(barrels)* | **7,208** | 7,679 | 8,021 |
| Natural gas liquids *(barrels)* | **1,095** | 1,085 | 1,277 |
| Natural gas *(thousands of cubic feet)* | **42,970** | 42,222 | 37,706 |
| Drilling Activity | | | |
| Working Interest Wells | | | |
| Gross | **90** | 157 | 124 |
| Net | **21** | 41 | 28 |
| Gross successful | **57** | 121 | 93 |
| Net successful | **11** | 30 | 22 |
| Gross royalty interest wells | **58** | 65 | 27 |
| Percentage Replacement of Production | | | |
| Crude oil and natural gas liquids | **93** | 75 | 122 |
| Natural gas | **166** | 434 | 196 |
| Barrels of oil equivalent | **126** | 235 | 152 |
| Undeveloped Oil & Gas Landholdings | | | |
| Gross *(thousands of acres)* | **5,917** | 7,267 | 6,868 |
| Net *(thousands of acres)* | **2,610** | 2,701 | 2,535 |

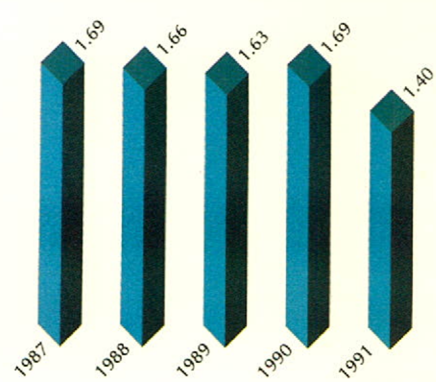
Earnings per Share
(dollars)




Company Average Crude Oil Price
(dollars per barrel)




Company Average Natural Gas Price
(dollars per thousand cubic feet)



## Introduction

Scurry-Rainbow is pleased to report that, in a year characterized by write-downs and losses within the industry, the Company recorded respectable profits and operating results.

During 1991, Scurry-Rainbow continued to focus on creating shareholder value for the Company, an objective which became more critical as the industry's economic climate continued to deteriorate.

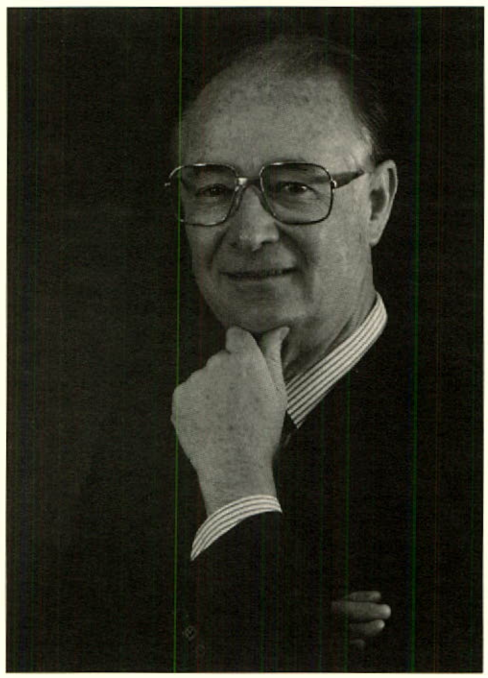
In September, Scurry-Rainbow's major shareholder, which furnishes management and technical services to the Company, effected a downsizing of 25% of its head office staff in response to unfavourable economic conditions and lower activity levels prevailing within the oil and gas industry. This move, designed to reduce ongoing head office costs, resulted, during the third quarter, in a one time charge of $1.9 million constituting Scurry-Rainbow's portion of the total costs.

Scurry-Rainbow is well-positioned to remain profitable, and actions taken during the year and evolving strategies will prepare the Company to benefit from an upturn in industry conditions.

## 1991 Results

Earnings for the year ended December 31, 1991 were $9.5 million, or $0.71 per share, down from $22.6 million, or $1.68 per share in 1990. The decline in earnings resulted from lower oil and gas prices, combined with higher expenses, including $1.9 million incurred for the 1991 downsizing program. Cash from operations totalled $43.9 million, or $3.26 per share, down from $57.4 million, or $4.27 per share, the previous year.

Scurry-Rainbow focused its operating activities on optimizing production and enhancing operating efficiencies to maximize near term cash flow. Exploratory activity began to shift reflecting a longer term strategy of focusing on oil exploration. Given the prevailing weak gas market conditions during the year, development of natural gas reserves was limited to immediate marketing opportunities.



***D. E. Powell***
***President &***
***Chief Executive***
***Officer***

Crude oil production declined by 6% from one year ago to 7,208 barrels per day, primarily as a result of natural decline in the Company's mature fields. The implementation of production optimization projects and reservoir conservation schemes late in the year has partially offset the decline. Natural gas sales increased to 43 million cubic feet per day from 1990 sales of 42 million cubic feet per day.

Scurry-Rainbow received an average $20.14 per barrel of crude oil during 1991, a 19% decrease from 1990. Natural gas prices averaged $1.40 per thousand cubic feet compared with $1.69 per thousand cubic feet in 1990. While crude oil prices escalated in 1990 following Iraq's invasion of Kuwait, Iraq's retreat in 1991 returned crude oil prices to their historically weak levels.

The Company has engaged in an asset optimization process over the last several years and continued this effort during 1991. This program is designed to improve corporate efficiency and enhance the value of Scurry-Rainbow's asset base.

## *Government Policies*

The prevailing difficult economic environment has adversely impacted the oil and gas sector. Provincial governments in western Canada are being asked to recognize the current depressed state of the industry and reduce royalties, especially for new discoveries. A recent study of the profitability of the upstream oil and gas sector, by PowerWest Financial Ltd., reveals that the returns generated by the industry are far below its historical cost of capital.

We view the November 1991 royalty reduction initiatives of the Government of Alberta as a desirable but temporary stimulant for oil exploration and development activity. Scurry-Rainbow, with the industry in general, continues to believe that a full scale review of fiscal and royalty systems is required. Royalty payments represent a substantial withdrawal of funds from an industry that is not currently profitable, as they are calculated on revenues rather than the underlying profitability of the operations being taxed. Favourable changes to royalty regimes are necessary to encourage investment which would stimulate economic activity, create jobs, and generate long term revenues for both industry and government.

Two environmental initiatives are under legislative review. The Canadian Environmental Assessment Act, Bill C-13, and the Alberta Environmental Protection and Enhancement Act, Bill 53, are expected to be enacted during 1992. The proposed Alberta legislation consolidates nine existing environmental statutes and creates a new environmental impact assessment process. The Company favours efforts by the federal and provincial governments to streamline legislation and reduce the regulatory burden.

Scurry-Rainbow encourages fair and consistent application of the environmental mandate of government, but believes this process should be free of duplication or conflict between federal and provincial government bodies. We continue to track these developments closely, both to ensure we continue to meet or exceed federal and provincial laws and to assess any financial impact on the Company.

## *Outlook*

The difficult economic conditions which the industry faced during 1991 are not expected to moderate in 1992. Oil and gas prices show little prospect of near term recovery. Abundant supply, weak demand growth, and aggressive selling by producers at the wellhead are expected to continue to characterize natural gas markets.

The Western Canadian Sedimentary Basin will remain the Company's primary exploration and development area. The Company's 1992 capital program will be directed toward optimizing production volumes and adding proved reserves. Exploration expenditures are expected to emphasize oil prospects, and Company activity will be supplemented by farmout programs on Scurry-Rainbow's extensive landholdings.

Scurry-Rainbow is well-positioned to weather the prevailing difficult times within the industry and maintains the flexibility to expand its efforts when industry economics improve.

## *General*

During the year, several members of senior management retired from the Company. Messrs. R. F. Haskayne, President & Chief Executive Officer; H. Alfaro, Vice President, Production; and E. Jorgensen, Vice President & Controller retired after a combined 36 years as officers of Scurry-Rainbow. Their dedication and leadership over the years is greatly appreciated.

Mr. J. Gordon Hutchison will not be standing for re-election as a Director at the upcoming Annual Meeting of Shareholders. The Company wishes to express its sincere gratitude to Mr. Hutchison for his valued contribution as a Director of the Company for the past 18 years.

## *Dividends*

Scurry-Rainbow paid semi-annual dividends of $0.25 per common share on January 1, 1991 and July 1, 1991.

