1988 Annual Report

Scurry-Rainbow Oil Limited

Corporate Profile

Scurry-Rainbow Oil Limited has been an active participant in the western Canadian oil industry since incorporation in Alberta 34 years ago.

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 oil and gas volumes are also produced from operations in Alberta, Saskatchewan and Manitoba. Scurry-Rainbow holds oil and gas exploration interests in the western provinces and 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, a wholly owned subsidiary of Interhome Energy Inc.

Contents

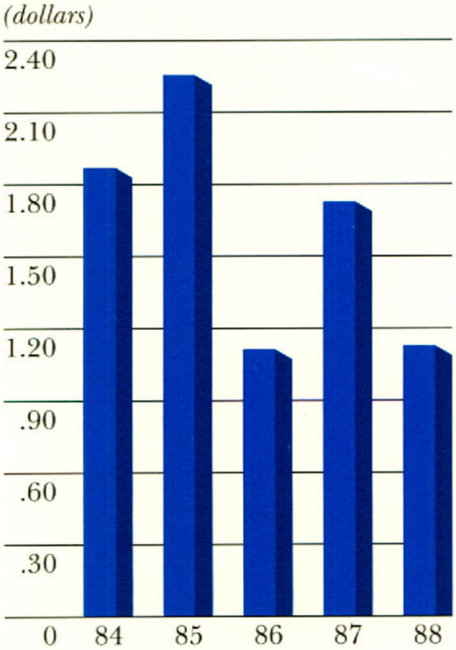
Highlights

- Proved reserves of oil and natural gas liquids were increased by 16% and natural gas reserves by 25%.
- Gas sales reached a record 37 million cubic feet per day.
- Acquisitions more than doubled net landholdings and raised Scurry-Rainbow's working interest in Alberta's North Coleman gas field to 34% from 19%.
- A special one time dividend of $0.50 per share was declared in addition to the regular semiannual dividend of $0.25 per share.

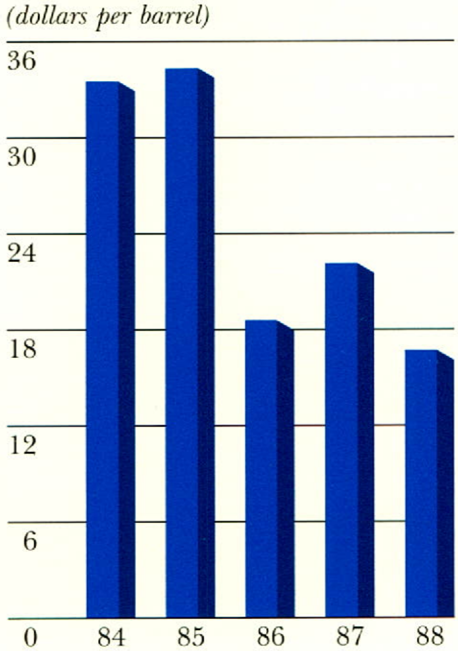
	Year ended December 31, 1988	1987	1986
Financial *(thousands of dollars)*			
Revenue	**$70,277**	$81,198	$68,497
Earnings	**$15,112**	$23,135	$14,878
Capital expenditures	**$73,963**	$42,698	$43,112
Cash from operations	**$48,122**	$42,620	$44,029
Working capital	**$12,142**	$50,420	$59,517
Per Common Share *(dollars)*			
Earnings	**$1.12**	$1.72	$1.11
Cash from operations	**$3.57**	$3.17	$3.27
Dividends	**$1.00**	$0.50	$0.50
Operating*			
Average Daily Production/Sales			
Crude oil (barrels)	**8,469**	8,600	7,778
Natural gas liquids (barrels)	**1,277**	1,122	882
Natural gas (thousands of cubic feet)	**37,067**	28,196	23,964
Percentage Replacement of Production**			
Crude oil and natural gas liquids	**98**	124	129
Natural gas	**443**	235	119
Barrels of oil equivalent	**232**	160	126
Undeveloped Oil & Gas Landholdings			
Gross (thousands of acres)	**6,779**	4,802	5,345
Net (thousands of acres)	**2,474**	1,155	1,154

* In this report, production, sales and proved reserves of oil and gas are before the deduction of royalties, unless otherwise indicated.
** The portion of annual production replaced by reserve additions and acquisitions expressed as a percentage.

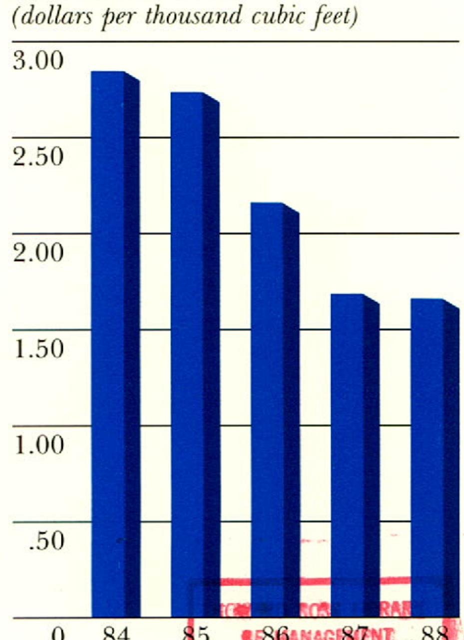
Earnings Per Share
(dollars)



Average Company Crude Oil Price
(dollars per barrel)



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



Report to Shareholders

During 1988, Scurry-Rainbow met a number of significant operational objectives, however, financial performance was adversely affected by low oil prices which exhibited a persistent downward trend until late December.

The specific strategies adopted to meet corporate goals were:

- emphasize gas exploration more than in prior years;
- increase the Company's reserves base after replacing current production; and
- focus exploration and development activities on higher interest properties.

1988 Performance

Earnings of $15.1 million for 1988 were down from $23.1 million last year due to the decline in oil prices. The average price received for oil in 1988 was $16.63 per barrel compared with $22.20 per barrel in 1987. Cash from operations, however, increased from last year due to reduced current income taxes.

During 1988, shareholder value was enhanced through several key operational successes and an expansion of the Company's activities:

- Natural gas sales were increased 31% to a record 37 million cubic feet per day. Acquisitions and an aggressive exploration and development program undertaken during 1988 not only replaced this production, but increased total proved gas reserves by a further 25%. Crude oil and natural gas liquids production was also replaced with reserves increasing 16%.
- A large purchase of properties in northeastern British Columbia more than doubled undeveloped landholdings in western Canada to 2.35 million net acres.
- Additional interests were purchased in Alberta's North Coleman field raising the Company's total working interest to 34% from 19%. The transaction not only increased gas sales but also added 20 billion cubic feet to proved gas reserves, an increase of 10%.

These achievements, combined with Scurry-Rainbow's financial strength, provide a solid foundation for continued growth.

Business Factors

World crude oil prices during 1988 generally declined until late in the year when the Organization of Petroleum Exporting Countries (OPEC) reached agreement to constrain production. This latest agreement should hold reasonably well during 1989 and yield an average price for the benchmark West Texas Intermediate crude of at least U.S. $16 per barrel.

During 1988, markets for Canadian natural gas expanded, particularly in the United States. Continued growth will be limited by pipeline capacity constraints over the next two or three years. Although U.S. export demand is undergoing considerable growth due to a diminishing surplus of U.S. supplies, prices are expected to remain near current low levels throughout 1989 before beginning to rise again the following year. Scurry-Rainbow received an average price of $1.66 per thousand cubic feet in 1988.

Government Policies

A number of important policy directions affecting the Canadian business environment were taken by the federal government during 1988. With the re-election of the Progressive Conservative government in November 1988 these policy directions are expected to be actively pursued.

The Company considers the recently executed Canada/U.S. Free Trade Agreement to be an effective catalyst for economic growth, job creation and increased productivity in Canada.

The tax reform program begun in 1988, although not material to Scurry-Rainbow's current financial performance, is necessary to improve Canada's ability to compete in the international marketplace. An important element of tax reform yet to be resolved is the planned national sales tax which is scheduled to replace the present sales tax by early 1991. During 1988, the impact of the tax reform measures on the Company was moderately positive. Although this benefit may be largely eliminated by the proposed sales tax, Scurry-Rainbow supports adoption of such a tax as an important means of reducing the nation's deficit. Equally important, however, are the steps which must be implemented by governments in Canada, both nationally and provincially, to constrain costs.

D. E. Powell, Executive Vice President and Chief Operating Officer and R. F. Haskayne, President and Chief Executive Officer.

Outlook

In 1989, Scurry-Rainbow will continue to concentrate on high interest oil and gas prospects in western Canada with a relatively wide range of geological objectives. Maintaining a high percentage interest in such prospects should provide improved marketing flexibility.

Approximately 75% of proposed exploratory drilling expenditures are targeted for gas prospects in western Canada. This strategy is in response to the near term improvement expected in gas markets and prices, particularly in the United States. An exploration program is planned for the large block of gas prone lands recently purchased in northeastern British Columbia.

The Company's development strategy will continue to focus on maximizing profitability by accelerating development of newly established producing areas and optimizing existing production. Additional production facilities will be installed in the Cecil oil field in Alberta. In the West Eagle oil field of British Columbia, production will be enhanced by improving waterflood recovery.

During 1989, a slight increase is projected in earnings, but they will remain highly sensitive to crude oil and natural gas prices. Cash from operations is expected to improve modestly. Capital expenditures totalling $46 million are planned, of which $29 million is allocated to exploration programs and the remainder to development activities.

