Scurry-Rainbow Oil Limited

1987 Annual Report

Corporate Profile

Scurry-Rainbow Oil Limited was incorporated in 1954 under the laws of Alberta and is engaged primarily in the exploration for, and development of crude oil, natural gas and natural gas liquids. These activities are conducted principally in British Columbia, Alberta, Saskatchewan and Manitoba. The Company also owns substantial undeveloped coal reserves in southern Alberta and British Columbia.

Scurry-Rainbow is 88.1 percent owned by Home Oil Company Limited, a wholly-owned subsidiary of Interprovincial Pipe Line Limited.

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 2:30 p.m. on Friday, May 6, 1988 in the Company's head office, 29th floor Auditorium, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, Canada. This Annual Report is being mailed with the Notice of Meeting, Management Proxy Circular and Form of Proxy to all shareholders of record March 25, 1988.

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.

Metric Conversion Factors

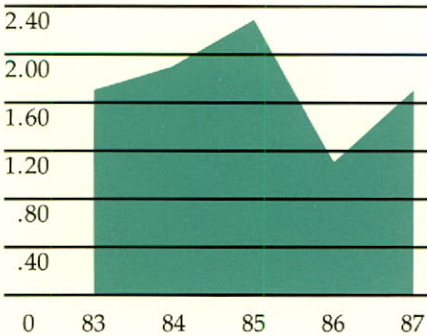
1 kilometre	=	0.62 miles
1 metre	=	3.28 feet
1 hectare	=	2.47 acres
1 cubic metre	=	6.2898 barrels *(petroleum liquids)*
1 cubic metre	=	35.49373 cubic feet *(natural gas)*
1 tonne	=	0.984 long tons *(sulphur)*

Contents

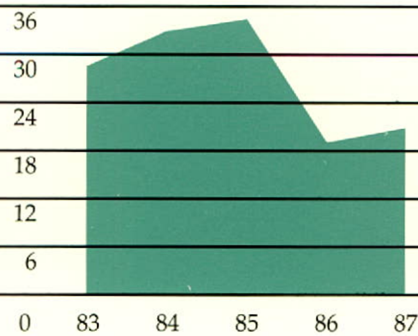
Highlights

	Year ended December 31, 1987	Year ended December 31, 1986	September 30, 1985
Financial *(thousands of dollars)*			
Revenue	**$ 81,198**	$ 68,497	$102,882
Net earnings	**23,135**	14,878	30,132
Net capital expenditures	**42,698**	43,112	46,236
Cash from operations	**42,620**	44,029	62,213
Working capital	**50,420**	59,517	63,427
Per Common Share *(dollars)*			
Net earnings	**$ 1.72**	$ 1.11	$ 2.25
Cash from operations	**3.17**	3.27	4.64
Dividends declared	**0.50**	0.50	—
Operating			
Average Daily Production/Sales			
Crude oil *(barrels)*	**8,600**	7,778	7,101
Natural gas liquids *(barrels)*	**1,122**	882	369
Natural gas *(thousands of cubic feet)*	**28,196**	23,964	24,391
Sulphur *(long tons)*	**76**	58	104
Proved Reserves			
Crude oil *(millions of barrels)*	**20.0**	21.7	19.7
Natural gas liquids *(millions of barrels)*	**4.1**	2.2	2.2
Natural gas *(billions of cubic feet)*	**206.1**	206.6	201.5
Sulphur *(thousands of long tons)*	**308.0**	300.4	324.0
Working Interest Wells Drilled			
Gross	**204**	313	413
Net	**34.08**	37.10	29.00
Undeveloped Oil and Gas Landholdings			
Gross *(thousands of acres)*	**4,802**	5,345	4,424
Net *(thousands of acres)*	**1,155**	1,154	1,143

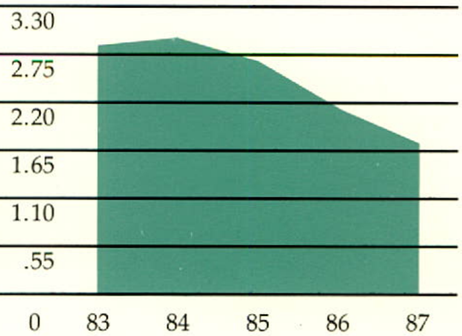
Earnings Per Share
(dollars)



Company's Average Crude Oil Price
(dollars per barrel)



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



Report to the Shareholders

In 1987, Scurry-Rainbow continued its strong financial performance and achieved record production levels.

Net earnings reached $23.1 million, up 55 percent from last year. Cash generated from operations totalled $42.6 million. In its continuing successful efforts to replace production, Scurry-Rainbow's capital program totalled $42.7 million, an amount virtually equal to the cash generated from operations.

During 1987, crude oil and natural gas liquids production totalled 9,722 barrels per day, an increase of 12 percent over last year. Gas sales were 28.2 million cubic feet per day, up 18 percent. Despite these record production and sales levels, Scurry-Rainbow maintained its reserves base, with proved reserves of crude oil and natural gas liquids at year end totalling 24.1 million barrels, a slight increase from 1986. Gas reserves of 206.1 billion cubic feet at year end were relatively unchanged from one year ago. The Company participated in the drilling of 204 gross working interest wells at a net average working interest of 16.7 percent, a significant increase from that of 11.9 percent last year.

Crude oil prices experienced a moderate recovery in 1987 as a result of production constraint measures adopted by the Organization of Petroleum Exporting Countries. Current prices, however, are showing volatility.

Scurry-Rainbow's natural gas prices experienced a 21 percent drop due to the impact of deregulation in Canada. The natural gas oversupply situation in the United States persisted in 1987 resulting in weaker prices. Some recovery was experienced later in the year when seasonal demand and U.S. regulatory actions combined to bring supply and demand more nearly in balance. The Company expects continued market improvements over the next two years.

The Company believes that the bilateral trade agreement negotiated between Canada and the United States late in 1987, once ratified, will have a positive impact on the Canadian petroleum industry. The agreement will provide secure markets for Canada's oil and gas at competitive marketplace prices.

The federal government announced income tax reform measures to become effective January 1, 1988. The impact of these measures on Scurry-Rainbow's future financial results is expected to be modestly positive. Any improvement, however, may be offset to some degree by the related sales tax measures now under consideration.

The Alberta government announced changes to the gas royalty system effective January 1, 1988, which are intended to moderate the decline in government revenues caused by lower gas prices. Under the new system, royalty rates will be based on a monthly average market price for Alberta gas calculated by the government. Royalties will be payable on the actual selling price or 80 percent of the average market price whichever is higher. These changes are not expected to affect Scurry-Rainbow.

Scurry-Rainbow's strong financial position will permit the Company to undertake an aggressive exploration and development program in 1988. This program will cost an estimated $48 million and will continue to be focused on higher interest prospects in Western Canada. The objective is to increase the Company's reserves base after replacing current production. In anticipation of substantially improved markets, more emphasis will be placed on gas exploration in 1988 than in prior years.

During 1987, the Company paid a semi-annual dividend of $0.25 per common share on January 1, 1987 and July 1, 1987. A dividend of the same amount was paid on January 1, 1988.

Mr. R. K. Heule, the Chairman of Interprovincial Pipe Line Limited, was elected a Director of the Company in 1987.

Submitted on behalf of the Board of Directors.