Submitted on behalf of the Board of Directors

D. E. Powell
President & Chief Executive Officer

Calgary, Alberta, Canada
March 13, 1992

Scurry-Rainbow focused its 1991 operating activities on optimizing production and enhancing operating efficiencies to maximize cash flow. Optimization of producing properties included the commissioning of a new gas conservation facility at Cecil/Royce in northern Alberta, and implementation of a waterflood scheme at West Stoddart in northeastern British Columbia.

During 1991 there was a shift in exploration activity toward oil prospects to generate early cash flow. Development drilling in the East and West Eagle Units in northeastern British Columbia increased Scurry-Rainbow's oil production and reserves.

A recent horizontal drilling success at West Stoddart has encouraged the Company to focus much of its current activity on horizontal drilling projects, particularly in the Fort St. John area of northeastern British Columbia and in southern Saskatchewan.

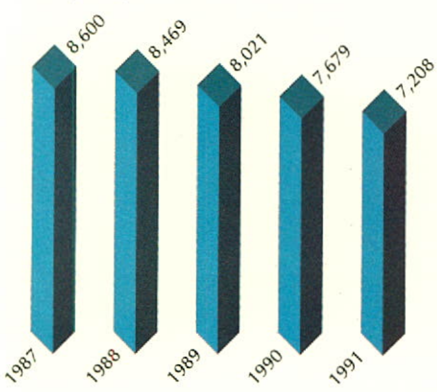
## Production/Sales

Crude oil production averaged 7,208 barrels per day in 1991, down 6% from last year. The decrease was primarily a result of water breakthrough and natural decline in the West Eagle field and the shut-in of a well in the Hitchcock field of southern Saskatchewan. Production gains obtained through implementation of optimization projects at Cecil/Royce and West Stoddart late in 1991 partially offset the natural decline of mature fields.

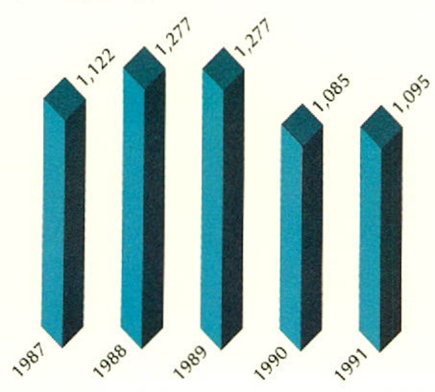
Production of natural gas liquids was essentially unchanged at 1,095 barrels per day.

Natural gas sales rose to 43.0 million cubic feet per day, up marginally from 1990. Higher gas sales under long term contracts were offset by a decline in short term gas sales.

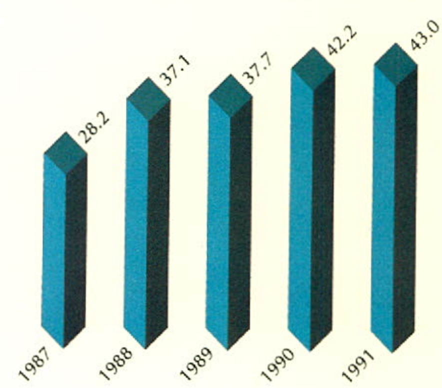
Crude Oil Production
(barrels per day)




Natural Gas Liquids Production
(barrels per day)




Natural Gas Sales
(millions of cubic feet per day)



**Average Daily Production/Sales**
*(before royalty)*

| | 1991 | 1990 |
|---|---|---|
| **Crude Oil** *(barrels)* | | |
| West Eagle Unit, British Columbia | **1,184** | 1,311 |
| East Eagle Unit, British Columbia | **1,051** | 1,021 |
| West Stoddart, British Columbia | **669** | 715 |
| Cecil/Royce, Alberta | **389** | 391 |
| Hitchcock, Saskatchewan | **302** | 515 |
| Pierson, Manitoba | **258** | 223 |
| Other | **3,355** | 3,503 |
| Total | **7,208** | 7,679 |
| **Natural Gas Liquids** *(barrels)* | | |
| South Wapiti, Alberta | **534** | 587 |
| Karr, Alberta | **228** | 123 |
| East Gold Creek, Alberta | **48** | 86 |
| Crossfield/Turner Valley, Alberta | **16** | 17 |
| Other | **269** | 272 |
| Total | **1,095** | 1,085 |
| **Natural Gas** *(thousands of cubic feet)* | | |
| South Wapiti, Alberta | **9,595** | 14,108 |
| Coleman, Alberta | **5,584** | 5,355 |
| Karr, Alberta | **4,158** | 3,249 |
| Sikanni, British Columbia | **3,878** | 4,477 |
| Pickell, British Columbia | **1,251** | 554 |
| East Eagle Unit, British Columbia | **1,039** | 788 |
| Other | **17,465** | 13,691 |
| Total | **42,970** | 42,222 |

## *Land Activities*

The Company's landholdings at December 31, 1991 totalled 2.7 million net acres compared with 2.8 million net acres one year ago. Undeveloped lands in western Canada accounted for 2.5 million net acres, down from 2.6 million net acres last year. Scurry-Rainbow is strategically placed with extensive holdings of undeveloped lands. The availability of this significant land base enabled the Company to supplement its drilling activity during the year by initiating farmout programs, thereby maintaining exploration activity levels similar to those of prior years.

In 1991, the Company purchased 35,901 net acres of undeveloped Crown and freehold rights in western Canada for $0.8 million or an average $23.27 per acre. This is a significant decline in acreage acquisition from previous years and is a direct result of the Company's strategy of applying its capital expenditures to maximizing the value of its current landholdings. Land acquisition objectives are limited to following up drilling successes and purchasing strategic parcels on Scurry-Rainbow's key exploratory plays and development projects.

**Oil and Gas Landholdings**

| | Undeveloped Acreage | | | |
|---|---|---|---|---|
| | December 31, 1991 | | December 31, 1990 | |
| | Gross | Net | Gross | Net |
| British Columbia | **1,690,520** | **1,348,961** | 1,750,706 | 1,368,651 |
| Alberta | **1,632,291** | **315,924** | 1,851,966 | 349,485 |
| Saskatchewan | **1,370,923** | **828,553** | 1,307,126 | 808,695 |
| Manitoba | **56,478** | **35,814** | 59,992 | 36,645 |
| Total western Canada | **4,750,212** | **2,529,252** | 4,969,790 | 2,563,476 |
| Northern Canada/Frontier | **1,166,767** | **80,993** | 2,297,589 | 137,280 |
| Total | **5,916,979** | **2,610,245** | 7,267,379 | 2,700,756 |

The Company held an additional 764,343 gross (113,553 net) acres of developed lands in Canada at the end of 1991 compared with 776,674 gross (114,752 net) acres at the end of 1990.

## *Drilling Results*

Scurry-Rainbow participated in the drilling of 42 exploratory and 48 development wells compared with 65 exploratory and 92 development wells in 1990. The decline in drilling activity was primarily due to a reduced capital spending program as a result of lower cash flow. An aggressive farmout program in 1991 also enabled the Company to continue evaluating its extensive land base and maintain a level of exploration activity similar to 1990. Non-convertible gross overriding royalty interests were held in 58 additional wells, of which 33 were oil discoveries and 12 found gas.

Exploratory drilling produced six oil and nine gas wells, while 32 oil and ten gas wells resulted from development drilling. The average net working interest held by the Company in total wells drilled was 23%, down slightly from 26% in 1990.

## *Proved Reserves*

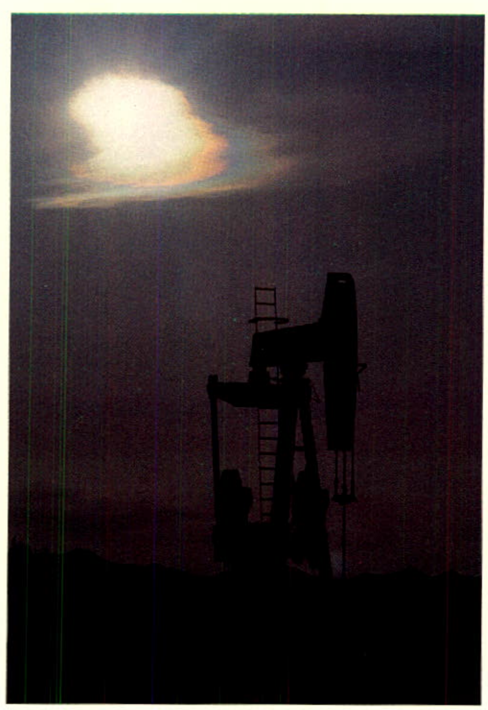
Proved reserves of crude oil were 18.2 million barrels at the end of 1991, compared with 22.6 million barrels one year ago, primarily due to downward revisions resulting from observed field performance at the West Eagle field. Proved reserves of natural gas liquids increased slightly to 7.3 million barrels, from 7.0 million barrels in 1990, more than offsetting dispositions of 0.6 million barrels in 1991. Proved reserves of natural gas increased to 358.4 billion cubic feet from 354.8 billion cubic feet the previous year, reflecting additions to proved gas reserves in the Ring/Border field in northeastern British Columbia. Reserves additions resulted in replacement of production rates of 93% for crude oil and natural gas liquids, and 166% for natural gas.