Although Scurry-Rainbow's future performance is heavily dependent on oil and gas prices, the Company has the financial and operational strength to withstand current price uncertainties and take advantage of the many investment opportunities expected in the year ahead.

During 1988, the Company paid a semiannual dividend of $0.25 per common share on January 1, 1988 and July 1, 1988. In addition, a one time special dividend of $0.50 per common share was declared payable on July 1, 1988.

Mr. R. K. Heule indicated his intention not to seek re-election to the Board. Mr. Heule's presence was valued highly and the Company is most grateful for his enthusiastic support.

Submitted on behalf of the Board of Directors.

R. F. Haskayne
President and Chief
Executive Officer

D. E. Powell
Executive Vice President and
Chief Operating Officer

Calgary, Alberta, Canada
March 3, 1989

Review of Operations

In 1988, Scurry-Rainbow focused its exploration and development efforts on higher interest opportunities and placed more emphasis on gas exploration than in prior years. The Company continued its ongoing optimization of existing reserves, an important strategy that has resulted in increased production volumes and proved reserves.

Production/Sales

Crude oil and natural gas liquids production averaged 9,746 barrels per day, compared with 9,722 barrels per day in 1987.

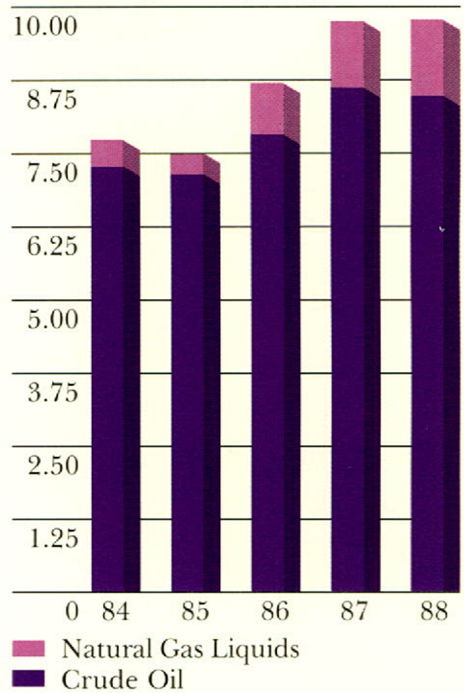
Oil production declined 131 barrels per day from last year. Natural gas liquids production increased 155 barrels per day mainly due to higher throughputs at the South Wapiti extraction plant in Alberta.

Scurry-Rainbow's natural gas sales were increased by 31% to a record 37.1 million cubic feet per day. The improved sales resulted from an intensified marketing effort and higher U.S. export demand. Most of the additional sales were derived from the existing South Wapiti and Karr fields in Alberta. A new source, the Sikanni field in British Columbia, was placed on production to meet the growing export demand. The Company's share of sales from the North Coleman field also increased, reflecting the purchase of additional working interests in the field. Scurry-Rainbow increased its ownership in this field from 19% to 34%.

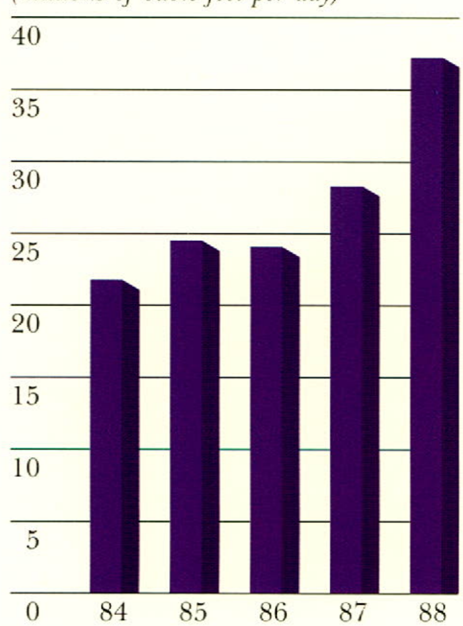
Average Daily Production by Area

	1988	1987
Crude Oil *(barrels)*		
British Columbia	**4,543**	5,051
Alberta	**1,810**	1,419
Saskatchewan	**1,912**	1,980
Manitoba	**204**	150
Total	**8,469**	8,600
Natural Gas Liquids *(barrels)*		
British Columbia	**91**	96
Alberta	**1,186**	1,026
Total	**1,277**	1,122
Natural Gas *(millions of cubic feet)*		
British Columbia	**7.0**	5.8
Alberta	**29.8**	22.1
Saskatchewan	**0.3**	0.3
Total	**37.1**	28.2

Crude Oil & Natural Gas Liquids Production
(thousands of barrels per day)



Natural Gas Sales
(millions of cubic feet per day)



Land Activities

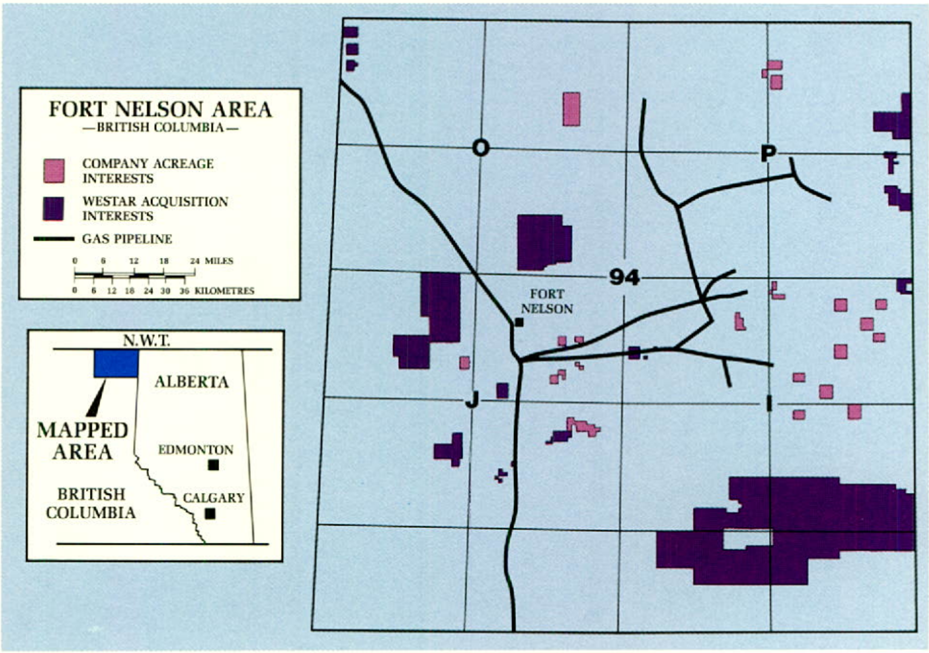
Consistent with the Company's strategy of increasing its emphasis on natural gas prospects, Scurry-Rainbow purchased a net 1.3 million acres of mostly undeveloped, gas prone lands in northeastern British Columbia for $15 million. This acquisition more than doubled Scurry-Rainbow's undeveloped land inventory in western Canada. Included in the purchase were seismic data, proved gas reserves and the right to participate in a gas contract at a rate of 17 million cubic feet per day by late 1990. Early in 1989 an aggressive 15 well exploration drilling program was initiated on these and other lands in northeastern British Columbia.

The average working interest in total lands held at year end increased to 36.5% from 24.0% in 1987, largely by virtue of the above purchase. The Company's acquisition of exploration rights at Crown sales and from freeholders totalled about 100,000 net acres per year in each of the past two years.

The Company's average cost per acre of western Canadian lands acquired at Crown sales was $70.68 per acre in 1988 compared with $75.17 per acre last year.

Crown Land Sales

	Average cost per acre	
	1988	**1987**
	($/acre)	
British Columbia	**$74.79**	$70.80
Alberta	**81.96**	74.63
Saskatchewan	**44.29**	112.55
Manitoba	**40.35**	30.40
Western Canada	**70.68**	75.17



Land Additions

	1988		1987	
	Gross Acres	**Net Acres**	**Gross Acres**	**Net Acres**
Crown and Freehold				
British Columbia	**33,015**	**8,315**	46,130	16,398
Alberta	**221,720**	**55,775**	233,504	73,399
Saskatchewan	**75,180**	**33,115**	18,453	7,887
Manitoba	**10,470**	**5,175**	8,776	2,937
Subtotal	**340,385**	**102,380**	306,863	100,621
Acquisitions	**1,421,258**	**1,282,025**	—	—
Total	**1,761,643**	**1,384,405**	306,863	100,621

Scurry-Rainbow's gross undeveloped landholdings rose by 41% in 1988 to 6.8 million gross acres. On a net basis, the Company's landholdings more than doubled to 2.5 million net acres, providing a solid base for ongoing exploration activities.

Oil and Gas Landholdings
(December 31, 1988)

	Undeveloped Acreage	
	Gross	**Net**
	(acres)	
British Columbia	**1,699,181**	1,346,785
Alberta	**2,095,843**	318,861
Saskatchewan	**787,339**	648,326
Manitoba	**56,681**	35,907
Northern Canada	**2,140,349**	124,170
Total	**6,779,393**	2,474,049

The table excludes 778,022 gross (108,685 net) acres of developed lands in Canada.