R. F. Haskayne

R. F. Haskayne,
President and Chief
Executive Officer

Calgary, Alberta, Canada
March 9, 1988

Review of Operations

Exploration and Development

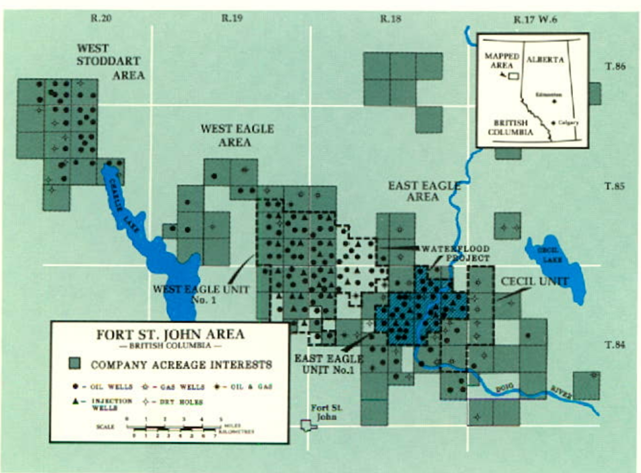
The Company's average net working interest in wells drilled during 1987 was up sharply at 16.7 percent compared with 11.9 percent last year. This improvement reflects increased emphasis on higher interest exploratory plays. Exploration and development expenditures totalled $42.3 million in 1987, essentially unchanged from last year.

Drilling Activity

	1987		1986	
	Gross	Net	Gross	Net
Exploratory Wells				
Total drilled	**103**	**20.3**	137	14.6
Successful	**53**	**10.2**	80	8.8
Development Wells				
Total drilled	**101**	**13.8**	176	22.5
Successful	**88**	**8.8**	148	16.7

British Columbia

In British Columbia, the Company continued its efforts on waterflood and infill drilling programs. Scurry-Rainbow participated in four exploratory and 10 development wells drilled during the year. Exploratory drilling resulted in two gas wells, while development drilling yielded six oil and two gas wells.



Five successful oil wells were drilled in the West Stoddart area of British Columbia. The Company's working interest in these wells ranges between 50 and 100 percent and additional drilling is planned for 1988.

In the East Eagle area, a directional well was drilled in late 1987 to accommodate a water line from the west side of the Beatton River Valley to the east bank. This facilitated expansion of the waterflood project to the eastern portion of the Unit.

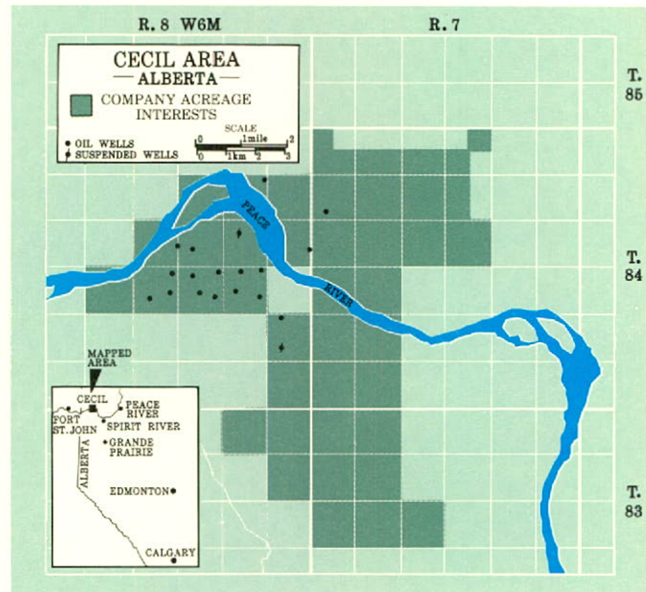
The directional drilling rig in the East Eagle field.

Alberta

During 1987, Scurry-Rainbow was involved in 72 exploratory and 66 development wells in Alberta. The exploratory activity resulted in 35 oil and six gas wells. Development drilling added 53 oil and four gas wells.

The Company participated in a significant oil discovery in the Cecil area of northwestern Alberta. Since January 1987, 19 wells have been drilled on this discovery at an aggregate rate of 1,600 barrels of oil per day. Most of the wells benefit from a five-year royalty holiday offered by the Province as a drilling incentive. Additional step-out wells will be drilled during the 1987/88 winter season and a significant development drilling program is planned for later in the year. The development drilling will be timed to take advantage of a three-year Crown royalty holiday for wells spudded before October 31, 1988. The Company's interest in this new field averages approximately 20 percent.

In the Red Earth/Trout area, Scurry-Rainbow with a 50 percent working interest, drilled two encouraging oil wells. A significant follow-up program is planned in 1988.



An aerial view of the Cecil area with an inset of a drilling rig.

Saskatchewan

In Saskatchewan, Scurry-Rainbow participated in 41 wells, of which 23 were exploratory and 18 were development. Exploratory drilling resulted in seven oil wells, while development drilling yielded 16 oil wells.

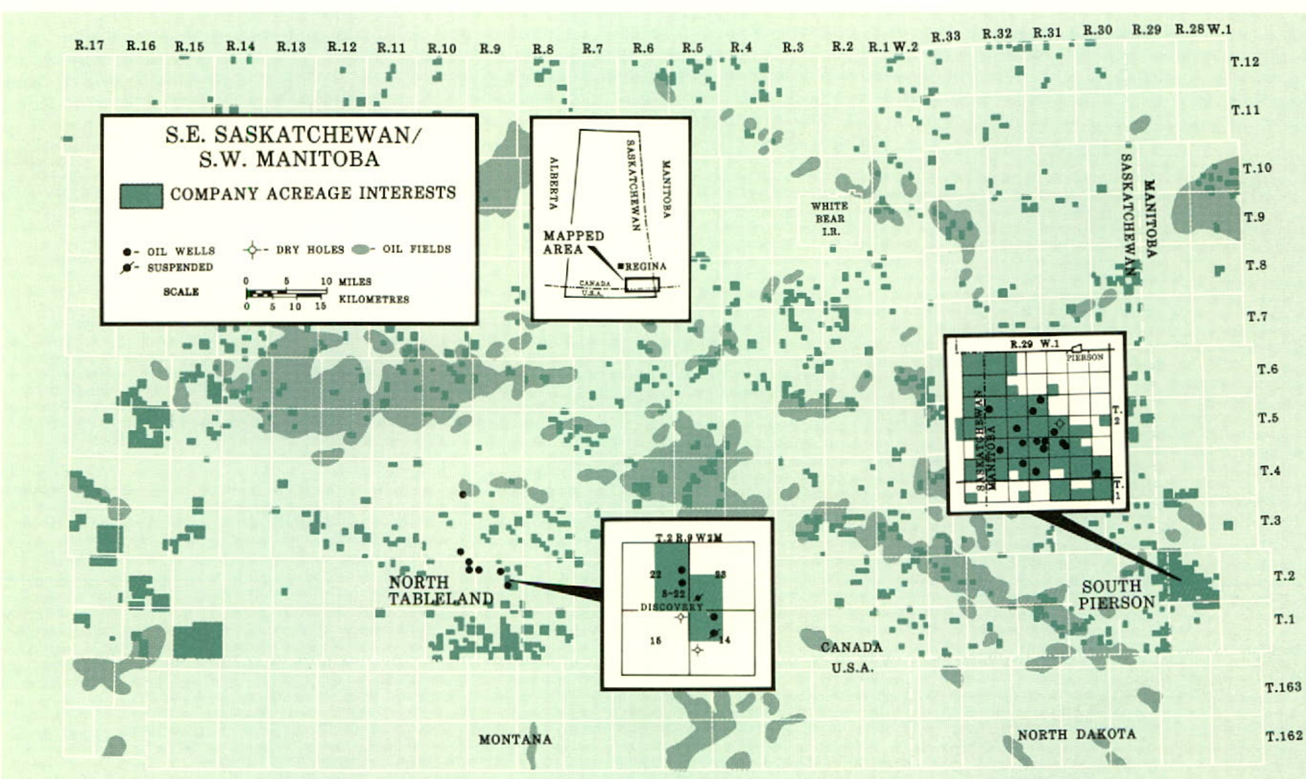
In the Tableland area of southeastern Saskatchewan, the Company was involved in six successful Winnipegosis oil wells, of which five were on new exploration plays and one was a step-out to the original discovery well. Scurry-Rainbow holds interests up to 50 percent in these wells.