At year end, the Company's proved reserves life indices for crude oil and natural gas were 6.9 and 22.8 years, respectively.

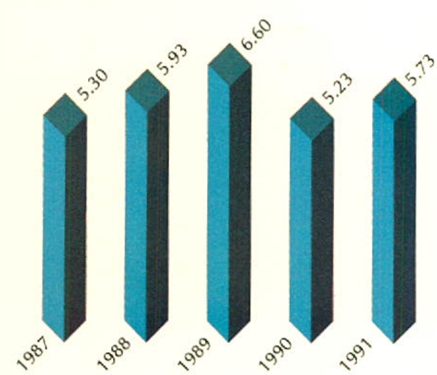
| | Crude Oil | Natural Gas Liquids | Natural Gas | Sulphur |
|---|---|---|---|---|
| | *(thousands of barrels)* | *(thousands of barrels)* | *(billions of cubic feet)* | *(thousands of long tons)* |
| January 1, 1991 | **22,567** | **6,994** | **354.8** | **1,092** |
| Additions | **1,487** | **1,314** | **26.0** | **61** |
| Revisions | **(2,945)** | **10** | **(4.9)** | **18** |
| Acquisitions | **5** | **—** | **—** | **—** |
| Dispositions | **(241)** | **(620)** | **(1.8)** | **(55)** |
| Production/Sales | **(2,631)** | **(400)** | **(15.7)** | **(44)** |
| December 31, 1991 | **18,242** | **7,298** | **358.4** | **1,072** |

## *Additions Cost*

In 1991, Scurry-Rainbow added proved reserves at an average cost of $5.73 per barrel of oil equivalent. This cost is comparable to the Company's five year average additions cost of $5.76 per barrel of oil equivalent.



Additions Cost
(dollars per barrel of oil equivalent)



## *Exploration and Development*

During 1991, Scurry-Rainbow modified its exploration and development strategy from one of active gas exploration emphasizing higher average working interests, to maintaining a viable exploration program with minimal capital outlay focused on high reserve potential oil plays. The surplus supply and declining price of natural gas, combined with the desire to increase early cash flows from oil production, contributed to the change in focus. Scurry-Rainbow's farmout program enabled the Company to maintain an acceptable level of exploration activity.


### Northeastern British Columbia

A significant gas discovery was made at Klua, where Scurry-Rainbow successfully completed a well which added four billion cubic feet to the Company's proved gas reserves.

Four development wells, including one horizontal well, were successfully drilled in the East Eagle Unit adding 220 barrels per day of oil production and 242,000 barrels of net recoverable reserves. An additional development well was drilled between the East and West Eagle Units adding a net 124,000 barrels of proved oil reserves.

Water injection at the West Stoddart waterflood scheme commenced August 30, 1991, adding an incremental 525,000 barrels of oil reserves and 250 barrels per day of oil production, net to the Company.

An agreement was reached to unitize the Ring/Border field. Unitization is expected to increase Scurry-Rainbow's net production of natural gas from this field by 27% to eight million cubic feet per day.

### Alberta

An exploratory well in the Pembina area added proved reserves of 164,000 barrels of natural gas liquids and one billion cubic feet of gas net to Scurry-Rainbow.

The Cecil/Royce gas conservation facility began operating during the last quarter of 1991. Natural gas sales have since averaged 0.7 million cubic feet per day with additional production of 200 barrels of oil per day, net to the Company.

### Saskatchewan

Since 1991, seismic programs have commenced in southeastern Saskatchewan as part of a major exploration farmout agreement with OMV (CANADA) Limited. The farmout drilling program, in which Scurry-Rainbow has a 12.5% paying interest, is expected to begin during the second quarter of 1992. Up to 15 wells are targeted for deep oil prospects before the end of the year. The Company will retain about 60% of its original working interest in the lands subject to the arrangement.

### Manitoba

Ten development wells were drilled during the year in the South Pierson area adding 199,000 barrels of oil reserves net to Scurry-Rainbow. This raises the Company's remaining recoverable oil reserves to 800,000 barrels for the area. Current field production is approximately 270 barrels of oil per day net to Scurry-Rainbow.

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 Scurry-Rainbow with 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 of Scurry-Rainbow for the three years ended December 31, 1991 should be read in conjunction with the Consolidated Financial Statements.*

## RESULTS OF OPERATIONS

Scurry-Rainbow's earnings for 1991 were $9.5 million or $0.71 per share compared with $22.6 million or $1.68 per share in 1990 and $19.0 million or $1.41 per share in 1989. Cash from operations totalled $43.9 million, down from the $57.4 million achieved in 1990 and $50.1 million in 1989. Substantial declines in the prices of crude oil and natural gas combined with higher expenses, including $1.9 million incurred for the 1991 downsizing program, account for the decline in both earnings and cash from operations.

### Operating Revenue

| *(dollars in thousands)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| Crude oil | **$45,820** | $56,956 | $45,464 |
| Natural gas | **18,570** | 20,898 | 18,153 |
| Natural gas liquids | **4,305** | 4,873 | 4,260 |
| Sulphur | **1,876** | 1,861 | 2,334 |
| | **$70,571** | $84,588 | $70,211 |

Operating revenue of $70.6 million declined from the five year high of $84.6 million achieved in 1990 and was comparable with 1989. The 1990 revenues were achieved largely as a result of higher oil prices caused by the Persian Gulf conflict.

**Crude Oil**

| | 1991 | 1990 | 1989 |
|---|---|---|---|
| Revenue after royalty *(dollars in thousands)* | **$45,820** | $56,956 | $45,464 |
| Volume *(barrels per day)* | **7,208** | 7,679 | 8,021 |
| Price *(per barrel)* | **$ 20.14** | $ 24.88 | $ 19.44 |
| Royalty rate | **18.6%** | 18.3% | 18.2% |

Average crude oil production for the year declined by 6% from 1990 and 10% from 1989 levels. The natural decline of mature oil fields was only partially offset by new discoveries and infill drilling. The decline in 1990 production resulted from the adverse impact of legislation enacted by the Government of Saskatchewan early in that year limiting compensation for the expropriation of mineral rights.

As a result of a stronger Canadian dollar and lower world oil prices, Scurry-Rainbow's average price per barrel declined 19% from 1990 while increasing marginally from 1989 levels.

Revenue in 1991 also included a one time payment of $2.7 million from the Saskatchewan government as compensation for mineral rights previously expropriated in error.

### Natural Gas

| | 1991 | 1990 | 1989 |
|---|---|---|---|
| Revenue after royalty *(dollars in thousands)* | **$18,570** | $20,898 | $18,153 |
| Volume *(thousands of cubic feet per day)* | **42,970** | 42,222 | 37,706 |
| Price *(per thousand cubic feet)* | **$ 1.40** | $ 1.69 | $ 1.63 |
| Royalty rate | **15.4%** | 19.8% | 19.0% |

Natural gas revenue declined by 11% in 1991 as a result of a reduction in the Company's average natural gas price by $0.29 per thousand cubic feet. The 1991 price reflects the continued surplus of gas deliverability in western Canada.

Scurry-Rainbow's 1991 natural gas sales volumes increased marginally compared with 1990 and were 14% higher than the levels achieved in 1989. The slight improvement from 1990 volumes was the result of new production from the Ring/Border and Cecil/Royce areas and new wells drilled in the Karr, Mistahae and Pickell areas offset by reduced South Wapiti production.

The royalty rate dropped significantly from prior year levels due to reduced prices and lower sales from South Wapiti, a higher royalty rate field.