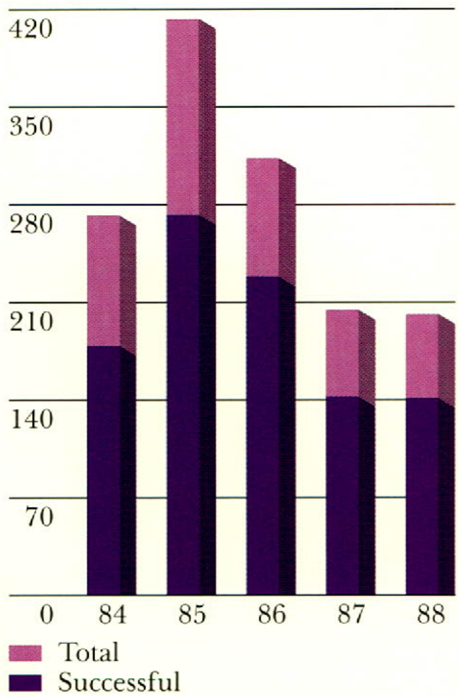
Drilling Results

During the year, the Company participated in 87 (13.97 net) exploratory wells which resulted in 27 oil (5.33 net) and 17 gas (1.86 net) wells. Of the 114 (20.09 net) development wells drilled, 86 (13.54 net) were oil and 10 (1.70 net) were gas producers. The average net working interest in these wells increased slightly to 16.9% from 16.7%.

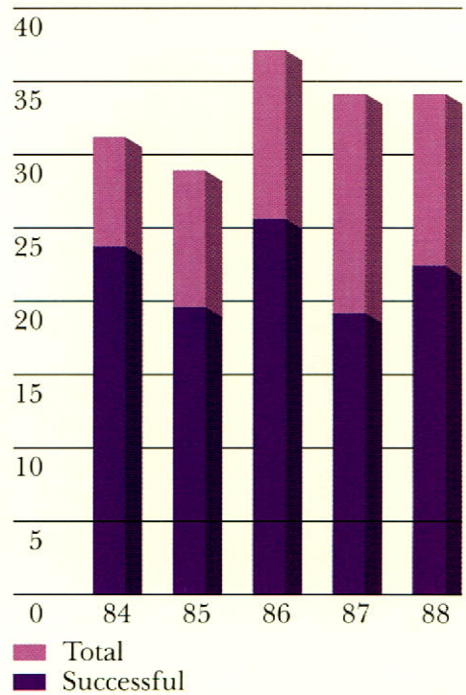
In recent years, Scurry-Rainbow has improved both its production and reserves base through successful exploration and development drilling.

Grant Grimsrud, Engineer in Northern Operations.

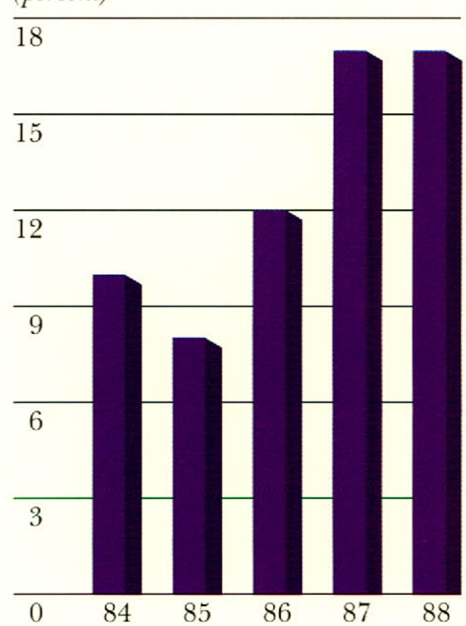
Gross Wells



Net Wells



Average Net Working Interest
(percent)

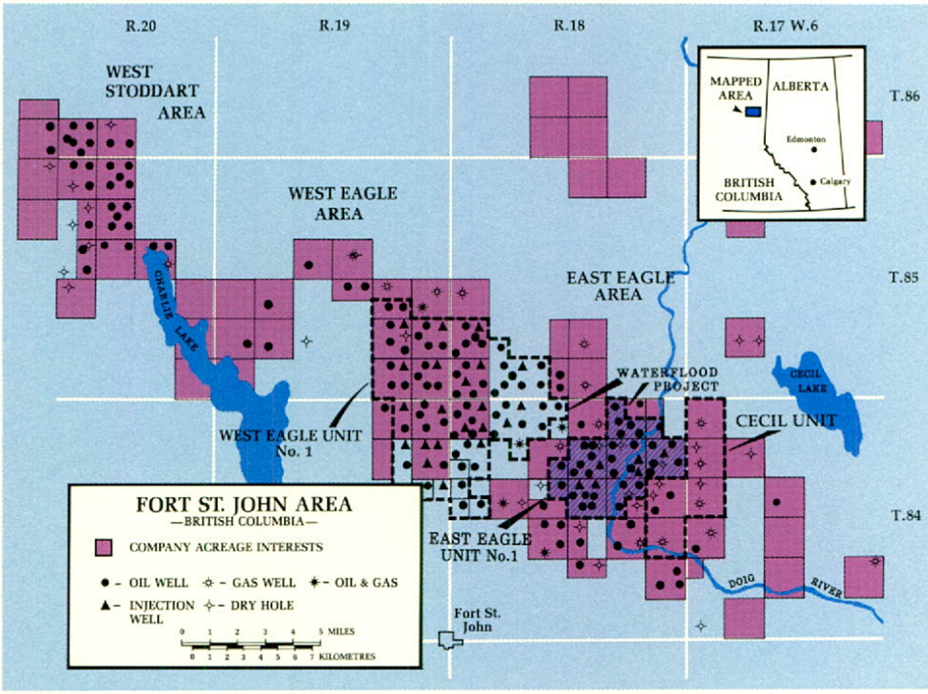


Proved Reserves

Proved reserves of crude oil and natural gas liquids at year end reached a record level of 28.0 million barrels, an increase of 16% from 24.1 million barrels at year end 1987. In 1988, reserves additions virtually equalled production of 3.5 million barrels. Major reserves additions were made through successful drilling in the Cecil area of northwestern Alberta, and in the West and East Eagle areas of British Columbia. Reserves were also revised upward by 4.0 million barrels reflecting improved field performance.

At year end 1988, proved reserves of natural gas were also at a record level of 258.6 billion cubic feet, 25% higher than last year's 206.1 billion cubic feet. For the fifth consecutive year, reserves added by successful drilling more than replaced production. Drilling successes contributed 24.5 billion cubic feet compared with sales of 13.6 billion cubic feet. Upward revisions of a further 7.4 billion cubic feet reflected improved field performance.

Acquisitions of properties added 35.5 billion cubic feet of proved gas reserves and 308,000 long tons of sulphur.



Proved Reserves

	Crude Oil	Natural Gas Liquids	Natural Gas	Sulphur
	(thousands of barrels)	*(thousands of barrels)*	*(billions of cubic feet)*	*(thousands of long tons)*
January 1, 1988	19,962	4,087	206.1	309
Discoveries/Extensions	3,024	482	24.5	5
Revisions	3,336	699	7.4	149
Purchase of reserves	—	—	35.5	308
Sale of reserves	(50)	—	(1.3)	—
Production/Sales	(3,099)	(467)	(13.6)	(46)
December 31, 1988	23,173	4,801	258.6	725

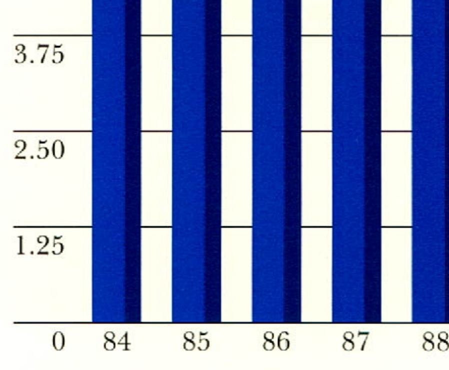
Cecil landscape, Peace River.

Pumpjack at the West Eagle Unit in British Columbia.

Additions Cost

Scurry-Rainbow's cost of adding proved reserves in western Canada during 1988 was $5.93 per barrel of oil equivalent. This is based on the addition of 7.6 million barrels of oil equivalent at a total cost of $45.0 million excluding the $28.5 million associated with the acquisition of interests in North Coleman and the recently acquired properties in northeastern British Columbia.