Sunset at a drilling location in the North Tableland area.

Manitoba

The Company participated in four exploratory and seven development wells in Manitoba. All of the development wells and three of the exploratory wells are potential oil producers.

In the South Pierson area of southwestern Manitoba, Scurry-Rainbow holds a 33.3 percent interest in two successful development wells which followed up recent exploratory drilling. A seven well development program is planned for this area in early 1988.



Land Position

To strengthen the quality of its landholdings in Western Canada, Scurry-Rainbow more than doubled its expenditures on land acquisitions in 1987. The net acreage acquired in 1987 was 42 percent more than was acquired in 1986. The average working interest held in these lands was 32.8 percent in 1987 compared with 24.2 percent in 1986.

Seismic trucks working southwest of Calgary.

Oil and Gas Landholdings

(December 31, 1987)

	Undeveloped Acreage	
	Gross	Net
Western Provinces		
Alberta	1,937,660	263,044
British Columbia	311,877	72,568
Manitoba	47,052	31,202
Saskatchewan	719,004	625,929
	3,015,593	992,743
Frontiers		
Arctic Islands	44,867	2,378
Beaufort Sea	1,741,301	159,866
	1,786,168	162,244
Total	4,801,761	1,154,987

Undeveloped acreage is defined as exploratory lands on which wells either have not been drilled, or have not been completed sufficiently to permit production.

Gross numbers include the interests of others; net excludes those interests. Overriding royalty interests are included in gross acres, but excluded in net acres.

The table excludes 737,231 gross (101,780 net) acres of developed lands in Western Canada. Developed acreage is defined as lands from which production is being obtained or is capable of being obtained.

Land Purchases

	1987		1986	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	**233,504**	**73,399**	234,927	44,267
British Columbia	**46,130**	**16,398**	22,297	11,631
Manitoba	**8,776**	**2,937**	5,597	2,188
Saskatchewan	**18,453**	**7,887**	29,052	12,676
Total	**306,863**	**100,621**	291,873	70,762

Production/Sales

Scurry-Rainbow achieved record levels of crude oil and natural gas liquids production and natural gas sales during 1987. Production of crude oil and natural gas liquids averaged 9,722 barrels per day, up 12 percent over the previous year.

Oil production increased by 822 barrels per day to 8,600 barrels per day, primarily due to infill wells drilled in the East Eagle area of British Columbia and drilling successes in the adjacent West Stoddart area. Also contributing to the increase were drilling successes in the Cecil, Jenner, Trout and Ronalane areas of Alberta, and the Tableland area of Saskatchewan.

The Company's natural gas liquids production averaged 1,122 barrels per day, up 27 percent from last year. The increase resulted mainly from higher throughputs at the South Wapiti extraction plant in Alberta.

Natural gas sales rose by 18 percent to a record 28.2 million cubic feet per day. This increase was largely attributable to higher sales from the South Wapiti field in Alberta and the West Eagle field in British Columbia.

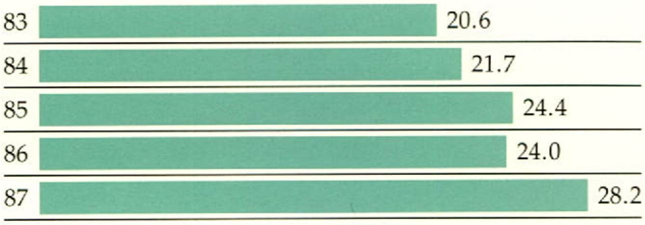
A producing well in the South Wapiti natural gas field.

Average Daily Production/Sales
(before royalties)

	1987		1986	
	Oil and Gas Liquids *(barrels)*	Natural Gas *(thousands of cubic feet)*	Oil and Gas Liquids *(barrels)*	Natural Gas *(thousands of cubic feet)*
Alberta	**2,445**	**22,101**	1,903	18,627
British Columbia	**5,147**	**5,808**	4,776	5,108
Saskatchewan	**1,980**	**287**	1,845	229
Manitoba	**150**	**—**	136	—
Total	**9,722**	**28,196**	8,660	23,964

Average Daily Production of Oil and Gas Liquids
(thousands of barrels)

Average Daily Sales of Natural Gas
(millions of cubic feet)



Proved Reserves

Discoveries and extensions from successful drilling added 2.8 million barrels to proved reserves of crude oil, replacing 91 percent of the 3.1 million barrels produced. Major additions were recorded in the West Stoddart area of British Columbia; the Cecil area of Alberta; and the Tableland area of Saskatchewan. At year end, proved crude oil reserves totalled nearly 20 million barrels.

Natural gas liquids reserves rose by 89 percent to a total of 4.1 million barrels at year end. Discoveries and extensions added 1.5 million barrels compared with sales of 410,000 barrels and upward revisions provided a further 798,000 barrels.

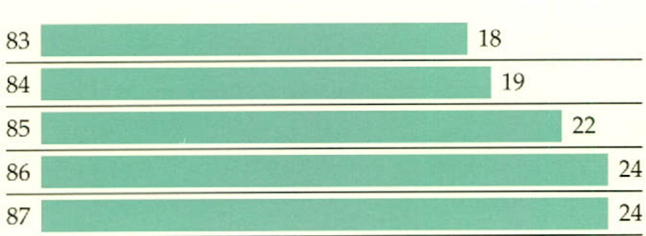
Discoveries and extensions accounted for additions totalling 20.8 billion cubic feet to proved natural gas reserves compared with sales of 10.3 billion cubic feet. Drilling successes were recorded in the Jenner, Karr, Mistahae and Zama areas of Alberta. After downward revisions, proved reserves of natural gas were 206.1 billion cubic feet at year end, relatively unchanged from the previous year.