### Natural Gas Liquids

| | 1991 | 1990 | 1989 |
|---|---|---|---|
| Revenue after royalty *(dollars in thousands)* | **$4,305** | $4,873 | $4,260 |
| Volume *(barrels per day)* | **1,095** | 1,085 | 1,277 |
| Price *(per barrel)* | **$12.96** | $14.37 | $10.41 |
| Royalty rate | **16.9%** | 14.4% | 12.2% |

Natural gas liquids revenue declined 12% in 1991 and was up marginally over 1989. Production volumes in 1991 were virtually unchanged from 1990, with the decrease from 1989 reflecting the lower liquids content of gas being processed. Liquids prices have generally tracked changes in the price of crude oil. The average royalty rate increased as a result of lower production from South Wapiti, a field where royalties are assessed on produced gas prior to the extraction of liquids.

## Operating Expenses

Operating expenses rose 10% from 1990 as a result of the start up of new facilities at West Stoddart, Ring/Border and Cecil/Royce and higher operating costs on non-operated gas properties. The increase in 1990 over 1989 was primarily the result of the cost associated with higher gas sales.

## General and Administrative Expenses

General and administrative expenses totalled $4.8 million, up slightly from 1990. The increase in 1990 over 1989 was due mainly to higher activity levels and inflation.

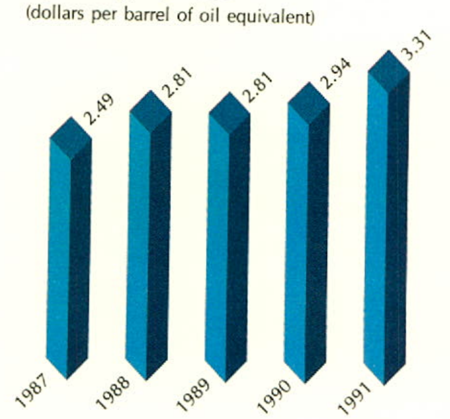
## Downsizing Expenses

In September 1991, a downsizing program was implemented in response to unfavourable economic conditions which have resulted in lower activity levels within the Company and the oil and gas industry. This initiative, designed to reduce ongoing head office costs, resulted in a one time charge of $1.9 million.

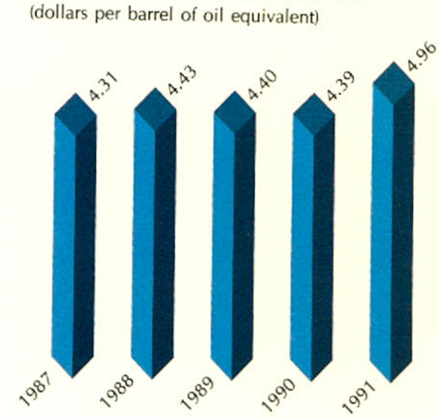
## Depletion and Depreciation Expenses

Depletion and depreciation expenses rose to $28.4 million in 1991, principally as a result of higher oil and gas depletion rates. On a barrel of oil equivalent basis, the depletion rate increased by 13% to $4.96, reflecting higher additions costs and an unfavourable reserve revision at the West Eagle field.

Operating Expenses
(dollars per barrel of oil equivalent)




Depletion and Depreciation Rate
(dollars per barrel of oil equivalent)




## Taxes

| *(dollars in thousands)* | 1991 | 1990 | 1989 |
|---|---|---|---|
| Income taxes | | | |
| Current | **$ 1,153** | $ 5,279 | $ 4,755 |
| Deferred | **6,085** | 9,935 | 5,683 |
| | **7,238** | 15,214 | 10,438 |
| Large Corporations Tax | **757** | 598 | 265 |
| Alberta Royalty Tax Credit | **(1,302)** | (858) | (3,000) |
| | **$ 6,693** | $14,954 | $ 7,703 |

The Company's effective income tax rate on pretax earnings increased to 44.6% compared with 40.5% in 1990 and 39.1% in 1989. The change resulted from increases in provincial tax rates and the negative impact of declining prices on the resource allowance.

The Large Corporations Tax increased from both 1990 and 1989. The statutory rate for the tax rose from 0.175% to 0.200% in the current year, and 1989 was only subject to the tax for one half of the year.

The Alberta Royalty Tax Credit declined significantly from the 1989 level when the Company received the maximum $3.0 million credit. Subsequent legislative changes reduced the available credit and required the amount to be shared among associated companies, being Scurry-Rainbow, Home Oil Company Limited and Gulf Canada Resources Limited.

## LIQUIDITY AND CAPITAL RESOURCES

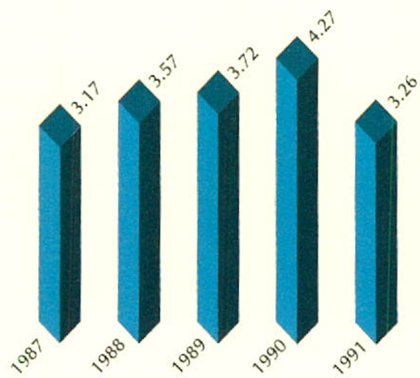
### Operating Activities

Cash from operations during 1991 totalled $43.9 million compared with $57.4 million in 1990 and $50.1 million in 1989. Lower revenues and downsizing expenses, partially offset by lower current taxes, contributed to the decline from previous years.

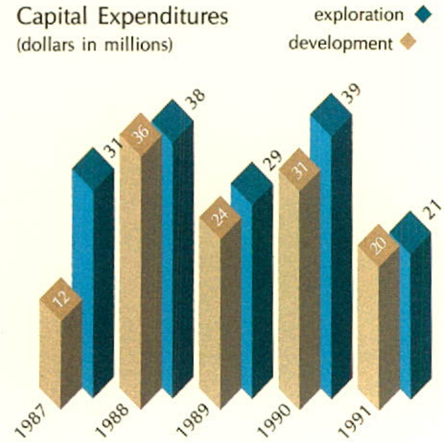
## Investing Activities

The Company spent $41.1 million for capital projects during 1991 compared with $69.8 million in 1990 and $53.0 million in 1989. Reduced expenditures reflect the Company's more selective investment strategy given current economic conditions.

Cash from Operations
(dollars per share)




Capital Expenditures
(dollars in millions)




Exploration expenditures totalled $20.5 million for 1991. Drilling programs in the Pembina area of Alberta and the Ring/Border area accounted for a significant portion of the activity.

Development programs accounted for $20.4 million of 1991 capital expenditures. The Company installed water injection facilities in the West Stoddart field and gas processing facilities at Ring/Border and Cecil/Royce. Significant development drilling was conducted in the Fort St. John area of British Columbia.

Investing activities have been financed primarily from internally generated funds supplemented by borrowings from the Company's parent. The 1992 planned capital program of approximately $37 million is expected to be funded through cash from operations.

## Financing Activities

In 1991 and 1990, Scurry-Rainbow borrowed from its parent to fund shortfalls between internally generated funds and capital requirements.

Scurry-Rainbow declared its regular dividend of $0.50 per share for each of the years 1991, 1990 and 1989.

## Liquidity

The Company continues to be in a strong financial position with no long term debt and unused lines of credit totalling $50 million with two major Canadian banks. This ensures Scurry-Rainbow's ability to cover its working capital deficit and meet any operating 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 AND PROSPECTS

The Canadian oil and gas exploration and development industry currently faces many challenges. The industry has only been marginally profitable in recent years due to declining prices and rising costs. The industry outlook is for little improvement in the near term.

Oil and gas operations involve many business risks. Earnings and cash flow are sensitive to changes in crude oil and natural gas prices and production volumes, and to the Company's ability to find, develop and produce reserves economically.

Government regulation and legislation have a significant impact on the industry. Changes in the legislative and regulatory environment are possible which may affect the Company. The Province of Alberta recently announced royalty holidays for oil wells drilled which should have a small positive effect on results by late 1992.

Scurry-Rainbow's operations are designed to have minimal impact on the environment and programs are in place which meet or exceed current government regulations. When assets are no longer in active use, the Company's practice is to abandon and restore well and facility sites. The Company has estimated its future liability for abandonment and restoration and has been recording this liability in accordance with the guideline of the Canadian Institute of Chartered Accountants. During 1991 these estimated future costs were reviewed in light of current industry practices and increased by $7 million to $14 million. As a result, the annual depletion expense related to abandonment is estimated to increase to $0.7 million in 1992 compared with the $0.2 million expensed in 1991 and prior years.

Oil prices are forecast to remain at present levels but are volatile and dependant on many factors. Crude oil production volumes in 1992 are anticipated to be slightly lower than current levels.

Natural gas prices are expected to remain weak in 1992 due to surplus supply and intense gas-on-gas competition. Prices are also affected by available pipeline capacity and North American weather patterns. The new Iroquois pipeline, which recently commenced deliveries to markets in the northeastern United States, should partially alleviate the deliverability surplus in western Canada.