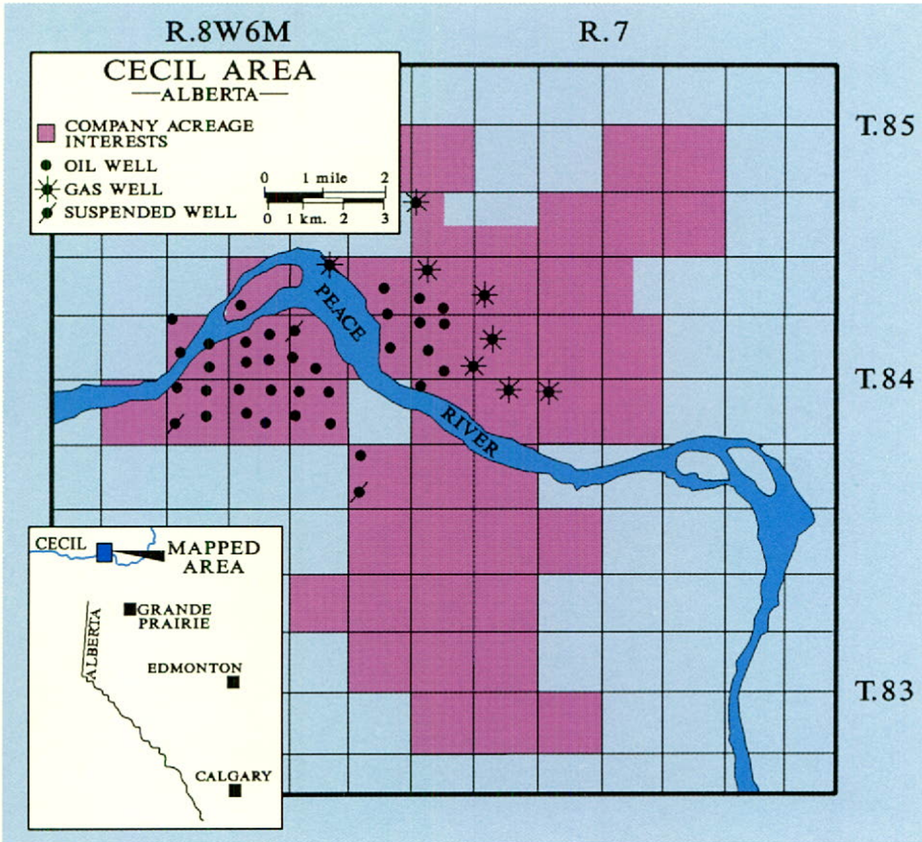
Additions Cost
(dollars per barrel of oil equivalent)

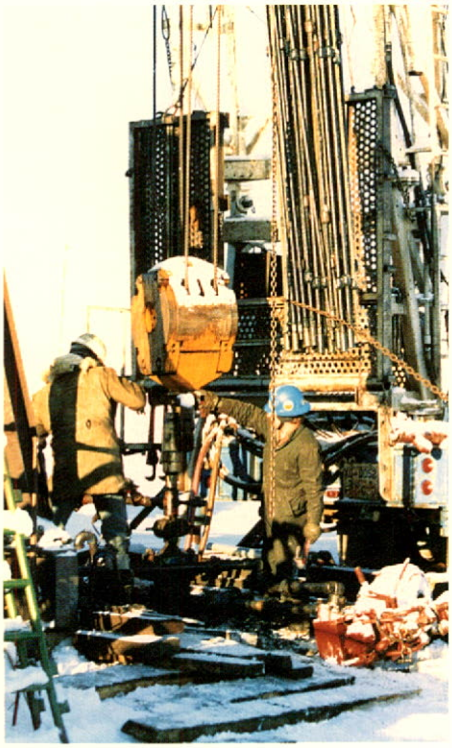


Exploration and Development

During 1988, Scurry-Rainbow participated in oil discoveries in the Swan Hills, Red Earth and Cecil areas of Alberta. Gas discoveries were made in the Hamburg, Kaybob and Cecil areas of Alberta, and the Dede area of northeastern British Columbia.

The Company holds an average 30% interest in a new gas field in the Beatton River area of northeastern British Columbia. Net gas reserves of 2.3 billion cubic feet have been proven in one well completed to date. Two more wells are expected to be completed in 1989.





Well maintenance in the West Stoddart Field in British Columbia.

A major development program was undertaken in the Cecil area of northwestern Alberta following successful exploration drilling conducted earlier in the year. Nineteen new wells were completed and placed on production, adding 828,000 barrels of net proved oil reserves. A total of 32 wells are currently capable of producing over 600 barrels of oil per day net to the Company for its 20% interest in the field.

In the South Wapiti and Karr areas of northwestern Alberta, six development wells were completed adding 10.1 billion cubic feet of net proved gas reserves and increasing Scurry-Rainbow's production by 4.0 million cubic feet per day.

The Tableland Voluntary Unit #1 in Saskatchewan was officially created on June 1, 1988 with the Company's interest at 33.6%. Waterflood operations commenced on June 15 qualifying 65% of the unit production for a three year royalty holiday. Scurry-Rainbow's net production averaged 154 barrels of oil per day in 1988.

A seven well development program was completed in the South Pierson area of Manitoba adding 130,000 barrels of net proved oil reserves. Production from the area is currently 150 barrels of oil per day net to the Company. Scurry-Rainbow's interest is 33.3%.

Financial Review

Management's Discussion and Analysis of Financial Condition and Results of Operations

During 1986, Scurry-Rainbow changed its financial year end from September 30 to December 31 to coincide with that of its parent, Home Oil Company Limited. Management's Discussion relates to the years ended December 31, 1988, 1987 and 1986 and should be read in conjunction with the Consolidated Financial Statements, Supplementary Information and Ten Year Financial and Operating Reviews.

Earnings

Natural gas sales reached record levels in 1988; however, this was not sufficient to offset declining crude oil prices. Accordingly, 1988 earnings were $15.1 million, down from the $23.1 million recorded in 1987 but up slightly from $14.9 million in 1986.

A return of 7.4% was earned on average shareholder's equity in the current year, compared with 11.8% and 8.1% in 1987 and 1986, respectively. The decline in the return reflects the change in prices over the past three years and compares favorably with returns earned by other intermediate oil and gas companies.

Revenue

Operating revenues totalled $67.1 million, compared with $77.9 million in 1987 and $64.0 million in 1986. Fluctuating operating revenues reflect volatile oil prices and declining gas prices, offset in part by increased natural gas sales volumes.

Crude Oil

	1988	1987	1986
Revenue *(after royalties)*	**$42,451**	$57,193	$42,585
Volume *(barrels/day)*	**8,469**	8,600	7,778
Price *(per barrel)*	**$ 16.63**	$ 22.20	$ 18.59
Royalty Rate	**17.6%**	17.9%	19.3%

Oil production declined marginally from the near record 1987 level and was significantly higher than in 1986. During the last three years, oil production has increased as a result of successful drilling and optimization programs.

Oil prices fell below 1986 levels after strengthening during 1987. In 1988, OPEC's inability to maintain production quotas and the stronger Canadian dollar adversely affected the Company's average oil price.

Crude oil royalty rates declined marginally to 17.6% in the current year as a direct result of provincial government legislation providing various "royalty holidays" for new production.

Natural Gas

	1988	1987	1986
Revenue *(after royalties)*	**$18,040**	$14,204	$14,952
Volume *(thousands of cubic feet/day)*	**37,067**	28,196	23,964
Price *(per thousand cubic feet)*	**$ 1.66**	$ 1.69	$ 2.15
Royalty Rate	**19.9%**	18.2%	20.6%

Natural gas sales volumes reached a record level in 1988, up substantially from 1987 and 1986.

Average gas prices have dropped by 23% since 1986. The decline in gas prices is a result of deregulation, the industry's excess deliverability to North American markets and aggressive direct selling of gas by Canadian producers.

Despite the decline in prices, gas royalty rates increased marginally to 19.9% reflecting termination of the royalty exempt status of production from South Wapiti, the Company's most productive gas field.

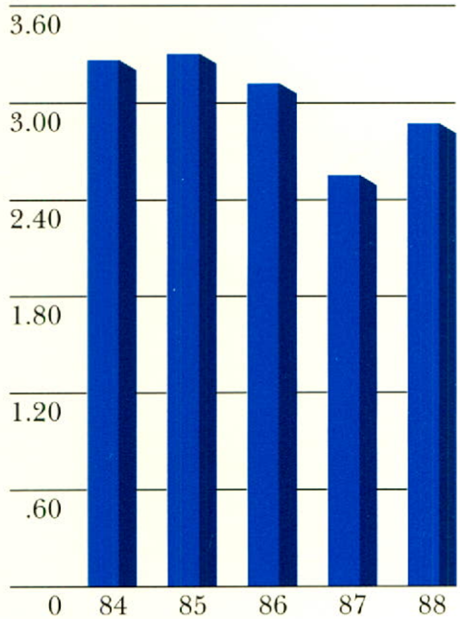
Expenses

Crude oil operating expenses in 1988 were up from both 1987 and 1986, reflecting higher operating costs in new fields being placed on stream. This was particularly evident in the Cecil and Arrowood areas which account for the majority of the increase. Operating costs attributable to natural gas and natural gas liquids also increased in 1988 as a result of higher production and the purchase of additional working interests in the North Coleman field.

On a per barrel of oil equivalent basis, operating expenses have declined over the past three years due to successful development programs. The 1987 costs were unusually low due to a favorable settlement of a gas plant cost-of-service dispute.

Depletion and depreciation expense increased to $26.9 million from $24.1 million in 1987 and $20.3 million in 1986. This increase was influenced by a 27% improvement in production volumes since 1986 on a per barrel of oil equivalent basis. Depletion rates per barrel of oil equivalent averaged $4.43 in 1988 compared with $4.31 in 1987 and $4.12 in 1986. Reserve additions during 1988 will reduce the depletion rate to $4.38 per barrel of oil equivalent in the first quarter of 1989.

Operating Expenses
(dollars per barrel of oil equivalent)



Taxes declined in the current year to $7.0 million as a direct result of lower pretax earnings and reduced 1988 tax rates. Tax reform in Canada has reduced the average rate to 47.4% from 51.2% in 1987. The 1989 effective average rate is expected to decline to 43.6%.

Capital Expenditures
The Company's capital expenditure program rose substantially to $74.0 million, compared with $42.7 million in 1987 and $43.1 million in 1986.

The 1988 program included two major acquisitions. The Company increased its working interest in the North Coleman gas field in Alberta from 19% to 34% at a cost of $13.5 million. In addition, developed and undeveloped properties in northeastern British Columbia were acquired for $15.0 million. This acquisition more than doubled the Company's net landholdings.