Proved Reserves
(before royalties)

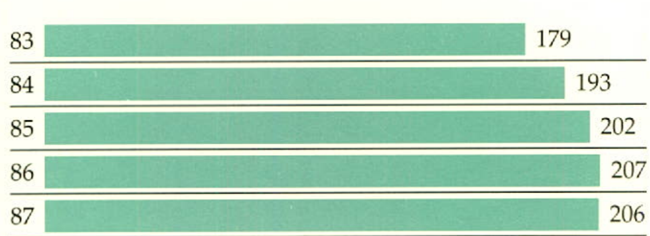
	Crude Oil *(thousands of barrels)*	Natural Gas Liquids *(thousands of barrels)*	Natural Gas *(billions of cubic feet)*	Sulphur *(thousands of long tons)*
January 1, 1987	21,680	2,160	206.6	300.4
Discoveries/Extensions	2,845	1,539	20.8	2.0
Revisions	(1,252)	798	(13.6)	33.6
Sales of minerals in place	(171)	—	(0.8)	—
Purchase of minerals in place	—	—	3.4	—
Production/Sales	(3,139)	(410)	(10.3)	(28.0)
December 31, 1987	19,963	4,087	206.1	308.0

Proved reserves are the estimated quantities of crude oil, natural gas liquids, natural gas and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The reserve estimates are prepared by parent Company engineers and are reviewed by external independent engineering consultants.

Proved Reserves of Oil and Gas Liquids
(millions of barrels)



Proved Reserves of Natural Gas
(billions of cubic feet)



Financial Review

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

The Company changed its financial year end to December 31 to coincide with that of its parent, Home Oil Company Limited. The last fiscal period covered the three months ended December 31, 1986. To provide more meaningful comparisons, however, results for the year ended December 31, 1986 are included in the Five-Year Financial and Operating Reviews. Accordingly, Management's Discussion relates to the years ended December 31, 1987 and 1986, and September 30, 1985 and should be read in conjunction with the Consolidated Financial Statements, Supplementary Information, and the Five-Year Financial and Operating Reviews.

Earnings

The Company's 1987 earnings, benefiting from higher crude oil prices, and increased oil and gas production, were $23.1 million, up from $14.9 million recorded in 1986. Earnings for the year ended September 30, 1985 were influenced by historically high prices and amounted to $30.1 million. Earnings per share were $1.72 in 1987 compared with $1.11 in 1986 and $2.25 for the year ended September 30, 1985.

The rate of return on average common shareholders' equity was 11.8 percent compared with 8.1 percent and 18.9 percent in 1986 and 1985 respectively. The Company continues to produce one of the highest shareholder returns earned by an intermediate oil and gas company.

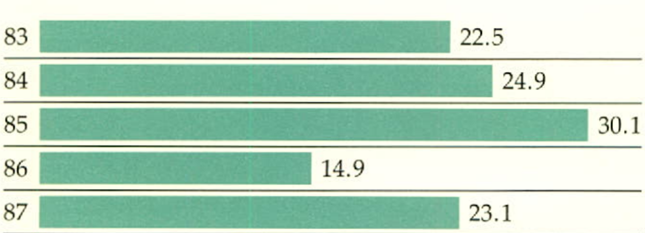
Revenue

Strengthened crude oil prices in 1987, coupled with higher production, served to increase oil revenue to $57.2 million, up $14.6 million from 1986, but down from the record $68.1 million for the year ended September 30, 1985. Oil prices averaged $22.20 per barrel in 1987 compared with $18.59 in 1986 and $34.26 for the year ended September 30, 1985. As a result of successful drilling and optimization programs, oil production has increased steadily over the past three years to an average of 8,600 barrels per day in 1987 compared with 7,778 in 1986 and 7,101 for the year ended September 30, 1985.

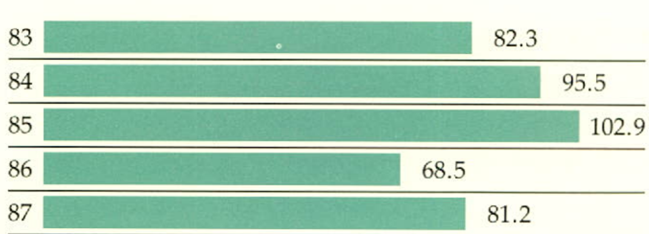
Natural gas prices fell for the third consecutive year, however, volumes were up resulting in gas revenue of $14.2 million, down marginally from 1986 and $6.3 million less than the record revenue established during the year ended September 30, 1985. Natural gas prices averaged $1.69 per thousand cubic feet in 1987, $2.15 in 1986, and $2.73 for the year ended September 30, 1985. Declining natural gas prices have resulted from deregulation of markets and prices on November 1, 1986, industry's excess deliverability to North American markets, and aggressive direct selling of gas by Canadian producers. With this downward trend in prices, gas volumes increased to 28.2 million cubic feet per day in 1987 from 24.4 million cubic feet per day in 1985.

Natural gas liquids revenue increased slightly during 1987 as price declines were offset by increased production from the liquids extraction plant in the Wapiti area of Alberta. This plant commenced production during 1986.

Net Earnings
(millions of dollars)



Revenue
(millions of dollars)



During 1987, provincial governments in Western Canada revised their royalty systems. In January, Saskatchewan made its royalty system more sensitive to price fluctuations. In June, British Columbia introduced one to three year royalty holidays for exploratory and development gas wells spudded before July 1990. The length of the holiday depends on the depth and location of the well. Effective January 1, 1988, Alberta royalty rates on natural gas will be calculated on the basis of a monthly average market price. Any gas sales at less than 80 percent of the average market price will be deemed for royalty purposes to have been sold at 80 percent of this price.

Expenses and Taxes

Operating, general and administrative expenses of $16.9 million were unchanged from 1986 and down marginally from 1985. Cost reductions were due to lower mineral taxes, the consequence of reduced oil prices, and the favorable settlement of a gas plant cost-of-service dispute. The cost reductions were largely offset by the cost of operating more wells. As a result of increased production levels and higher finding and developing costs, depletion and depreciation has increased approximately 20 percent per year for the past two years. Depletion rates per barrel of oil equivalent averaged $4.31 in 1987 compared to $4.12 in 1986 and $3.82 for the year ended September 30, 1985.

Income tax rates increased 17 percent during the three year period and averaged 49.9 percent during 1987. The increases reflect the implementation of a federal surtax, a four percent increase in the Alberta income tax rate, a change in the accounting treatment of investment tax credits, and the phase out of earned depletion.

The Petroleum and Gas Revenue Tax was reduced from 12 percent to 10 percent on January 1, 1986 and cancelled effective October 1, 1986.

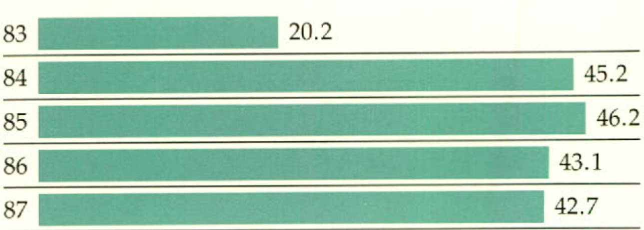
In December, 1987, the Minister of Finance tabled a Notice of Ways and Means motion and other draft legislation in the House of Commons outlining tax reform measures. Under these measures the federal income tax rate after provincial abatement will decrease from 35 percent to 28 percent, effective July 1, 1988. The three percent federal surtax will remain in place until planned changes to the federal sales tax have been implemented.