Operating expenses are anticipated to remain at levels experienced in 1991, with the cost of new production being offset by operational efficiencies at existing facilities. General and administrative expenses are expected to decline as a result of the full year impact of the September 1991 downsizing program.

Based on 1991 production and sales volumes and assuming no change in income tax or royalty legislation, the estimated effect on the financial results of the Company, on an annualized basis, of a change in each of the following factors is set out below:

**Financial Sensitivities**

| | Approximate Change | |
|---|---|---|
| *(dollars in millions)* | **Earnings** | **Cash from Operations** |
| Crude oil price *(U.S. $1 per barrel)* | $1.4 | $1.4 |
| Natural gas price *(Cdn. $0.10 per thousand cubic feet)* | $1.0 | $1.0 |
| Crude oil production *(500 barrels per day)* | $1.4 | $1.9 |
| Natural gas sales *(5 million cubic feet per day)* | $0.4 | $1.3 |
| Exchange rate *(U.S. $0.01)* | $0.4 | $0.4 |

Scurry-Rainbow's planned 1992 capital program of approximately $37 million reflects difficult industry economic conditions, particularly with respect to natural gas. Approximately 65% of total expenditures will be allocated to development activities with the objective of maintaining oil production volumes through optimization of existing production supplemented by acquisitions of proved reserves. Exploration expenditures are expected to account for 35% of the program with the majority of the activity directed toward oil prospects. Gas exploration will be limited to fulfilling marketing opportunities which provide early cash flow. Exploration activity will be supplemented with an aggressive farmout program.

The 1992 capital program is flexible in that there are no long term commitments. The program was developed with the objective that cash from operations would cover capital expenditures.

As part of the ongoing program to improve the efficiency of its asset base, Scurry-Rainbow plans to continue its optimization program of selective asset sales, swaps and purchases.

## To the Shareholders of Scurry-Rainbow Oil Limited

Management is responsible for the accompanying consolidated financial statements and for the accuracy and consistency of all other 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, through its Audit Committee, responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board has eight members, five of whom are not officers or employees of the Company or its affiliates. The Audit Committee, composed solely of independent directors, 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 for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Company's independent auditors, conduct an audit of the financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes a review of the Company's systems of internal control and such tests and procedures as they consider necessary in order to express an opinion on the financial statements.

D. E. Powell
President &
Chief Executive Officer

A. R. Hagerman
Vice President &
Chief Financial Officer

## To the Shareholders of Scurry-Rainbow Oil Limited

We have audited the consolidated statement of financial position of Scurry-Rainbow Oil Limited as at December 31, 1991 and 1990 and the consolidated statements of earnings, retained earnings, changes in financial position and changes in noncash working capital for each of the years in the three year period ended December 31, 1991. 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 Canadian 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, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1991 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Calgary, Alberta, Canada
February 6, 1992

# *Consolidated Statement of Financial Position*

*(dollars in thousands)*

| December 31, | 1991 | 1990 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Taxes recoverable | **$ 1,175** | $ — |
| Accounts receivable | **13,732** | 15,310 |
| Inventories | **613** | 428 |
| | **15,520** | 15,738 |
| **Investments and Other Assets** | **1,366** | 1,212 |
| **Property, Plant and Equipment** *(Note 2)* | | |
| Petroleum and natural gas *(full cost)* | **369,849** | 360,844 |
| Other | **2,124** | 2,139 |
| | **371,973** | 362,983 |
| | **$388,859** | $379,933 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Bank indebtedness | **$ 909** | $ — |
| Advances from parent company *(Note 7)* | **12,997** | 3,235 |
| Accounts payable | **8,265** | 13,986 |
| Taxes payable | **—** | 4,368 |
| Dividends payable | **3,740** | 3,702 |
| Current portion of deferred production revenue | **714** | 498 |
| | **26,625** | 25,789 |
| **Deferred Production Revenue** *(Note 4)* | **682** | 1,496 |
| **Site Restoration Accrual** | **3,080** | 3,065 |
| **Deferred Income Taxes** | **121,973** | 115,888 |
| | **152,360** | 146,238 |
| **Shareholders' Equity** | | |
| Capital stock *(Note 5)* | | |
| Common shares issued 13,462,129 | **10,922** | 10,922 |
| Contributed surplus | **23,334** | 23,334 |
| Retained earnings | **202,243** | 199,439 |
| | **236,499** | 233,695 |
| | **$388,859** | $379,933 |

Approved by the Board

Director

Director

## *Consolidated Statement of Earnings*



*(dollars in thousands, except per share amounts)*

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Revenue** | | | |
| Operating | **$ 70,571** | $ 84,588 | $ 70,211 |
| Other | **1,132** | 1,866 | 2,606 |
| | **71,703** | 86,454 | 72,817 |
| **Expenses** | | | |
| Operating | **18,855** | 17,119 | 16,107 |
| General and administrative | **4,806** | 4,804 | 4,002 |
| Downsizing | **1,945** | — | — |
| Depletion and depreciation *(Note 2)* | **28,406** | 25,804 | 25,546 |
| Interest *(Notes 3 and 7)* | **1,463** | 1,141 | 480 |
| | **55,475** | 48,868 | 46,135 |
| **Earnings Before Taxes** | **16,228** | 37,586 | 26,682 |
| **Taxes** *(Note 6)* | **6,693** | 14,954 | 7,703 |
| **Earnings** | **$ 9,535** | $ 22,632 | $ 18,979 |
| **Earnings per Share** | **$ 0.71** | $ 1.68 | $ 1.41 |

## *Consolidated Statement of Retained Earnings*

*(dollars in thousands, except per share amounts)*

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Retained Earnings at Beginning of Year** | **$199,439** | $183,538 | $171,290 |
| **Earnings** | **9,535** | 22,632 | 18,979 |
| | **208,974** | 206,170 | 190,269 |
| **Dividends** | **6,731** | 6,731 | 6,731 |
| **Retained Earnings at End of Year** | **$202,243** | $199,439 | $183,538 |
| **Dividends per Share** | **$ 0.50** | $ 0.50 | $ 0.50 |

# *Consolidated Statement of Changes in Financial Position*

*(dollars in thousands)*

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Operating Activities** | | | |
| Cash from operations | | | |
| Earnings | **$ 9,535** | $ 22,632 | $ 18,979 |
| Charges (credits) not affecting cash | | | |
| Depletion and depreciation | **28,406** | 25,804 | 25,546 |
| Deferred income taxes | **6,085** | 9,935 | 5,683 |
| Other | **(163)** | (947) | (91) |
| **Cash From Operations** | **43,863** | 57,424 | 50,117 |
| Deferred production revenue | **(598)** | (1,051) | (721) |
| Decrease (increase) in noncash working capital | **(8,924)** | (1,917) | 16,385 |
| | **34,341** | 54,456 | 65,781 |
| **Investing Activities** | | | |
| Additions to property, plant and equipment | **(41,128)** | (69,825) | (52,979) |
| Proceeds from disposition of property, plant and equipment | **3,931** | 3,444 | 1,595 |
| Proceeds from sale of Westcoast Oil & Gas Corp., net | **—** | 2,542 | — |
| Other | **(175)** | 74 | 568 |
| | **(37,372)** | (63,765) | (50,816) |
| **Financing Activities** | | | |
| Advances from parent company | **9,762** | 3,235 | — |
| Dividends | **(6,731)** | (6,731) | (6,731) |
| | **3,031** | (3,496) | (6,731) |
| **Increase (Decrease) in Cash** | **—** | (12,805) | 8,234 |
| **Cash at Beginning of Year** | **—** | 12,805 | 4,571 |
| **Cash at End of Year** | **$ —** | $ — | $ 12,805 |

# *Consolidated Statement of Changes in Noncash Working Capital*



*(dollars in thousands)*

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| **Changes in Noncash Working Capital** | | | |
| Short term investments | **$ —** | $ — | $ 5,340 |
| Taxes recoverable | **(1,175)** | — | 897 |
| Accounts receivable | **1,578** | (4,071) | 2,556 |
| Inventories | **(185)** | 15 | 65 |
| Bank indebtedness | **909** | (556) | 325 |
| Accounts payable | **(5,721)** | (1,119) | 6,582 |
| Taxes payable | **(4,368)** | 3,771 | 597 |
| Dividends payable | **38** | 43 | 23 |
| **Decrease (Increase) in Noncash Working Capital** | **$(8,924)** | $(1,917) | $16,385 |

For the purposes of this statement, noncash working capital excludes the current portion of deferred production revenue.