Development expenditures in 1988 including the North Coleman acquisition and the properties acquired in northeastern British Columbia totalled $35.7 million, up from $11.4 million in 1987 and $17.2 million in 1986. The higher development expenditures reflect the acquisitions and an active drilling program in the Cecil and Karr areas.

Under the Canadian Exploration and Development Incentive Program, the Company earned grants totalling $3.3 million, in both 1988 and 1987. In 1986, $13.3 million in Petroleum Incentives Program (PIP) grants were earned. The PIP program was terminated on March 31, 1986.

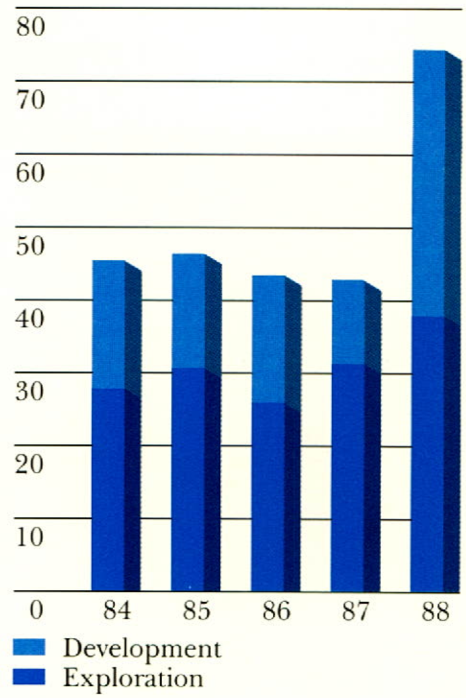
Capital expenditures made during the last few years have resulted in significant 1988 additions to proved oil, natural gas and natural gas liquids reserves. These additions will provide future cash flows enabling the Company to continue its aggressive capital program.

Cash From Operations
Cash from operations in 1988 was $48.1 million compared with $42.6 million in 1987 and $44.0 million in 1986. Higher revenues in 1987 were offset by increased current income taxes resulting from the receipt of taxable PIP grants.

During 1988, cash was used for a capital expenditure program of $74.0 million and dividends of $13.5 million including $0.50 per share in regular dividends and $0.50 per share in a one time special dividend. In addition, the Company made a $4.0 million payment to retire the last of its long term debt.

Corporate Liquidity
The Company remains in a strong financial position with working capital of $12.1 million, no long term debt and a $15.0 million unused line of credit with a major commercial bank.

Capital Expenditures
(dollars in millions)



Management's Report

To the Shareholders of Scurry-Rainbow Oil Limited

The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Company are described in the accompanying "Summary of Significant Accounting Policies."

Management is responsible for the integrity and objectivity of the financial statements. In the preparation of these statements, estimates are sometimes necessary. Such estimates are based on careful judgements and have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

Price Waterhouse, the Company's independent auditors, conduct an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their examination includes a review and evaluation of the Company's systems of internal control, and such tests and procedures as they consider necessary in order to form an opinion as to whether the financial statements are presented fairly in accordance with generally accepted accounting principles in Canada.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. The Committee meets with management as well as with the internal auditors and independent auditors to review the internal controls, financial statements and auditors' reports. The Audit Committee reports its findings to the Board for its consideration in approving the financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

R. F. Haskayne

R. F. Haskayne
President and Chief
Executive Officer

Consolidated Statement of Financial Position

(thousands of dollars)

	December 31, 1988	1987
ASSETS		
Current Assets		
Cash and short term investments	**$ 5,109**	$ 14,887
Advances to parent company (Note 10)	**4,550**	52,050
Advances to affiliated company (Note 10)	**3,244**	—
Accounts receivable	**13,795**	16,179
Taxes recoverable	**897**	—
Inventories, at lower of cost and net realizable value	**508**	628
	28,103	83,744
Investments and Other Assets (Note 3)	**3,451**	3,876
Property, Plant and Equipment (Note 4)		
Petroleum and natural gas (full cost)	**291,074**	244,411
Other	**2,336**	2,693
	293,410	247,104
	$324,964	$334,724
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 8,523**	$ 9,838
Taxes payable	**—**	13,428
Due to parent company	**3,223**	2,327
Dividends payable	**3,636**	3,502
Current portion of:		
Deferred production revenue	**579**	239
Long term debt (Note 5)	**—**	3,990
	15,961	33,324
Deferred Production Revenue (Note 6)	**3,187**	3,206
Deferred Income Taxes	**100,270**	94,298
	119,418	130,828
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)		
Common shares issued 13,462,129	**10,922**	10,922
Contributed Surplus	**23,334**	23,334
Retained Earnings	**171,290**	169,640
	205,546	203,896
	$324,964	$334,724

Approved by the Board

R. J. Haskayne, Director   D. Powell, Director

Consolidated Statement of Earnings and Retained Earnings

(thousands of dollars, except per share amounts)

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986
Revenue				
Operating	**$ 67,081**	$ 77,860	$ 15,123	$ 73,764
Other (Note 10)	**3,196**	3,338	937	5,888
	70,277	81,198	16,060	79,652
Expenses				
Operating	**16,546**	13,161	3,220	14,304
General and administrative	**4,084**	3,714	807	2,762
Depletion and depreciation (Note 4)	**26,927**	24,064	5,110	20,166
Interest (Note 5)	**596**	326	196	669
	48,153	41,265	9,333	37,901
Earnings Before Taxes	**22,124**	39,933	6,727	41,751
Taxes (Note 8)	**7,012**	16,798	2,519	23,997
Earnings	**15,112**	23,135	4,208	17,754
Retained Earnings at Beginning of Period	**169,640**	153,236	152,394	141,371
	184,752	176,371	156,602	159,125
Dividends	**13,462**	6,731	3,366	6,731
Retained Earnings at End of Period	**$171,290**	$169,640	$153,236	$152,394
Earnings Per Share	**$ 1.12**	$ 1.72	$ 0.31	$ 1.32
Dividends Per Share	**$ 1.00**	$ 0.50	$ 0.25	$ 0.50

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

	Year ended December 31,		Three months ended December 31,	Year ended September 30,
	1988	1987	1986	1986
Operating Activities				
Cash from operations				
Earnings	**$ 15,112**	$ 23,135	$ 4,208	$ 17,754
Charges (credits) not affecting cash				
Depletion and depreciation	**26,927**	24,064	5,110	20,166
Deferred income taxes	**5,972**	(4,720)	3,222	7,907
Other	**111**	141	(51)	151
	48,122	42,620	12,489	45,978
Deferred production revenue	**321**	(497)	(23)	(121)
Decrease (increase) in non-cash working capital	**(12,106)**	28,017	4,130	(9,848)
	36,337	70,140	16,596	36,009
Investment Activities				
Additions to property, plant and equipment	**73,963**	42,698	8,395	45,785
Proceeds on disposition of property, plant and equipment	**(730)**	(1,792)	(167)	(1,441)
Other	**(314)**	(392)	(7)	(624)
	72,919	40,514	8,221	43,720
Dividends				
Regular	**6,731**	6,731	3,366	6,731
Special	**6,731**	—	—	—
	13,462	6,731	3,366	6,731
Net Cash Before Financing	**(50,044)**	22,895	5,009	(14,442)
Financing Activities				
Long term debt retirement	**(3,990)**	(134)	(10)	(52)
Increase (Decrease) in Cash	**(54,034)**	22,761	4,999	(14,494)
Cash at Beginning of Period	**66,937**	44,176	39,177	53,671
Cash at End of Period	**$ 12,903**	$ 66,937	$ 44,176	$ 39,177

For the purposes of this statement, cash is defined as cash and short term investments, advances to parent company, and advances to affiliated company.

Consolidated Statement of Changes in Non-Cash Working Capital

(thousands of dollars)

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986
Changes in Non-Cash Working Capital				
Accounts receivable				
Trade	**$ 745**	$ (4,667)	$ 2,236	$ 1,801
Petroleum incentives program	**1,639**	23,722	3,109	6,164
Taxes recoverable	**(897)**	—	—	—
Inventories	**120**	18	1	51
Accounts payable	**(1,315)**	319	(1,997)	(10,087)
Taxes payable	**(13,428)**	8,468	(1,819)	(8,055)
Due to parent company	**896**	85	(765)	213
Dividends payable	**134**	72	3,365	65
Decrease (Increase) in Non-Cash Working Capital	**$(12,106)**	$ 28,017	$ 4,130	$ (9,848)

For the purposes of this statement, non-cash working capital excludes the current portions of deferred production revenue and long term debt.

Auditors' Report

To the Shareholders of Scurry-Rainbow Oil Limited

We have examined the consolidated statements of financial position of Scurry-Rainbow Oil Limited as at December 31, 1988 and 1987 and the consolidated statements of earnings and retained earnings, changes in financial position and changes in non-cash working capital for the years ended December 31, 1988 and 1987, the three months ended December 31, 1986 and for the year ended September 30, 1986. Our examinations were made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for the years ended December 31, 1988 and 1987, the three months ended December 31, 1986 and for the year ended September 30, 1986 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Price Waterhouse

Chartered Accountants

Calgary, Alberta, Canada
February 8, 1989

Notes to the 1988 Consolidated Financial Statements

(Tabular amounts, except per share amounts, are expressed in thousands of dollars)

1. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Principles of Consolidation
The consolidated financial statements include the accounts of Scurry-Rainbow Oil Limited and its subsidiary.