Capital Expenditures

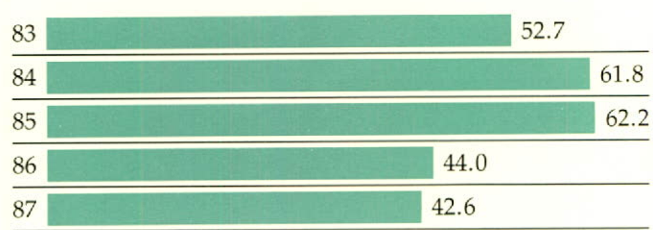
The Company continued its high level of development and exploration expenditures during 1987 with an outlay of $42.7 million, essentially unchanged from 1986 and $3.5 million lower than the year ended September 30, 1985.

Development expenditures totalled $11.4 million, down $5.8 million from 1986 mainly due to reduced waterflood and infill drilling programs in northeastern British Columbia.

Net Capital Expenditures
(millions of dollars)



Cash from Operations
(millions of dollars)



Drilling in Western Canada and land acquisitions dominated the 1987 exploration program, accounting for $31 million of the program expenditures. Exploration virtually ceased in the Beaufort Sea with the termination of the Petroleum Incentives Program (PIP).

In March of 1987, the federal government announced the Canadian Exploration and Development Incentive Program to stimulate the oil and gas industry. Under this program, eligible exploration and development expenditures up to $10 million per year, incurred after April 1, 1987, qualify for a grant of 33⅓ percent. With the advent of tax reform, the incentive rate will be reduced to 16⅔ percent on October 1, 1988. The program is scheduled to expire in December 1989.

Cash From Operations and Corporate Liquidity

Cash from operations in 1987 remained virtually unchanged from the prior year. Increased revenue was offset by higher current taxes caused by the receipt of PIP grants which reduced deductions available for tax purposes. Cash generated in 1986 was lower than in the preceding year due to reduced prices.

In 1987 the Company paid $6.7 million of dividends on its common shares ($0.50 per share) unchanged from the prior year when dividends commenced.

The Company remains in a strong financial position with working capital of $50.4 million, no long-term debt, and an unused line of credit of $15.0 million with a major commercial bank.

Consolidated Statement of Financial Position

	December 31, 1987	1986
	(thousands of dollars)	
Assets		
Current Assets		
Cash and short-term investments	**$ 14,887**	$ 16,676
Advances to parent company (Note 10)	**52,050**	27,500
Accounts receivable		
Trade	**14,366**	9,699
Petroleum incentives program	**1,813**	25,535
Inventories, at lower of cost and net realizable value	**628**	646
	83,744	80,056
Investments and Other Assets	**3,876**	4,418
Property, Plant and Equipment (Note 3)	**247,104**	230,253
	$334,724	$314,727
Liabilities		
Current Liabilities		
Accounts payable	**$ 9,838**	$ 9,519
Taxes payable	**13,428**	4,960
Due to parent company	**2,327**	2,242
Dividends payable	**3,502**	3,430
Current portion of deferred production revenue	**239**	259
Current portion of long-term debt	**3,990**	129
	33,324	20,539
Deferred Production Revenue (Note 4)	**3,206**	3,683
Long-Term Debt (Note 5)	**—**	3,995
Deferred Income Taxes	**94,298**	99,018
Shareholders' Equity		
Capital Stock (Note 7)	**10,922**	10,922
Contributed Surplus	**23,334**	23,334
Retained Earnings	**169,640**	153,236
	203,896	187,492
	$334,724	$314,727

Approved by the Board

R.J. Haskayne

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Consolidated Statement of Earnings and Retained Earnings

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
	(thousands of dollars, except per share amounts)			
Revenue				
Operating	**$ 77,860**	$ 15,123	$ 73,764	$ 94,567
Other (Note 10)	**3,338**	937	5,888	8,315
	81,198	16,060	79,652	102,882
Expense				
Operating	**13,161**	3,220	14,304	13,765
General and administrative	**3,714**	807	2,762	3,535
Depletion and depreciation (Note 3)	**24,064**	5,110	20,166	16,942
Interest (Note 5)	**326**	196	669	420
Minority interest (Note 6)	**—**	—	—	372
	41,265	9,333	37,901	35,034
Earnings before Taxes	**39,933**	6,727	41,751	67,848
Taxes (Note 8)	**16,798**	2,519	23,997	37,716
Net Earnings	**23,135**	4,208	17,754	30,132
Retained Earnings at Beginning of Period	**153,236**	152,394	141,371	111,239
	176,371	156,602	159,125	141,371
Dividends	**6,731**	3,366	6,731	—
Retained Earnings at End of Period	**$169,640**	$153,236	$152,394	$141,371
Earnings Per Share	**$ 1.72**	$ 0.31	$ 1.32	$ 2.25

Consolidated Statement of Changes in Financial Position

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
	(thousands of dollars)			
Operating Activities				
Cash generated from operations				
Net earnings	**$ 23,135**	$ 4,208	$ 17,754	$ 30,132
Charges (credits) not affecting cash				
Depletion and depreciation	**24,064**	5,110	20,166	16,942
Deferred income taxes	**(4,720)**	3,222	7,907	14,890
Other	**141**	(51)	151	249
	42,620	12,489	45,978	62,213
Deferred production revenue	**(497)**	(23)	(121)	(409)
Change in non-cash working capital	**28,017**	4,130	(9,848)	23,722
	70,140	16,596	36,009	85,526
Investment Activities				
Additions to property, plant and equipment	**(42,698)**	(8,395)	(45,785)	(46,236)
Disposal of property, plant and equipment	**1,792**	167	1,441	255
Purchase of minority interest	**—**	—	—	(5,904)
Other	**392**	7	624	702
	(40,514)	(8,221)	(43,720)	(51,183)
Net Cash before Financing	**29,626**	8,375	(7,711)	34,343
Financing Activities				
Issue of common shares	**—**	—	—	1,548
Long-term debt retirement	**(134)**	(10)	(52)	(2,540)
Dividends	**(6,731)**	(3,366)	(6,731)	—
	(6,865)	(3,376)	(6,783)	(992)
Increase (Decrease) in Cash	**22,761**	4,999	(14,494)	33,351
Cash at Beginning of Period	**44,176**	39,177	53,671	20,320
Cash at End of Period	**$ 66,937**	$ 44,176	$ 39,177	$ 53,671

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

Consolidated Statement of Changes in Non-Cash Working Capital

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
	(thousands of dollars)			
Changes in Non-Cash Working Capital				
Accounts receivable				
Trade	**$ (4,667)**	$ 2,236	$ 1,801	$ 1,057
Petroleum incentives program	**23,722**	3,109	6,164	6,934
Inventories	**18**	1	51	364
Accounts payable	**319**	(1,997)	(10,087)	3,895
Taxes payable	**8,468**	(1,819)	(8,055)	10,125
Due to parent company	**85**	(765)	213	1,347
Dividends payable	**72**	3,365	65	—
Decrease (Increase) in Non-Cash Working Capital	**$28,017**	$ 4,130	$ (9,848)	$23,722

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

Auditors' Report

To the Shareholders of Scurry-Rainbow Oil Limited

We have examined the consolidated statement of financial position of Scurry-Rainbow Oil Limited as at December 31, 1987 and 1986 and the consolidated statements of earnings and retained earnings, changes in financial position and changes in non-cash working capital for the year ended December 31, 1987, three months ended December 31, 1986 and for the years ended September 30, 1986 and 1985. 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, 1987 and 1986 and the results of its operations and the changes in its financial position for the year ended December 31, 1987, the three months ended December 31, 1986 and for the years ended September 30, 1986 and 1985 in accordance with Canadian generally accepted accounting principles, consistently applied.