*(tabular amounts are expressed in thousands of dollars)*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated 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) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company. Prior to 1990, the consolidated financial statements also included the accounts of Westcoast Oil & Gas Corp. ("Westcoast"), a wholly owned subsidiary of the Company. Effective May 28, 1990, the Company sold Westcoast to Home Oil Company Limited (Note 7).

The Company follows the equity method of accounting for its investment in a 50% owned company. Under this method, the Company's investment is carried at cost plus its share of undistributed earnings since the date of acquisition.

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.

### (ii) *Cash*

Cash, for the purposes of the Statement of Changes in Financial Position, is defined as advances to parent company and advances to affiliated company.

### (iii) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the "first in, first out" method of inventory valuation.

### (iv) *Oil and Gas Operations*

The full cost method of accounting is followed for oil and gas operations, whereby all exploration and development costs are capitalized in separate cost centres for each country. 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 estimated 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 income 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. Costs of acquiring and evaluating significant unproved properties and costs of major development projects are excluded from the computation of depletion until such time as additional reserves are proved, the project is completed, or an impairment in value has occurred. 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.

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

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) *Mining Costs*

Mining costs are charged to depletion in the year incurred until such time as the presence of economically recoverable reserves is established. Proceeds on partial disposition of properties are generally deducted from the related costs without recognition of gain or loss.

### (vi) *Deferred Income 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.

### (vii) *Comparative Amounts*

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

## 2. PROPERTY, PLANT AND EQUIPMENT

| December 31, 1991 | Cost | Accumulated depletion and depreciation | Net |
|---|---|---|---|
| Petroleum and natural gas properties and equipment | **$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** |

| December 31, 1990 | Cost | Accumulated depletion and depreciation | Net |
|---|---|---|---|
| Petroleum and natural gas properties and equipment | $589,082 | $228,238 | $360,844 |
| Undeveloped mining properties | 2,556 | 774 | 1,782 |
| Other | 1,118 | 761 | 357 |
| | $592,756 | $229,773 | $362,983 |

The oil and gas depletion and depreciation expense per equivalent unit of production for the year ended December 31, 1991 amounted to $4.96 per barrel (1990 — $4.39; 1989 — $4.40).

## 3. LONG TERM DEBT

At December 31, 1991, the Company had unutilized bank lines of credit of $50 million. Upon drawdown, the loans bear interest at prevailing market rates and are unsecured.

## 4. DEFERRED PRODUCTION REVENUE

| December 31, | 1991 | 1990 |
|---|---|---|
| Deferred production revenue | **$1,396** | $1,994 |
| Current portion of deferred production revenue | **(714)** | (498) |
| | **$ 682** | $1,496 |

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.

## 5. 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, 1991 and 1990, 13,462,129 common shares were issued and outstanding.

## 6. TAXES

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| Income taxes | | | |
| Current | **$ 1,153** | $ 5,279 | $ 4,755 |
| Deferred | **6,085** | 9,935 | 5,683 |
| | **7,238** | 15,214 | 10,438 |
| Large Corporations Tax | **757** | 598 | 265 |
| Alberta Royalty Tax Credit | **(1,302)** | (858) | (3,000) |
| Total taxes | **$ 6,693** | $14,954 | $ 7,703 |

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

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| Pretax earnings | **$16,228** | $37,586 | $26,682 |
| Canadian statutory income tax rate | **44.1%** | 43.6% | 43.6% |
| Income taxes at statutory rate | **$ 7,157** | $16,387 | $11,633 |
| Increase (decrease) resulting from: | | | |
| Nondeductible crown royalties | **5,554** | 6,898 | 5,763 |
| Federal resource allowance | **(4,475)** | (7,345) | (5,758) |
| Other | **(998)** | (726) | (1,200) |
| Income taxes | **$ 7,238** | $15,214 | $10,438 |
| Effective income tax rate | **44.6%** | 40.5% | 39.1% |

## 7. 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, 1991, Home provided certain management, technical and administrative services to the Company at cost which amounted to $16,285,000 (1990 — $16,414,000; 1989 — $13,524,000). Of this amount, $11,394,000 has been capitalized and allocated to property, plant and equipment (1990 — $11,651,000; 1989 — $9,522,000).

Pursuant to a Plan of Arrangement effective May 1, 1991, Home was separated from its parent company, Interhome Energy Inc. ("Interhome"), and became a stand-alone, publicly traded company. Prior to May 1, 1991, the Company borrowed various amounts from Interhome. Amounts borrowed carried interest at 1/16% above Interhome's cost of funds from commercial paper and bankers' acceptances and were repayable on demand. Interest of $319,000 (1990 — $1,100,000; 1989 — $376,000) was charged on these loans.

Subsequent to May 1, the Company borrowed various amounts from Home. These advances carry interest at 1/16% above Home's Canadian cost of funds from bankers' acceptances and prime loans, and are repayable on demand. Interest expense during the year ended December 31, 1991 amounted to $1,091,000.

During 1990 and 1989, the Company advanced various amounts to Home. These advances carried interest at 1/16% above Interhome's cost of funds from commercial paper and bankers' acceptances. Interest income of $725,000 was earned in 1990 (1989 — $139,000).

Effective May 28, 1990, the Company sold its wholly owned subsidiary, Westcoast Oil & Gas Corp., to Home for net proceeds of $2,542,000.

## 8. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated 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 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 income 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 and depreciation. This reduction would have been partially offset by deferred income taxes of $24 million.

8. **UNITED STATES ACCOUNTING PRINCIPLES** *(continued)*

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, | 1991 | 1990 | 1989 |
|---|---|---|---|
| Earnings before extraordinary item under Canadian GAAP | **$ 9,535** | $22,632 | $18,979 |
| Adjustment to depletion and depreciation, net of income taxes | **(31,000)** | — | — |
| Earnings (loss) under U.S. GAAP | **$(21,465)** | $22,632 | $18,979 |
| Earnings (loss) per share under U.S. GAAP | **$ (1.59)** | $ 1.68 | $ 1.41 |

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

| December 31, | 1991 | 1990 |
|---|---|---|
| Property, plant and equipment, net | **$316,973** | $362,983 |
| Deferred income taxes | **$ 97,973** | $115,888 |
| Retained earnings | **$171,243** | $119,439 |

(ii) The Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 95 — "Statement of Cash Flows" requires that the change in noncash working capital, where appropriate, be allocated among operating, investing and financing activities. Under this requirement the following allocations would be made:

| Year ended December 31, | 1991 | 1990 | 1989 |
|---|---|---|---|
| Operating Activities | **$(2,752)** | $ 642 | $ 2,613 |
| Investing Activities | **(6,174)** | (2,592) | 13,588 |
| Financing Activities | **2** | 33 | 184 |
| Decrease (increase) in noncash working capital | **$(8,924)** | $(1,917) | $16,385 |

In addition, separate disclosure of interest and taxes paid is required. Interest paid in 1991 was $1,459,000 (1990 — $1,203,000; 1989 — $418,000). Income taxes paid in 1991 were $6,151,000 (1990 — $1,251,000; 1989 — $521,000).

(iii) In February 1992, FASB issued a 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)*

| **1991 Quarters** | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Revenue | **$21,797** | **$16,221** | **$16,485** | **$17,200** | **$71,703** |
| Gross margin (1) | **$16,259** | **$10,060** | **$10,358** | **$11,365** | **$48,042** |
| Earnings | **$ 5,043** | **$ 1,156** | **$ 966** | **$ 2,370** | **$ 9,535** |
| Cash 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** |

| **1990 Quarters** | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Revenue | $23,824 | $16,309 | $20,334 | $25,987 | $86,454 |
| Gross margin (1) | $18,978 | $10,449 | $14,590 | $20,514 | $64,531 |
| Earnings | $ 6,465 | $ 3,013 | $ 5,278 | $ 7,876 | $22,632 |
| Cash from operations | $19,168 | $ 9,741 | $13,197 | $15,318 | $57,424 |
| Earnings per share | $ 0.48 | $ 0.22 | $ 0.39 | $ 0.59 | $ 1.68 |
| Dividends per share | $ — | $ 0.25 | $ — | $ 0.25 | $ 0.50 |

(1) Gross margin is defined as revenue less operating and general and administrative expenses.