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.

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 property, costs of drilling both productive and nonproductive wells, and overhead charges related to exploration and development activities. The net book value of such costs, net of related deferred income taxes, 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 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.

Depreciation of buildings, plant and equipment, other than oil and gas production equipment, is provided on the straight line basis over their estimated service lives. 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 unusual disposals for which the gain or loss is included in earnings.

Mining Costs
Mining costs are charged to earnings in the year incurred (included in depletion) 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.

2. Change in Year End

The Company's year end was changed from September 30 to December 31 effective December 31, 1986.

3. Investments and Other Assets

	December 31, 1988	December 31, 1987
Minerals Limited, equity method	**$ 745**	$ 732
Long term receivable (Note 4)	**2,313**	3,001
Other	**393**	143
	$3,451	$3,876

The Company owns a 50% interest in Minerals Limited.

4. Property, Plant and Equipment

December 31, 1988

	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties and equipment	**$478,879**	**$187,805**	**$291,074**
Mining properties and equipment			
Developed	**4,603**	**4,603**	**—**
Undeveloped	**2,470**	**688**	**1,782**
Other	**1,093**	**539**	**554**
	$487,045	**$193,635**	**$293,410**

December 31, 1987

	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties and equipment	$406,210	$161,799	$244,411
Mining properties and equipment			
Developed	4,603	3,928	675
Undeveloped	2,448	666	1,782
Other	680	444	236
	$413,941	$166,837	$247,104

The oil and gas depletion and depreciation expense per equivalent unit of production for the year ended December 31, 1988, amounted to $4.43 per barrel (1987 — $4.31; three months ended December 31, 1986 — $4.07; year ended September 30, 1986 — $4.13).

The developed mining properties and equipment pertain to a net profits interest in mining operations in Nevada. On January 10, 1983, the Company sold the Gooseberry gold and silver mine in Nevada for a cash consideration of U.S. $3 million and non-interest bearing notes aggregating U.S. $6 million payable equally over 10 years ending January 31, 1993. In recording the transaction, the proceeds were credited to cost and the Canadian value of the notes was discounted at a rate of 10 percent to $4,535,000; currently $2,313,000 (1987 — $3,001,000) is included in other assets. The Company has retained a net profits interest in the mine ranging from 15 percent to 30 percent depending on the price of gold.

5. Long Term Debt

	Maturity	December 31, 1988	December 31, 1987
7.25% Subordinated Debentures	May 1, 1988	**$ —**	$3,990
Less: Current portion		**—**	3,990
		$ —	$ —

Interest on long term debt for the year ended December 31, 1988 amounted to $99,000 (1987 — $303,000; three months ended December 31, 1986 — $78,000; year ended September 30, 1986 — $312,000).

At December 31, 1988, the Company had unutilized bank lines of credit of $15.0 million. Upon drawdown, the loans bear interest at prevailing market rates and are unsecured.

6. Deferred Production Revenue

Amounts paid to the Company by purchasers for annual contracted 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. 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. As at December 31, 1988 and 1987, the Company had 13,462,129 common shares issued and outstanding.

8. Taxes
Taxes are comprised of the following:

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Income taxes				
Current	**$ 4,040**	$24,633	$ 34	$13,359
Deferred	**5,972**	(4,720)	3,222	7,907
	10,012	19,913	3,256	21,266
Petroleum and gas revenue tax	**—**	(116)	19	5,081
Alberta royalty tax credit	**(3,000)**	(2,999)	(756)	(2,350)
	$ 7,012	$16,798	$2,519	$23,997
Total taxes as a percentage of pretax earnings	**31.7%**	42.1%	37.4%	57.5%

Deferred income taxes result mainly from deductions for exploration and development costs for income tax purposes which are different than the related provisions for depletion and depreciation.

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

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Earnings before taxes	**$22,124**	$39,933	$6,727	$41,751
Canadian income tax rate	**47.4%**	51.2%	49.1%	49.0%
Computed income tax provision	**$10,487**	$20,446	$3,303	$20,458
Nondeductible crown royalties	**6,162**	7,278	1,521	8,395
Federal resource allowance	**(5,730)**	(8,444)	(1,528)	(7,826)
Other	**(907)**	633	(40)	239
Income taxes	**$10,012**	$19,913	$3,256	$21,266
Effective income tax rate	**45.3%**	49.9%	48.4%	50.9%

9. Business and Geographic Segments
The Company has only one significant business segment being its oil and gas operations which are conducted in Canada.

10. 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, 1988, Home provided certain management, technical and administrative services to the Company at cost which amounted to $12,409,000 (1987 — $11,112,000; three months ended December 31, 1986 — $2,783,000; year ended September 30, 1986 — $11,020,000). Of this amount, $8,524,000 has been capitalized and allocated to property, plant and equipment (1987 — $7,644,000; three months ended December 31, 1986 — $1,913,000; year ended September 30, 1986 — $7,913,000).

During the year ended December 31, 1988, the Company borrowed various amounts from its ultimate parent company, Interhome Energy Inc. (IHE). These advances carry interest at 1/16% above IHE's cost of funds from commercial paper and bankers' acceptances and are repayable on demand. Interest paid to IHE for the year amounted to $60,000 (1987 — nil).

The Company also advances various amounts to its parent company, Home. These advances carry interest at 1/16% above IHE's cost of funds from commercial paper and bankers' acceptances and are repayable on demand. Interest received from the parent company for the year ended December 31, 1988, amounted to $1,563,000 (1987 — $3,249,000; three months ended December 31, 1986 — $524,000; year ended September 30, 1986 — $2,705,000).

The Company advances various amounts to an affiliated company, Lakehead Pipe Line Company, Inc. Advances are due on demand and bear interest at the monthly published short term applicable federal rate of the United States. Interest income for the year ended December 31, 1988 amounted to $157,000 (1987 — nil).

11. 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 to those in the United States (U.S. GAAP) except for the following:

(a) In November 1987, the Financial Accounting Standards Board (FASB) issued the "Statement of Cash Flows", FAS 95, which became effective for fiscal years ending after July 15, 1988. The statement focuses on flows of cash and cash equivalents where they are defined as cash and short term deposits which have original maturities of three months or less. Under this standard, the Company's short term investments of $5,340,000 in 1988 (1987 — $13,592,000) would be excluded from the definition of cash, resulting in a cash balance at December 31, 1988 of $7,794,000 (1987 — $53,345,000). The sale of short term investments would increase cash flows from investing activities by $8,201,000 in 1988. In addition, interest and income taxes paid during 1988 which amounted to $609,000 and $15,161,000, respectively would be disclosed separately. All other variances from the statement of changes in financial position are immaterial.

(b) In December 1987, the FASB issued a revised statement on "Accounting for Income Taxes", FAS 96, which will require companies to recognize current changes in tax rates in recording their deferred income tax liabilities beginning December 15, 1988, subsequently delayed by one year. The effect of applying this statement to the Company's deferred income taxes has not been determined at this time.

Unaudited Supplementary Information

(thousands of dollars, except per share amounts)

Selected Quarterly Financial Data

	Quarter ended			
	Dec. 31, 1988	Sept. 30, 1988	June 30, 1988	Mar. 31, 1988
Revenue	**$16,504**	**$16,066**	**$17,975**	**$19,732**
Gross margin	**$11,056**	**$10,631**	**$13,124**	**$14,836**
Earnings	**$ 3,134**	**$ 3,067**	**$ 4,025**	**$ 4,886**
Earnings per share	**$ 0.23**	**$ 0.23**	**$ 0.30**	**$ 0.36**
Dividends per share	**$ 0.25**	**$ —**	**$ 0.75**	**$ —**

	Quarter ended			
	Dec. 31, 1987	Sept. 30, 1987	June 30, 1987	Mar. 31, 1987
Revenue	$22,011	$20,035	$19,449	$19,703
Gross margin	$16,999	$15,422	$16,343	$15,559
Earnings	$ 5,419	$ 5,666	$ 6,201	$ 5,849
Earnings per share	$ 0.40	$ 0.42	$ 0.47	$ 0.43
Dividends per share	$ 0.25	$ —	$ 0.25	$ —

Oil and Gas Exploration and Production Activities

The Company's oil and gas exploration and production activities are carried out in Canada. The following unaudited supplementary oil and gas information is provided in accordance with the United States' Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities". All numbers are in thousands of dollars, except for reserve quantities.