Price Waterhouse

Chartered Accountants

Calgary, Alberta, Canada
February 8, 1988

Notes to 1987 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 percent-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 exploration and production activities are conducted jointly with the parent company and other companies. 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 non-producing property, costs of drilling both productive and non-productive 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 estimated future financing, administrative and income tax expenses. Costs are depleted using the unit of production method based upon estimated proved reserves, before royalties, as determined by parent Company engineers. Natural gas reserves and sales are converted to equivalent volumes of crude oil based on relative energy content. 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. Proceeds of disposals are generally credited to cost and no gains or losses are recognized unless such disposals constitute a major disposition.

Depreciation of buildings 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.

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. PROPERTY, PLANT AND EQUIPMENT

	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**

	December 31, 1986		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties and equipment	$366,661	$140,014	$226,647
Mining properties and equipment			
Developed	4,603	2,894	1,709
Undeveloped	2,407	625	1,782
Other	538	423	115
	$374,209	$143,956	$230,253

Costs of petroleum and natural gas properties at December 31, 1987 have been reduced by government incentives of $136,544,000 (December 31, 1986 — $133,503,000). Exploration and development expenditures for the year ended December 31, 1987, have been reduced by government incentives of $3,041,000 (three months ended December 31, 1986 — $702,000; year ended September 30, 1986 — $21,552,000; year ended September 30, 1985 — $34,060,000).

Oil and gas depletion and depreciation expense per equivalent unit of production for the year ended December 31, 1987, amounted to $4.31 per barrel (three months ended December 31, 1986 — $4.07; year ended September 30, 1986 — $4.13; year ended September 30, 1985 — $3.82).

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 $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.

4. DEFERRED PRODUCTION REVENUE

Amounts paid to the Company by purchasers, for annual contracted gas volumes not taken, are recorded as deferred production revenue. These amounts will be reported as revenue when the gas to which the payments relate is delivered to the purchaser. Deliveries or repayments are to be made over a maximum 10 year period ending in 1994.

5. LONG-TERM DEBT

	Maturity	December 31, 1987	1986
7.25% Subordinated debentures	1988	**$3,990**	$4,124
Less: Current portion		**3,990**	129
		$ —	$3,995

Interest on long-term debt for the year ended December 31, 1987 amounted to $303,000 (three months ended December 31, 1986 — $78,000; year ended September 30, 1986 — $312,000; year ended September 30, 1985 — $317,000).

As at December 31, 1987, the Company had an unused bank line of credit of $15 million, which upon drawdown would bear interest at the prevailing market rate.

6. PURCHASE OF MINORITY INTEREST

As of July 22, 1985, the Company acquired the 27.8 percent minority interest in its subsidiary company, Plains Petroleums Limited ("Plains"), and subsequently amalgamated Plains with the Company. The minority shareholders were given the option of exchanging 22 common shares of Plains for one common share of the Company or receiving one dollar for each common share of Plains. The acquisition price of $5,904,000 was settled by payment of $4,356,000 cash and issuance of 70,349 common shares of the Company valued at $1,548,000. This transaction gave rise to $3,165,000 in excess costs which have been allocated to property, plant and equipment.

7. CAPITAL STOCK

The authorized capital stock of the Company consists of 100 million preferred shares, without par value, and 200 million common shares, without par value. As at December 31, 1987 and 1986, the Company had 13,462,129 common shares issued and outstanding.

8. TAXES

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Income taxes				
Current	**$24,633**	$ 34	$13,359	$14,169
Deferred	**(4,720)**	3,222	7,907	14,890
	19,913	3,256	21,266	29,059
Petroleum and gas revenue tax	**(116)**	19	5,081	10,970
Alberta royalty tax credit	**(2,999)**	(756)	(2,350)	(2,313)
	$16,798	$ 2,519	$23,997	$37,716
Total taxes as a percentage of pretax earnings	**42.1%**	37.4%	57.5%	55.6%

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

The income tax provision differs from the amounts computed by applying the Canadian statutory federal income tax rate of 45.5 percent for the year ended December 31, 1987 (46 percent for previous periods) to pretax earnings. These differences result from the following:

	Year ended December 31,	Three months ended December 31,	Year ended September 30,	
	1987	**1986**	**1986**	**1985**
Earnings before taxes	**$39,933**	$ 6,727	$41,751	$67,848
Computed "expected" income taxes	**$18,170**	$ 3,095	$19,205	$31,210
Royalties and other non-deductible payments to provincial governments	**6,468**	1,423	7,883	10,553
Federal resource allowance	**(7,505)**	(1,430)	(7,349)	(10,079)
Manufacturing and processing allowance	**(863)**	(6)	(866)	(1,079)
Investment tax credits	**—**	—	—	(2,103)
Provincial income taxes, net of federal income tax abatement	**2,167**	210	1,267	2,274
Other	**1,476**	(36)	1,126	(1,717)
Income taxes	**$19,913**	$ 3,256	$21,266	$29,059
Effective income tax rate	**49.9%**	48.4%	50.9%	42.8%

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 percent of the issued and outstanding shares of the Company. During the year ended December 31, 1987, Home provided certain management, accounting, administrative, technical and other services to the Company at cost, which amounted to $11,112,000 (three months ended December 31, 1986 — $2,783,000; year ended September 30, 1986 — $11,020,000; year ended September 30, 1985 — $10,216,000). Of this amount, $7,644,000 has been capitalized and allocated to property, plant and equipment (three months ended December 31, 1986 — $1,913,000; year ended September 30, 1986 — $7,913,000; year ended September 30, 1985 — $7,002,000).

Advances to parent company carry interest at one-sixteenth percent above the cost of funds in the commercial paper market or bankers' acceptances on the same basis and are repayable on demand. Interest received from the parent company for the year ended December 31, 1987, amounted to $3,249,000 (three months ended December 31, 1986 — $524,000; year ended September 30, 1986 — $2,705,000; year ended September 30, 1985 — $4,963,000).

11. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles presently agree with those applicable in the United States. In December 1987, the Financial Accounting Standards Board in the United States issued a revised statement on "Accounting for Income Taxes" which will require companies to recognize current changes in tax rates in recording their deferred tax liabilities beginning in 1989.

Unaudited Supplementary Information

(a) SELECTED QUARTERLY FINANCIAL DATA

	Quarter ended			
	December 31, 1987	**September 30, 1987**	**June 30, 1987**	**March 31, 1987**
Revenue	**$22,011**	**$20,035**	**$19,449**	**$19,703**
Gross margin	**$16,999**	**$15,422**	**$16,343**	**$15,559**
Net earnings	**$ 5,419**	**$ 5,666**	**$ 6,201**	**$ 5,849**
Earnings per share	**$ 0.40**	**$ 0.42**	**$ 0.47**	**$ 0.43**

	Quarter ended			
	December 31, 1986	**September 30, 1986**	**June 30, 1986**	**March 31, 1986**
Revenue	$16,060	$14,465	$14,221	$23,751
Gross margin	$12,033	$ 9,956	$ 9,861	$19,769
Net earnings	$ 4,208	$ 2,975	$ 2,124	$ 5,571
Earnings per share	$ 0.31	$ 0.22	$ 0.16	$ 0.41

	Quarter ended December 31, 1985
Revenue	$27,215
Gross margin	$23,000
Net earnings	$ 7,084
Earnings per share	$ 0.53

(b) 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".