*(dollars in thousands, except per share amounts)*

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1991 | 1990 | 1989 | 1988 | 1987 |
| **Statement of Earnings** | | | | | |
| Revenue | | | | | |
| Crude oil | **$ 45,820** | $ 56,956 | $ 45,464 | $ 42,451 | $ 57,193 |
| Natural gas | **18,570** | 20,898 | 18,153 | 18,040 | 14,204 |
| Natural gas liquids | **4,305** | 4,873 | 4,260 | 3,980 | 4,561 |
| Sulphur | **1,876** | 1,861 | 2,334 | 2,610 | 1,902 |
| Mining | **—** | — | — | — | — |
| Investment income | **1,132** | 1,866 | 2,606 | 3,196 | 3,338 |
| | **71,703** | 86,454 | 72,817 | 70,277 | 81,198 |
| Expense | | | | | |
| Operating and general | **25,606** | 21,923 | 20,109 | 20,630 | 16,875 |
| Depletion and depreciation | **28,406** | 25,804 | 25,546 | 26,927 | 24,064 |
| Other | **1,463** | 1,141 | 480 | 596 | 326 |
| | **55,475** | 48,868 | 46,135 | 48,153 | 41,265 |
| Earnings before taxes | **16,228** | 37,586 | 26,682 | 22,124 | 39,933 |
| Taxes | **6,693** | 14,954 | 7,703 | 7,012 | 16,798 |
| Earnings | **$ 9,535** | $ 22,632 | $ 18,979 | $ 15,112 | $ 23,135 |
| Earnings per share | **$ 0.71** | $ 1.68 | $ 1.41 | $ 1.12 | $ 1.72 |
| **Statement of Changes in Financial Position** | | | | | |
| Cash from operations | **$ 43,863** | $ 57,424 | $ 50,117 | $ 48,122 | $ 42,620 |
| Deferred production revenue | **(598)** | (1,051) | (721) | 321 | (497) |
| Change in noncash working capital | **(8,924)** | (1,917) | 16,385 | (4,519) | 29,512 |
| Investing activities | **(37,372)** | (63,765) | (50,816) | (72,919) | (40,514) |
| Dividends | **(6,731)** | (6,731) | (6,731) | (13,462) | (6,731) |
| Financing activities — other | **9,762** | 3,235 | — | (3,990) | (134) |
| Increase (decrease) in cash | **$ —** | $ (12,805) | $ 8,234 | $ (46,447) | $ 24,256 |
| Cash from operations per share | **$ 3.26** | $ 4.27 | $ 3.72 | $ 3.57 | $ 3.17 |
| **Net Capital Expenditures** | | | | | |
| Oil and gas | | | | | |
| Land acquisition | **$ 779** | $ 5,254 | $ 5,412 | $ 11,821 | $ 7,574 |
| Exploration | **19,688** | 33,648 | 24,009 | 25,789 | 23,344 |
| Development | **20,444** | 30,612 | 23,370 | 35,730 | 11,399 |
| | **40,911** | 69,514 | 52,791 | 73,340 | 42,317 |
| Other | **217** | 311 | 188 | 623 | 381 |
| | **$ 41,128** | $ 69,825 | $ 52,979 | $ 73,963 | $ 42,698 |
| Working capital (deficiency) | **$ (11,105)** | $ (10,051) | $ 4,167 | $ 12,142 | $ 50,420 |
| Total assets | **$ 388,859** | $ 379,933 | $ 349,444 | $ 324,121 | $ 334,314 |
| Long term debt | **$ —** | $ — | $ — | $ — | $ 3,990 |
| Shareholders' equity | **$ 236,499** | $ 233,695 | $ 217,794 | $ 205,546 | $ 203,896 |
| Shares outstanding at end of year | **13,462,129** | 13,462,129 | 13,462,129 | 13,462,129 | 13,462,129 |
| Dividends per share | **$ 0.50** | $ 0.50 | $ 0.50 | $ 1.00 | $ 0.50 |
| Return on average shareholders' equity | **4.1%** | 10.0% | 9.0% | 7.4% | 11.8% |

| Three months ended December 31, | Year ended September 30, | | | | |
|---|---|---|---|---|---|
| 1986 | 1986 | 1985 | 1984 | 1983 | 1982 |
| $ 10,807 | $ 49,496 | $ 68,137 | $ 67,356 | $ 57,056 | $ 40,727 |
| 2,937 | 17,213 | 20,461 | 18,722 | 17,943 | 12,503 |
| 632 | 4,612 | 3,038 | 3,036 | 2,599 | 1,406 |
| 747 | 2,443 | 2,931 | 1,317 | 1,381 | 1,149 |
| — | — | — | — | — | 310 |
| 937 | 5,888 | 8,315 | 5,077 | 3,367 | 832 |
| 16,060 | 79,652 | 102,882 | 95,508 | 82,346 | 56,927 |
| 4,027 | 17,066 | 17,300 | 15,750 | 14,437 | 14,144 |
| 5,110 | 20,166 | 16,942 | 15,715 | 15,029 | 9,713 |
| 196 | 669 | 792 | 965 | 1,040 | 2,452 |
| 9,333 | 37,901 | 35,034 | 32,430 | 30,506 | 26,309 |
| 6,727 | 41,751 | 67,848 | 63,078 | 51,840 | 30,618 |
| 2,519 | 23,997 | 37,716 | 38,180 | 29,377 | 16,294 |
| $ 4,208 | $ 17,754 | $ 30,132 | $ 24,898 | $ 22,463 | $ 14,324 |
| $ 0.31 | $ 1.32 | $ 2.25 | $ 1.86 | $ 1.68 | $ 1.07 |
| $ 12,489 | $ 45,978 | $ 62,213 | $ 61,831 | $ 52,704 | $ 29,709 |
| (23) | (121) | (409) | 1,635 | 941 | 287 |
| 2,821 | (8,957) | 14,173 | (27,365) | (14,069) | (969) |
| (8,221) | (43,720) | (51,183) | (44,402) | (15,513) | (20,188) |
| (3,366) | (6,731) | — | — | — | — |
| (10) | (52) | (992) | (730) | (1,487) | (6,147) |
| $ 3,690 | $ (13,603) | $ 23,802 | $ (9,031) | $ 22,576 | $ 2,692 |
| $ 0.93 | $ 3.42 | $ 4.64 | $ 4.62 | $ 3.94 | $ 2.22 |
| $ 753 | $ 3,427 | $ 5,203 | $ 4,421 | $ 773 | $ — |
| 5,009 | 22,969 | 24,994 | 23,194 | 9,760 | 3,594 |
| 2,576 | 19,250 | 15,741 | 17,438 | 9,355 | 15,325 |
| 8,338 | 45,646 | 45,938 | 45,053 | 19,888 | 18,919 |
| 57 | 139 | 298 | 139 | 315 | 1,798 |
| $ 8,395 | $ 45,785 | $ 46,236 | $ 45,192 | $ 20,203 | $ 20,717 |
| $ 59,517 | $ 58,777 | $ 63,427 | $ 53,877 | $ 35,688 | $ (957) |
| $ 314,114 | $ 311,053 | $ 309,709 | $ 255,153 | $ 210,630 | $ 175,704 |
| $ 4,124 | $ 4,134 | $ 4,189 | $ 6,897 | $ 7,720 | $ 9,417 |
| $ 187,492 | $ 186,650 | $ 175,627 | $ 143,947 | $ 119,049 | $ 96,586 |
| 13,462,129 | 13,462,129 | 13,462,129 | 13,391,780 | 13,391,780 | 13,391,780 |
| $ 0.25 | $ 0.50 | $ — | $ — | $ — | $ — |
| 8.9% | 9.8% | 18.9% | 18.9% | 20.8% | 16.0% |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **1991** | **1990** | **1989** | **1988** | **1987** |
| **Production/Sales Data** | | | | | |
| Crude oil | | | | | |
| Barrels per day | **7,208** | 7,679 | 8,021 | 8,469 | 8,600 |
| Average price per barrel | **$20.14** | $24.88 | $19.44 | $16.63 | $22.20 |
| Average royalty rate | **18.6%** | 18.3% | 18.2% | 17.6% | 17.9% |
| Natural gas liquids | | | | | |
| Barrels per day | **1,095** | 1,085 | 1,277 | 1,277 | 1,122 |
| Average price per barrel | **$12.96** | $14.37 | $10.41 | $ 9.63 | $12.58 |
| Average royalty rate | **16.9%** | 14.4% | 12.2% | 11.6% | 11.5% |
| Natural gas | | | | | |
| Thousands of cubic feet per day | **42,970** | 42,222 | 37,706 | 37,067 | 28,196 |
| Average price per thousand cubic feet | **$ 1.40** | $ 1.69 | $ 1.63 | $ 1.66 | $ 1.69 |
| Average royalty rate | **15.4%** | 19.8% | 19.0% | 19.9% | 18.2% |
| Sulphur | | | | | |
| Long tons per day | **120** | 120 | 126 | 126 | 76 |
| Average price per long ton | **$52.44** | $52.47 | $63.09 | $67.11 | $81.51 |
| Average royalty rate | **18.6%** | 19.1% | 19.4% | 15.5% | 16.1% |
| **Drilling Activity** *(working interest wells)* | | | | | |
| Gross exploratory | | | | | |
| Oil | **6** | 9 | 5 | 27 | 45 |
| Gas | **9** | 26 | 21 | 17 | 8 |
| Dry | **27** | 30 | 26 | 43 | 50 |
| Gross development | | | | | |
| Oil | **32** | 59 | 59 | 86 | 82 |
| Gas | **10** | 27 | 8 | 10 | 6 |
| Dry | **6** | 6 | 5 | 18 | 13 |
| Total | **90** | 157 | 124 | 201 | 204 |
| Net exploratory | | | | | |
| Oil | **0.75** | 2.74 | 2.28 | 5.33 | 8.15 |
| Gas | **2.87** | 8.80 | 8.23 | 1.86 | 2.09 |
| Dry | **8.97** | 10.45 | 4.64 | 6.78 | 10.03 |
| Net development | | | | | |
| Oil | **5.56** | 10.41 | 10.07 | 13.54 | 7.43 |
| Gas | **1.56** | 7.71 | 1.58 | 1.70 | 1.37 |
| Dry | **1.37** | 1.15 | 1.10 | 4.85 | 5.01 |
| Total | **21.08** | 41.26 | 27.90 | 34.06 | 34.08 |
| **Proved Reserves** *(before royalties)* | | | | | |
| Crude oil *(thousands of barrels)* | **18,242** | 22,567 | 22,801 | 23,173 | 19,963 |
| Natural gas liquids *(thousands of barrels)* | **7,298** | 6,994 | 7,462 | 4,801 | 4,087 |
| Natural gas *(billions of cubic feet)* | **358** | 355 | 297 | 259 | 206 |
| Sulphur *(thousands of long tons)* | **1,072** | 1,092 | 1,041 | 725 | 308 |
| **Oil and Gas Landholdings** *(thousands of acres)* | | | | | |
| Gross undeveloped | **5,917** | 7,267 | 6,868 | 6,779 | 4,802 |
| Net undeveloped | **2,610** | 2,701 | 2,535 | 2,474 | 1,155 |
| Gross developed | **764** | 777 | 788 | 778 | 737 |
| Net developed | **114** | 115 | 109 | 109 | 102 |