Capitalized Costs

	December 31,			Sept. 30,
	1988	1987	1986	1986
Petroleum and natural gas properties:				
Proved	**$429,879**	$371,210	$343,661	$328,487
Unproved	**49,000**	35,000	23,000	30,000
	478,879	406,210	366,661	358,487
Accumulated depletion and depreciation	**(187,805)**	(161,799)	(140,014)	(135,226)
Net capitalized costs	**$291,074**	$244,411	$226,647	$223,261

Costs Incurred

	Year ended December 31,		Three months ended Dec. 31,	Year ended Sept. 30,
	1988	1987	1986	1986
Acquisition of properties:				
Unproved	**$11,821**	$ 7,574	$ 753	$ 3,427
Proved	**18,870**	812	—	—
Exploration	**25,789**	23,344	5,009	22,969
Development	**16,860**	10,587	2,576	19,250
Total costs incurred	**$73,340**	$42,317	$8,338	$45,646

Results of Operations

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Operating revenue, net of royalties	**$67,081**	$77,860	$15,123	$73,764
Production costs	**16,546**	13,161	3,220	14,304
Petroleum and gas revenue tax	**—**	(116)	19	5,081
Depletion and depreciation	**26,051**	22,836	4,801	18,985
	42,597	35,881	8,040	38,370
Income before income taxes from oil and gas operations	**24,484**	41,979	7,083	35,394
Income taxes (net of Alberta royalty tax credit)	**8,438**	17,147	2,870	17,929
Results of oil and gas operations (excluding administrative overhead and interest costs)	**$16,046**	$24,832	$ 4,213	$17,465

Net Proved Oil and Gas Reserve Quantities

Net proved oil and gas reserves are the estimated quantities of crude oil and natural gas liquids, and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Net proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

The calculation of net proved reserves is based on the Company's share of proved reserves after the deduction of royalties. Royalties are calculated on the basis of royalty regulations in effect on the dates the estimates are made. Federal and provincial government royalty rates vary depending on price, production volume, the timing of initial production and the location of the producing wells.

Crude Oil and Natural Gas Liquids
(thousands of barrels)

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Net Proved Reserves				
Beginning of period	**20,395**	19,868	20,322	16,950
Revisions of previous estimates and improved recovery	**3,273**	(127)	180	1,621
Extensions and discoveries	**2,945**	3,773	30	4,180
Purchase of reserves in place	**—**	—	—	—
Sale of reserves in place	**(42)**	(143)	—	—
Production	**(2,995)**	(2,976)	(664)	(2,429)
End of period	**23,576**	20,395	19,868	20,322
Net Proved Developed Reserves				
Beginning of period	**19,674**	19,773	20,220	16,834
End of period	**22,616**	19,674	19,773	20,220

Natural Gas
(billions of cubic feet)

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Net Proved Reserves				
Beginning of period	**166**	171	167	167
Revisions of previous estimates and improved recovery	**5**	(16)	5	(3)
Extensions and discoveries	**20**	17	—	10
Purchase of reserves in place	**28**	3	—	—
Sale of reserves in place	**(1)**	(1)	—	—
Production	**(11)**	(8)	(1)	(7)
End of period	**207**	166	171	167
Net Proved Developed Reserves				
Beginning of period	**144**	157	150	152
End of period	**173**	144	157	150

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

The standardized measure of future cash flows is computed by applying period end prices to period end quantities of proved oil and gas reserves, and deducting future development costs, production costs and income taxes (net of Alberta royalty tax credit). Future development and production costs are based on period end costs and assume continuation of existing economic and operating conditions. Future income taxes are computed by applying the appropriate period end statutory rates to the future pretax net cash flows, after making provisions for the tax basis of the oil and gas properties. Future net cash flows are discounted at a rate of 10% per annum to arrive at discounted future net cash flows.

Under United States accounting principles, discounted future net cash flows must exceed the net book value of proved petroleum and natural gas properties, net of related deferred income taxes. A write down of proved properties would be required if the conditions of this "ceiling test" were not met.

The Company cautions that the discounted future net cash flows from proved oil and gas reserves is neither an indication of fair market value of the Company's oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor is consideration given to the effect of anticipated future changes in crude oil and natural gas prices, development and production costs, and possible changes to tax and royalty regulations. The prescribed discount rate of 10% may not appropriately reflect future interest rates.

	December 31,			Sept. 30,
	1988	1987	1986	1986
Future cash inflows	**$785,953**	$701,552	$800,810	$816,447
Future costs				
Production	**(179,523)**	(137,025)	(199,539)	(202,452)
Development	**(22,456)**	(14,428)	(16,662)	(17,180)
Future pretax cash flows	**583,974**	550,099	584,609	596,815
Future income taxes	**(139,634)**	(176,400)	(190,897)	(187,577)
Future net cash flows	**444,340**	373,699	393,712	409,238
10% annual discount for timing of future cash flows	**(206,842)**	(150,762)	(175,294)	(194,123)
Discounted future net cash flows	**$237,498**	$222,937	$218,418	$215,115

Changes in Standardized Measure of Discounted Future Net Cash Flows

	Year ended December 31, 1988	Year ended December 31, 1987	Three months ended Dec. 31, 1986	Year ended Sept. 30, 1986
Revisions to reserves proved in prior periods				
Revisions of previous quantity and timing estimates	**$ (15,093)**	$ 1,628	$ 16,746	$ 51,647
Net changes in prices, net of production costs	**(41,018)**	(9,708)	(5,851)	(143,158)
Termination of PGRT	**—**	—	—	16,503
Net changes in future development costs	**(5,120)**	(1,407)	(127)	2,800
Other	**(3,682)**	(9,538)	(360)	(43)
Accretion of discount	**31,774**	32,148	7,843	35,449
	(33,139)	13,123	18,251	(36,802)
Changes during the period				
Extensions, discoveries and improved recovery, net of related costs	**31,233**	43,678	673	37,919
Previously estimated development costs incurred during the period	**4,742**	4,333	721	12,484
Sales of oil and gas produced, net of production costs	**(50,535)**	(64,815)	(11,884)	(54,379)
Purchase of reserves in place	**23,985**	1,837	—	—
Sale of reserves in place	**(868)**	(1,895)	—	—
	8,557	(16,862)	(10,490)	(3,976)
Total revisions and changes before income taxes	**(24,582)**	(3,739)	7,761	(40,778)
Net changes in income taxes	**39,143**	8,258	(4,458)	66,420
Total revisions and changes	**14,561**	4,519	3,303	25,642
Discounted future net cash flows, at beginning of period	**222,937**	218,418	215,115	189,473
Discounted future net cash flows, at end of period	**$237,498**	$222,937	$218,418	$215,115

Ten Year Financial Review

(thousands of dollars, except per share amounts)

	Year ended December 31, 1988	1987	1986
Statement of Earnings			
Revenue			
Crude oil	$ 42,451	$ 57,193	$ 42,585
Natural gas	18,040	14,204	14,952
Natural gas liquids	3,980	4,561	3,940
Sulphur	2,610	1,902	2,505
Mining	—	—	—
Investment income	3,196	3,338	4,515
	70,277	81,198	68,497
Expense			
Operating and general	20,630	16,875	16,878
Depletion and depreciation	26,927	24,064	20,297
Other	596	326	740
	48,153	41,265	37,915
Earnings before taxes and extraordinary item	22,124	39,933	30,582
Taxes	7,012	16,798	15,704
Extraordinary item	—	—	—
Earnings	$ 15,112	$ 23,135	$ 14,878
Earnings per share	$ 1.12	$ 1.72	$ 1.11
Statement of Changes in Financial Position			
Cash from operations	$ 48,122	$ 42,620	$ 44,029
Deferred production revenue	321	(497)	(125)
Change in non-cash working capital	(12,106)	28,017	3,843
Investment activities	(72,919)	(40,514)	(40,929)
Dividends	(13,462)	(6,731)	(6,731)
Financing activities	(3,990)	(134)	(36)
Increase (decrease) in cash	$ (54,034)	$ 22,761	$ 51
Cash from operations per share	$ 3.57	$ 3.17	$ 3.27
Net Capital Expenditures			
Oil and gas			
Land acquisition	$ 11,821	$ 7,574	$ 3,580
Exploration	25,789	23,344	22,087
Development	35,730	11,399	17,218
	73,340	42,317	42,885
Other	623	381	227
	$ 73,963	$ 42,698	$ 43,112
Working capital	$ 12,142	$ 50,420	$ 59,517
Total assets	$ 324,964	$ 334,724	$ 314,727
Long term debt	$ —	$ 3,990	$ 4,124
Shareholders' equity	$ 205,546	$ 203,896	$ 187,492
Shares outstanding at end of year	13,462,129	13,462,129	13,462,129
Dividends per share	$ 1.00	$ 0.50	$ 0.50
Return on average shareholders' equity	7.4%	11.8%	8.1%