Capitalized Costs

	December 31,		September 30,	
	1987	**1986**	**1986**	**1985**
Petroleum and natural gas properties	**$406,210**	$366,661	$358,487	$314,288
Accumulated depletion and depreciation	**(161,799)**	(140,014)	(135,226)	(116,277)
Net capitalized costs	**$244,411**	$226,647	$223,261	$198,011

Costs Incurred

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Acquisition of unproved properties	**$ 7,574**	$ 753	$ 3,427	$ 5,203
Exploration	**23,344**	5,009	22,969	24,994
Development	**11,399**	2,576	19,250	15,741
	$42,317	$ 8,338	$45,646	$45,938

Results of Operations

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Revenue, net of royalties	**$77,860**	$15,123	$73,764	$94,567
Production costs	**13,161**	3,220	14,304	13,765
Petroleum and gas revenue tax	**(116)**	19	5,081	10,970
Depletion and depreciation	**22,836**	4,801	18,985	16,240
	35,881	8,040	38,370	40,975
Income before income taxes from oil and gas operations	**41,979**	7,083	35,394	53,592
Income taxes (net of Alberta royalty tax credit)	**17,147**	2,870	17,929	23,733
Results of oil and gas operations (excluding administrative overhead and interest costs)	**$24,832**	$ 4,213	$17,465	$29,859

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 which were calculated on the basis of royalty regulations in effect on the dates the estimates were made. Federal and provincial government royalty rates vary depending on price, production volume and the timing of initial production.

Crude Oil and Natural Gas Liquids
(thousands of barrels)

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Proved Reserves				
Beginning of period	**19,868**	20,322	16,950	14,225
Revisions of previous estimates and improved recovery	**(270)**	180	1,621	2,182
Extensions and discoveries	**3,773**	30	4,180	2,640
Production	**(2,976)**	(664)	(2,429)	(2,097)
End of period	**20,395**	19,868	20,322	16,950
Proved Developed Reserves				
Beginning of period	**19,773**	20,220	16,834	14,202
End of period	**19,674**	19,773	20,220	16,834

Natural Gas
(billions of cubic feet)

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Proved Reserves				
Beginning of period	**171**	167	167	145
Revisions of previous estimates and improved recovery	**(16)**	5	(3)	15
Extensions and discoveries	**19**	—	10	14
Production	**(8)**	(1)	(7)	(7)
End of period	**166**	171	167	167
Proved Developed Reserves				
Beginning of period	**157**	150	152	133
End of period	**144**	157	150	152

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

Future cash inflows are computed by applying period-end prices to period-end quantities of proved oil and gas reserves. Future development costs, production costs, Petroleum and Gas Revenue Tax (PGRT), and income taxes (net of Alberta royalty tax credit), are deducted from future cash inflows to arrive at future net cash flows. Future development and production costs are based on period-end costs and assume continuation of existing economic and operating conditions. Future PGRT, calculated as at September 30, 1985 was based on rates and regulations in effect at that date; the tax was terminated effective October 1, 1986. 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 percent per annum to arrive at discounted future net cash flows.

The Company cautions that the standardized measure of discounted future net cash flows from proved oil and gas reserves is not an indication of fair market value of the Company's oil and gas properties. The standardized measure does not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor gives consideration 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 percent may not appropriately reflect future interest rates.

	December 31,		September 30,	
	1987	**1986**	**1986**	**1985**
Future cash inflows	**$701,552**	$800,810	$816,447	$1,056,934
Future costs				
Production	**(137,025)**	(199,539)	(202,452)	(210,502)
Development	**(14,428)**	(16,662)	(17,180)	(35,477)
PGRT	**—**	—	—	(22,254)
Future pretax cash flows	**550,099**	584,609	596,815	788,701
Future income taxes	**(176,400)**	(190,897)	(187,577)	(328,631)
Future net cash flows	**373,699**	393,712	409,238	460,070
10% annual discount for timing of future cash flows	**(150,762)**	(175,294)	(194,123)	(270,597)
Discounted future net cash flows	**$222,937**	$218,418	$215,115	$ 189,473

Changes in Standardized Measure of Discounted Future Net Cash Flows

	Year ended December 31, 1987	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985
Revisions to reserves proved in prior periods				
Revisions of previous quantity and timing estimates	**$ (267)**	$ 16,746	$ 51,647	$ 6,759
Net changes in prices, net of production costs and PGRT	**(9,708)**	(5,851)	(143,158)	83,392
Termination of PGRT	**—**	—	16,503	—
Net changes in future development costs	**(1,407)**	(127)	2,800	(19,615)
Other	**(9,538)**	(360)	(43)	110
Accretion of discount	**32,148**	7,843	35,449	27,181
	11,228	18,251	(36,802)	97,827
Changes during the period				
Extensions, discoveries and improved recovery, net of related costs	**45,515**	673	37,919	45,702
Previously estimated development costs incurred during the period	**4,333**	721	12,484	8,989
Sales of oil and gas produced, net of production costs and PGRT	**(64,815)**	(11,884)	(54,379)	(69,832)
	(14,967)	(10,490)	(3,976)	(15,141)
Total revisions and changes before income taxes	**(3,739)**	7,761	(40,778)	82,686
Net changes in income taxes	**8,258**	(4,458)	66,420	(39,954)
Total revisions and changes	**4,519**	3,303	25,642	42,732
Discounted future net cash flows, at beginning of period	**218,418**	215,115	189,473	146,741
Discounted future net cash flows, at end of period	**$222,937**	$218,418	$215,115	$189,473