| Three months ended December 31, | Year ended September 30, | | | | |
|---|---|---|---|---|---|
| 1986 | 1986 | 1985 | 1984 | 1983 | 1982 |
| 8,001 | 7,543 | 7,101 | 7,304 | 7,227 | 6,460 |
| $ 17.78 | $ 22.77 | $ 34.26 | $ 33.42 | $ 29.16 | $ 23.19 |
| 17.4% | 21.1% | 23.3% | 24.6% | 26.1% | 25.6% |
| 821 | 849 | 369 | 405 | 371 | 264 |
| $ 9.71 | $ 17.76 | $ 28.37 | $ 26.92 | $ 24.82 | $ 18.67 |
| 13.8% | 16.2% | 20.6% | 23.8% | 22.2% | 21.8% |
| 23,557 | 24,845 | 24,391 | 21,711 | 20,622 | 16,824 |
| $ 1.71 | $ 2.37 | $ 2.73 | $ 2.84 | $ 2.80 | $ 2.46 |
| 20.9% | 19.7% | 16.0% | 16.9% | 14.9% | 17.4% |
| 81 | 58 | 104 | 67 | 62 | 53 |
| $116.45 | $134.00 | $ 90.23 | $ 63.74 | $ 67.10 | $ 72.70 |
| 14.4% | 14.6% | 14.4% | 15.3% | 9.6% | 19.3% |
| 18 | 46 | 65 | 31 | 4 | 2 |
| 6 | 30 | 51 | 23 | 1 | 1 |
| 10 | 66 | 94 | 59 | 4 | 4 |
| 29 | 156 | 129 | 102 | 28 | 15 |
| 3 | 13 | 27 | 22 | 7 | 12 |
| 5 | 28 | 47 | 35 | 9 | 8 |
| 71 | 339 | 413 | 272 | 53 | 42 |
| 3.64 | 4.56 | 6.68 | 5.07 | 1.20 | 0.28 |
| 0.68 | 1.30 | 2.69 | 2.23 | 0.08 | 0.67 |
| 1.65 | 6.34 | 5.25 | 4.99 | 1.49 | 0.49 |
| 2.56 | 17.67 | 9.40 | 15.81 | 6.87 | 6.49 |
| 0.19 | 0.80 | 0.74 | 0.61 | 0.42 | 1.67 |
| 1.11 | 4.73 | 4.24 | 2.45 | 1.87 | 5.47 |
| 9.83 | 35.40 | 29.00 | 31.16 | 11.93 | 15.07 |
| 21,680 | 22,064 | 19,675 | 17,203 | 15,945 | 17,259 |
| 2,160 | 2,214 | 2,183 | 1,975 | 1,610 | 1,686 |
| 207 | 207 | 202 | 193 | 179 | 169 |
| 300 | 305 | 324 | 341 | 367 | 366 |
| 5,345 | 5,943 | 4,424 | 3,388 | 3,561 | 4,054 |
| 1,154 | 1,217 | 1,143 | 1,072 | 1,350 | 1,395 |
| 646 | 623 | 639 | 776 | 730 | 739 |
| 94 | 96 | 97 | 131 | 124 | 126 |

## Board of Directors

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

**Fred Callaway**
Vice President, Corporate
of Home Oil Company
Limited and of
the Company.
Calgary, Alberta

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

+ **J. Gordon Hutchison, F.C.A.**
Financial Consultant.
Calgary, Alberta

**Brian F. MacNeill**
President & Chief
Executive Officer
of Interprovincial
Pipe Line Inc.
Edmonton, Alberta

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

**David E. Powell**
President & Chief Executive
Officer of
Home Oil Company
Limited and of
the Company.
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

**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 &
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
Fax: (403) 232-7678

## Auditors

Price Waterhouse
Calgary, Alberta

## Stock Transfer Agent and Registrar

Montreal Trust Company
of Canada
Calgary, Toronto, Montreal
& Vancouver
Shareholder enquiries:
(403) 267-6555

The Bank of New York
New York City, New York

## Form 20-F

The Company files an annual report with the Securities and Exchange Commission of the United States. The 1991 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, Scurry-Rainbow Oil Limited, 1600 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, Canada, T2P 2Z5.

## Annual General Meeting

The Annual General Meeting of Shareholders will be held at 2:30 p.m. on Friday, May 8, 1992 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 23, 1992.

# Share Information

| | Prices | | | |
|---|---|---|---|---|
| | Toronto Stock Exchange (Cdn. dollars) | | American Stock Exchange (U.S. dollars) | |
| | High | Low | High | Low |
| **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** |
| **Year ended December 31, 1990** | | | | |
| 1st quarter | 27¾ | 24 | 23⅜ | 20½ |
| 2nd quarter | 31 | 25½ | 26¾ | 21⅝ |
| 3rd quarter | 29 | 25½ | 25¼ | 22 |
| 4th quarter | 28¼ | 24⅛ | 24⅛ | 21 |

At December 31, 1991, the Company had 13,462,129 common shares issued and outstanding, held by 2,979 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, divided by the proved reserves additions resulting from these activities, expressed in dollars per barrel of oil equivalent.

**Barrel of Oil Equivalent**: The equivalent energy unit which equates one (1) barrel of crude oil or natural gas liquids to six thousand (6,000) cubic feet of natural gas (methane) so that oil and gas volumes can be expressed in one common unit known as a barrel of oil equivalent or BOE.

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

**Development Well**: A well drilled inside the boundary of an established oil or gas field.

**Exploratory Well**: A well drilled outside the boundary of an established oil or gas field.

**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. This royalty may be either convertible or non-convertible which permits the owner an opportunity to exchange (convert) this royalty to a working interest.

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

**Net**: Excludes the interests of others.

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

**Percentage Replacement of Production**: The portion of annual production replaced by reserves additions, including acquisitions and 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.

**Waterflood**: A 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. A company holding a working interest is responsible for its 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) |

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

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