Year ended September 30,					Nine months ended September 30,	Year ended December 31,
1985	1984	1983	1982	1981	1980	1979
$ 68,137	$ 67,356	$ 57,056	$ 40,727	$ 30,106	$ 18,586	$ 22,590
20,461	18,722	17,943	12,503	10,449	7,784	8,795
3,038	3,036	2,599	1,406	1,202	835	1,232
2,931	1,317	1,381	1,149	2,258	1,189	539
—	—	—	310	7,731	15,150	10,866
8,315	5,077	3,367	832	1,099	747	279
102,882	95,508	82,346	56,927	52,845	44,291	44,301
17,300	15,750	14,437	14,144	22,179	15,605	14,954
16,942	15,715	15,029	9,713	9,111	6,661	11,693
792	965	1,040	2,452	3,621	2,379	2,374
35,034	32,430	30,506	26,309	34,911	24,645	29,021
67,848	63,078	51,840	30,618	17,934	19,646	15,280
37,716	38,180	29,377	16,294	9,352	6,444	2,461
—	—	—	—	—	2,585	5,477
$ 30,132	$ 24,898	$ 22,463	$ 14,324	$ 8,582	$ 15,787	$ 18,296
$ 2.25	$ 1.86	$ 1.68	$ 1.07	$ 0.64	$ 1.18	$ 1.37
$ 62,213	$ 61,831	$ 52,704	$ 29,709	$ 21,552	$ 26,945	$ 27,286
(409)	1,635	941	287	521	315	418
23,722	(20,823)	(14,872)	(344)	3,029	630	(3,926)
(51,183)	(44,402)	(15,513)	(20,188)	(21,311)	(25,635)	(25,079)
—	—	—	—	—	—	—
(992)	(730)	(1,487)	(6,147)	(9,104)	3,710	3,429
$ 33,351	$ (2,489)	$ 21,773	$ 3,317	$ (5,313)	$ 5,965	$ 2,128
$ 4.64	$ 4.62	$ 3.94	$ 2.22	$ 1.61	$ 2.01	$ 2.04
$ 5,203	$ 4,421	$ 773	$ —	$ 1,407	$ 383	$ 5,334
24,994	23,194	9,760	3,594	2,476	7,292	15,609
15,741	17,438	9,355	15,325	13,771	15,739	14,449
45,938	45,053	19,888	18,919	17,654	23,414	35,392
298	139	315	1,798	4,013	2,252	2,659
$ 46,236	$ 45,192	$ 20,203	$ 20,717	$ 21,667	$ 25,666	$ 38,051
$ 63,427	$ 53,877	$ 35,688	$ (957)	$ (4,618)	$ 3,724	$ (4,141)
$ 312,503	$ 256,600	$ 211,535	$ 177,412	$ 153,112	$ 147,204	$ 123,181
$ 4,189	$ 6,897	$ 7,720	$ 9,417	$ 15,908	$ 25,212	$ 21,613
$ 175,627	$ 143,947	$ 119,049	$ 96,586	$ 82,262	$ 73,680	$ 57,893
13,462,129	13,391,780	13,391,780	13,391,780	13,391,780	13,391,780	13,391,780
$ —	$ —	$ —	$ —	$ —	$ —	$ —
18.9%	18.9%	20.8%	16.0%	11.0%	24.0%	37.5%

Ten Year Operating Review

	Year ended December 31,		
	1988	1987	1986
Production/Sales Data			
Crude oil			
— barrels per day	**8,469**	8,600	7,778
— average price per barrel	**$ 16.63**	$ 22.20	$ 18.59
— average royalty rate	**17.6%**	17.9%	19.3%
Natural gas liquids			
— barrels per day	**1,277**	1,122	882
— average price per barrel	**$ 9.63**	$ 12.58	$ 14.48
— average royalty rate	**11.6%**	11.5%	15.5%
Natural gas			
— thousands of cubic feet per day	**37,067**	28,196	23,964
— average price per thousand cubic feet	**$ 1.66**	$ 1.69	$ 2.15
— average royalty rate	**19.9%**	18.2%	20.6%
Sulphur			
— long tons per day	**126**	76	58
— average price per long ton	**$ 67.11**	$ 81.51	$140.37
— average royalty rate	**15.5%**	16.1%	16.0%
Drilling Activity (working interest wells)			
Gross exploratory			
Oil	**27**	45	51
Gas	**17**	8	29
Dry	**43**	50	57
Gross development			
Oil	**86**	82	136
Gas	**10**	6	12
Dry	**18**	13	28
Total	**201**	204	313
Net exploratory			
Oil	**5.33**	8.15	7.08
Gas	**1.86**	2.09	1.73
Dry	**6.78**	10.03	5.82
Net development			
Oil	**13.54**	7.43	15.82
Gas	**1.70**	1.37	0.91
Dry	**4.85**	5.01	5.74
Total	**34.06**	34.08	37.10
Proved Reserves (before royalties)			
Crude oil			
— thousands of barrels	**23,173**	19,963	21,680
Natural gas liquids			
— thousands of barrels	**4,801**	4,087	2,160
Natural gas			
— billions of cubic feet	**258.6**	206.1	206.6
Sulphur			
— thousands of long tons	**725.0**	308.0	300.4
Oil and Gas Landholdings (thousands of acres)			
Gross Undeveloped	**6,779**	4,802	5,345
Net Undeveloped	**2,474**	1,155	1,154
Gross Developed	**778**	737	646
Net Developed	**109**	102	94

Year ended September 30,					Nine months ended September 30,	Year ended December 31,
1985	1984	1983	1982	1981	1980	1979
7,101	7,304	7,227	6,460	7,070	7,086	7,434
$ 34.26	$ 33.42	$ 29.16	$ 23.19	$ 16.18	$ 14.18	$ 12.34
23.3%	24.6%	26.1%	25.6%	29.4%	32.5%	32.6%
369	405	371	264	253	254	350
$ 28.37	$ 26.92	$ 24.82	$ 18.67	$ 16.29	$ 14.50	$ 11.33
20.6%	23.8%	22.2%	21.8%	20.0%	18.1%	14.9%
24,391	21,711	20,622	16,824	16,593	17,676	18,812
$ 2.73	$ 2.84	$ 2.80	$ 2.46	$ 2.34	$ 1.99	$ 1.51
16.0%	16.9%	14.9%	17.4%	26.3%	18.6%	15.2%
104	67	62	53	90	97	92
$ 90.23	$ 63.74	$ 67.10	$ 72.70	$ 75.34	$ 50.65	$ 18.14
14.4%	15.3%	9.6%	19.3%	9.0%	11.6%	11.8%
65	31	4	2	2	1	4
51	23	1	1	3	5	46
94	59	4	4	2	3	10
129	102	28	15	22	26	41
27	22	7	12	14	8	32
47	35	9	8	4	3	2
413	272	53	42	47	46	135
6.68	5.07	1.20	0.28	0.76	1.00	0.58
2.69	2.23	0.08	0.67	1.43	0.83	8.00
5.25	4.99	1.49	0.49	0.03	1.08	2.36
9.40	15.81	6.87	6.49	5.09	5.43	15.39
0.74	0.61	0.42	1.67	2.17	1.30	1.63
4.24	2.45	1.87	5.47	1.31	1.44	0.14
29.00	31.16	11.93	15.07	10.79	11.08	28.10
19,675	17,203	15,945	17,259	21,847	19,254	20,761
2,183	1,975	1,610	1,686	2,937	1,555	1,798
201.5	192.8	178.9	169.0	183.1	174.6	180.0
324.0	340.7	366.9	366.0	581.5	456.6	430.7
4,424	3,388	3,561	4,054	4,369	5,644	5,101
1,143	1,072	1,350	1,395	1,550	1,676	1,544
639	776	730	739	683	492	477
97	131	124	126	131	102	101

Corporate Information

Board of Directors

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

Richard F. Haskayne, F.C.A.,
Calgary, Alberta.
President and Chief Executive Officer of Interhome Energy Inc., Home Oil Company Limited and of the Company.

Robert K. Heule,
Oakville, Ontario
Chairman of
Interhome Energy Inc.

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

\+ **John F. Langston,**
Calgary, Alberta.
Petroleum Engineer.

Brian F. MacNeill,
Calgary, Alberta.
Vice President Finance and Chief Financial Officer of Interhome Energy Inc.

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

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

\+ Member of Audit Committee

Senior Officers

R. F. Haskayne
President and
Chief Executive Officer

D. E. Powell
Executive Vice President and
Chief Operating Officer

H. Alfaro
Vice President Production

F. Callaway
Vice President
Corporate Planning

A. P. Holder
Vice President
Canadian Exploration

E. Jorgensen
Vice President and Controller

A. R. Hagerman
Treasurer

R. M. Perrin
Corporate Secretary

Corporate Office
Scurry-Rainbow Oil Limited
1700 Home Oil Tower
324 Eighth Avenue S.W.
Calgary, Alberta.
T2P 2Z5
Telephone: (403) 232-7101

Principal Affiliate
Minerals Limited (50%)
P.O. Box 2850
Calgary, Alberta.
T2P 2S5

Auditors
Price Waterhouse,
Calgary, Alberta.

Stock Transfer Agent and Registrar
Central Guaranty Trust Company,
Calgary, Toronto, Montreal &
Vancouver.

The Canadian Imperial Bank of
Commerce (New York),
New York City, New York.

Form 10-K
The Company files annually with the Securities and Exchange Commission of the United States a report known as the Annual Report on Form 10-K. Copies of the Form 10-K are available to shareholders, free of charge, upon written request to Mr. E. Jorgensen, Vice President and Controller, Scurry-Rainbow Oil Limited, 1700 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 5, 1989 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, 1989.

Share Information

Prices

	Toronto Stock Exchange (Cdn. dollars)		American Stock Exchange (U.S. dollars)	
	High	Low	High	Low
Year Ended December 31, 1988				
1st quarter	**18¾**	**14¾**	**15⅜**	**11¾**
2nd quarter	**20⅝**	**18¼**	**17¼**	**14¾**
3rd quarter	**20½**	**18**	**17⅛**	**14¾**
4th quarter	**18¼**	**16¾**	**14⅞**	**13½**
Year Ended December 31, 1987				
1st quarter	23	18¾	18⅛	13⅞
2nd quarter	26	21½	19¾	15⅞
3rd quarter	25	20¾	19¼	15¾
4th quarter	16½	15	12⅝	11⅛

At December 31, 1988, the Company had 13,462,129 common shares issued and outstanding, held by 3,392 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 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 in an established oil or gas field.

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

Farmin: An agreement whereby one company through drilling, seismic surveys or similar activity acquires an interest in an oil or gas property owned by another company.

Gross: Includes the interests of others.

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.

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.

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. Companies holding the working interests are responsible for their share of costs.

METRIC CONVERTION FACTORS

1 kilometre	= 0.62 mile
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 ton (sulphur)

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