Five-Year Financial Review

(Expressed in thousands of dollars except per share amounts)	Year ended December 31,		Three months ended December 31,	Year ended September 30,			
	1987	1986	1986	1986	1985	1984	1983
Statement of Earnings							
Revenue							
Crude oil	**$ 57,193**	$ 42,585	$ 10,807	$ 49,496	$ 68,137	$ 67,356	$ 57,056
Natural gas	**14,204**	14,952	2,937	17,213	20,461	18,722	17,943
Natural gas liquids	**4,561**	3,940	632	4,612	3,038	3,036	2,599
Sulphur	**1,902**	2,505	747	2,443	2,931	1,317	1,381
Other	**3,338**	4,515	937	5,888	8,315	5,077	3,367
	81,198	68,497	16,060	79,652	102,882	95,508	82,346
Expense							
Operating and general	**16,875**	16,878	4,027	17,066	17,300	15,750	14,437
Depletion and depreciation	**24,064**	20,297	5,110	20,166	16,942	15,715	15,029
Other	**326**	740	196	669	792	965	1,040
	41,265	37,915	9,333	37,901	35,034	32,430	30,506
Earnings before taxes	**39,933**	30,582	6,727	41,751	67,848	63,078	51,840
Taxes	**16,798**	15,704	2,519	23,997	37,716	38,180	29,377
Net earnings	**$ 23,135**	$ 14,878	$ 4,208	$ 17,754	$ 30,132	$ 24,898	$ 22,463
Earnings per share	**$ 1.72**	$ 1.11	$ 0.31	$ 1.32	$ 2.25	$ 1.86	$ 1.68
Statement of Changes in Financial Position							
Cash from operations	**$ 42,620**	$ 44,029	$ 12,489	$ 45,978	$ 62,213	$ 61,831	$ 52,704
Deferred production revenue	**(497)**	(125)	(23)	(121)	(409)	1,635	941
Change in non-cash working capital	**28,017**	3,843	4,130	(9,848)	23,722	(20,823)	(14,872)
Investment activities	**(40,514)**	(40,929)	(8,221)	(43,720)	(51,183)	(44,402)	(15,513)
Dividends	**(6,731)**	(6,731)	(3,366)	(6,731)	—	—	—
Financing activities	**(134)**	(36)	(10)	(52)	(992)	(730)	(1,487)
Increase (decrease) in cash (1)	**$ 22,761**	$ 51	$ 4,999	$(14,494)	$ 33,351	$ (2,489)	$ 21,773
Cash from operations per share	**$ 3.17**	$ 3.27	$ 0.93	$ 3.42	$ 4.64	$ 4.62	$ 3.94
Net Capital Expenditures							
Oil and gas							
Land acquisition	**$ 7,574**	$ 3,580	$ 753	$ 3,427	$ 5,203	$ 4,421	$ 773
Exploration	**23,344**	22,087	5,009	22,969	24,994	23,194	9,760
Development	**11,399**	17,218	2,576	19,250	15,741	17,438	9,355
	42,317	42,885	8,338	45,646	45,938	45,053	19,888
Other	**381**	227	57	139	298	139	315
	$ 42,698	$ 43,112	$ 8,395	$ 45,785	$ 46,236	$ 45,192	$ 20,203
Working capital	**$ 50,420**	$ 59,517	$ 59,517	$ 58,777	$ 63,427	$ 53,877	$ 35,688
Total assets	**$334,724**	$314,727	$314,727	$312,431	$312,503	$256,600	$211,535
Long-term debt (including current portion)	**$ 3,990**	$ 4,124	$ 4,124	$ 4,134	$ 4,189	$ 6,897	$ 7,720
Shareholders' equity	**$203,896**	$187,492	$187,492	$186,650	$175,627	$143,947	$119,049
Shares outstanding at end of year	**13,462,129**	13,462,129	13,462,129	13,462,129	13,462,129	13,391,780	13,391,780
Dividends per share	**$ 0.50**	$ 0.50	$ 0.25	$ 0.50	$ —	$ —	$ —
Return on average shareholders' equity	**11.8%**	8.1%	8.9%	9.8%	18.9%	18.9%	20.8%

(1) Cash is defined as cash and short-term investments and advances to parent company, less bank indebtedness.

Five-Year Operating Review

	Year ended December 31, 1987	Year ended December 31, 1986	Three months ended December 31, 1986	Year ended September 30, 1986	Year ended September 30, 1985	Year ended September 30, 1984	Year ended September 30, 1983
Production/Sales Data							
Crude oil							
— barrels per day	**8,600**	7,778	8,001	7,543	7,101	7,304	7,227
— average price per barrel	**$22.20**	$ 18.59	$ 17.78	$ 22.77	$34.26	$33.42	$29.16
— average royalty rate	**17.9%**	19.3%	17.4%	21.1%	23.3%	24.6%	26.1%
Natural gas liquids							
— barrels per day	**1,122**	882	821	849	369	405	371
— average price per barrel	**$12.58**	$ 14.48	$ 9.71	$ 17.76	$28.37	$26.92	$24.82
— average royalty rate	**11.5%**	15.5%	13.8%	16.2%	20.6%	23.8%	22.2%
Natural gas							
— thousands of cubic feet per day	**28,196**	23,964	23,557	24,845	24,391	21,711	20,622
— average price per thousand cubic feet	**$ 1.69**	$ 2.15	$ 1.71	$ 2.37	$ 2.73	$ 2.84	$ 2.80
— average royalty rate	**18.2%**	20.6%	20.9%	19.7%	16.0%	16.9%	14.9%
Sulphur							
— long tons per day	**76**	58	81	58	104	67	62
— average price per long ton	**$81.51**	$140.37	$116.45	$134.00	$90.23	$63.74	$67.10
— average royalty rate	**16.1%**	16.0%	14.4%	14.6%	14.4%	15.3%	9.6%
Drilling Activity *(working interest wells)*							
Gross exploratory							
Oil	**45**	51	18	46	65	31	4
Gas	**8**	29	6	30	51	23	1
Dry	**50**	57	10	66	94	59	4
Gross development							
Oil	**82**	136	29	156	129	102	28
Gas	**6**	12	3	13	27	22	7
Dry	**13**	28	5	28	47	35	9
Total	**204**	313	71	339	413	272	53
Net exploratory							
Oil	**8.15**	7.08	3.64	4.56	6.68	5.07	1.20
Gas	**2.09**	1.73	0.68	1.30	2.69	2.23	0.08
Dry	**10.03**	5.82	1.65	6.34	5.25	4.99	1.49
Net development							
Oil	**7.43**	15.82	2.56	17.67	9.40	15.81	6.87
Gas	**1.37**	0.91	0.19	0.80	0.74	0.61	0.42
Dry	**5.01**	5.74	1.11	4.73	4.24	2.45	1.87
Total	**34.08**	37.10	9.83	35.40	29.00	31.16	11.93
Proved Reserves *(before royalties)*							
Crude oil							
— thousands of barrels	**19,963**	21,680	21,680	22,064	19,675	17,203	15,945
Natural gas liquids							
— thousands of barrels	**4,087**	2,160	2,160	2,214	2,183	1,975	1,610
Natural gas							
— billions of cubic feet	**206.1**	206.6	206.6	207.2	201.5	192.8	178.9
Sulphur							
— thousands of long tons	**308.0**	300.4	300.4	304.6	324.0	340.7	366.9
Oil and Gas Landholdings *(thousands of acres)*							
Gross Undeveloped	**4,802**	5,345	5,345	5,943	4,424	3,388	3,561
Net Undeveloped	**1,155**	1,154	1,154	1,217	1,143	1,072	1,350
Gross Developed	**737**	646	646	623	639	776	730
Net Developed	**102**	94	94	96	97	131	124

Share Information

Prices

	Toronto Stock Exchange (Cdn. dollars) High	Toronto Stock Exchange (Cdn. dollars) Low	American Stock Exchange (U.S. dollars) High	American Stock Exchange (U.S. dollars) Low
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**
Year Ended December 31, 1986				
1st quarter	22⅞	15	16⅝	10½
2nd quarter	20½	18¾	15⅛	13⅜
3rd quarter	20¼	18¾	15	13¼
4th quarter	19¼	17	13⅞	12¼

At December 31, 1987, the Company had 13,462,129 common shares issued and outstanding, held by 3,551 shareholders.

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

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 Interprovincial Pipe Line Limited, Home Oil Company Limited and of the Company.

Robert K. Heule, Oakville, Ontario.
Chairman of Interprovincial Pipe Line Limited.

+ **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 Interprovincial Pipe Line Limited.

+ **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

D. R. Martin
Vice President Corporate Affairs

A. R. Hagerman
Treasurer

R. M. Perrin
Corporate Secretary

Principal Affiliate

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P.O. Box 2850
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Auditors

Price Waterhouse
Calgary, Alberta.

Stock Transfer Agent and Registrar

Guaranty Trust Company of Canada.
Calgary, Toronto, Montreal & Vancouver.

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

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