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Scurry-Rainbow Oil Limited

Annual Report 1980



Scurry-Rainbow Oil Limited

Head Office: 2300 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta T2P 2Z5

Board of Directors

+ ROBERT G. BLACK, Q.C., *Calgary, Alberta*
Barrister and Solicitor.

J. HOWARD GEDDES, *Calgary, Alberta*
Group Vice-President, Operations,
of Home Oil Company Limited.
Group Vice-President, Operations, of the Company.

ANTHONY G.S. GRIFFIN, *Toronto, Ontario*
Corporate Director.

*+ J. GORDON HUTCHISON, F.C.A.,
Calgary, Alberta
Financial Consultant.

*+ JOHN F. LANGSTON, *Calgary, Alberta*
Petroleum Engineer.

* A.M. McINTOSH, *Calgary, Alberta*
President and Chief Executive Officer and
Director of Home Oil Company Limited.
President and Chief Executive Officer of the Company.

WILLIAM H. WADDELL, *Calgary, Alberta*
Group Vice-President, Exploration, of
Home Oil Company Limited.
Group Vice-President, Exploration, of the Company.

WILLIAM P. WILDER, *Toronto, Ontario*
President and Chief Executive Officer and
Director of Hiram Walker-Consumers Home Ltd.

+ Member of Audit Committee

* Member of Executive Committee

Senior Officers

A.M. McINTOSH
President and Chief Executive Officer

J.H. GEDDES
Group Vice-President, Operations

W.H. WADDELL
Group Vice-President, Exploration

H. ALFARO
Vice-President, Oil and Gas Production

D.E. DEAKIN
Vice-President, Finance

G. LOKHORST
Vice-President, Mining

R.G. WATKINS
Vice-President, Corporate Development

T.S. HOAR
Corporate Secretary

E. JORGENSEN
Treasurer

G.K. PALMER
Comptroller

Registrar and Transfer Agents

Guaranty Trust Company of Canada
Calgary, Toronto, Montreal, Vancouver
The Canadian Bank of Commerce Trust Company
New York, N.Y.

Stock Exchange Listings

Toronto Stock Exchange
Vancouver Stock Exchange
American Stock Exchange

Annual and Extraordinary General Meeting

The Annual and Extraordinary General Meeting of Shareholders will be held on Friday, February 6, 1981 at 9:30 a.m. at the head office of the Company in Calgary, Alberta. Formal notice of this meeting and proxy material have been mailed to all registered shareholders with this report.

The Company files annually with the United States Securities and Exchange Commission, a report on its operations known as the Annual Report on Form 10-K. Copies of the SEC Form 10-K are available to shareholders free of charge upon written request to G. K. Palmer, Comptroller, Scurry-Rainbow Oil Limited, 2300 Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 2Z5.

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PRESIDENT'S MESSAGE

TO THE SHAREHOLDERS

The Company changed its year end from December 31 to September 30, effective September 30, 1980. Accordingly, this Annual Report covers the operations of the Company for the nine months ended September 30, 1980.

Financial

Net earnings, before extraordinary and non-recurring items, for the nine months ended September 30, 1980, amounted to \$12,957,000 (\$4.84 per share) compared with \$6,955,000 (\$2.60 per share) for the same period in 1979. In addition, the Company realized extraordinary gains of \$1,805,000 (\$0.67 per share) in 1980 and \$1,372,000 (\$0.51 per share) in 1979 representing income tax reductions on application of prior years' losses. In 1979, the Company recorded a non-recurring gain of \$5,181,000 (\$1.93 per share) on the sale of North Sea properties. Accordingly, net earnings in 1980 totalled \$14,762,000 (\$5.51 per share) compared with \$13,508,000 (\$5.04 per share) for the same period in 1979.

Funds from operations for the first nine months of 1980 amounted to \$26,945,000 (\$10.06 per share) compared with \$17,197,000 (\$6.42 per share) for the same period in 1979.

Gross revenues for the first nine months of 1980 amounted to \$44,291,000 compared with \$29,214,000 in 1979, the improvement being mainly attributable to higher prices for oil, gas and metals coupled with increased silver production.

Capital expenditures totalled \$25,666,000 in 1980 compared with \$26,464,000 for the same period in 1979.

Exploration and Production

The Company participated in the drilling of 33 exploratory and 52 development wells during the first nine months of 1980. Exploratory drilling resulted in 1 oil well, 18 gas wells, 12 dry holes and 2 drilling at September 30, 1980. Development drilling resulted in 27 oil wells, 11 gas wells, 3 dry holes and 11 drilling at September 30, 1980. Exploration and development efforts were concentrated in the Fort St. John area of British Columbia and in the Gold Creek and Latornell areas of Alberta.

Average daily production of crude oil and natural gas liquids for the first nine months of 1980, before the deduction of royalties, amounted to 7,334 barrels (1 167 cubic metres) compared with 7,579 barrels (1 205 cubic metres) for the same period in 1979. Average daily natural gas sales amounted to 17,534 Mcf (494 thousand cubic metres) being the same level attained in 1979.

Mining

Higher millhead grades for silver helped increase silver production by 23% at the Company's Gooseberry Mine in Nevada. Preparations have been completed to commence shaft sinking for purposes of developing new mining areas on the 1,150 foot and 1,300 foot levels during 1981 and 1982.

Engineering studies continued on the Elk River coal property in British Columbia. Coal leases held in the Blairmore area of Alberta are being assessed for potential thermal coal production. In addition, the Company participated in 7 uranium projects in Canada during 1980.

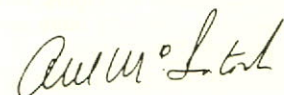
Corporate

Home Oil Company Limited ("Home") indirectly owns approximately 88.5% of the Company. Proposals were received by the Company from Home whereby the Company would have become a wholly owned subsidiary of Home and the shareholders of the Company, other than Home, would have been entitled to \$107 for every share held in the Company. On November 6, 1980, Home withdrew its offer to acquire the remaining shares of the Company because of the substantial reduction in asset value of the Company as a result of the Federal Budget and National Energy Program announced by the Federal Government on October 28, 1980.

Since the last report to shareholders, J.P. Crone resigned as a director of the Company and W.H. Waddell was appointed a director of the Company.

Submitted on behalf of the Board of Directors.

Calgary, Alberta, Canada
January 5, 1981



A.M. McIntosh
President and
Chief Executive Officer

OIL AND GAS ACREAGE

At September 30, 1980

	Petroleum and Natural Gas Leases		Reservations, Licences and Permits		Total	
	Gross	Net	Gross	Net	Gross	Net
CANADA						
Alberta	1,577,292	295,000	231,417	28,915	1,808,709	323,915
Arctic	—	—	598,829	71,112	598,829	71,112
British Columbia	475,038	80,788	463,750	56,478	938,788	137,266
Manitoba	38,002	27,930	—	—	38,002	27,930
N.W.T.	67,676	14,602	739,332	162,223	807,008	176,825
Ontario	479	287	—	—	479	287
Quebec	—	—	533,576	197,424	533,576	197,424
Saskatchewan	1,026,299	803,394	—	—	1,026,299	803,394
	<u>3,184,786</u>	<u>1,222,001</u>	<u>2,566,904</u>	<u>516,152</u>	<u>5,751,690</u>	<u>1,738,153</u>
EUROPE						
Netherlands-Offshore	—	—	151,327	4,346	151,327	4,346
UNITED STATES						
Michigan	29,520	7,634	—	—	29,520	7,634
Montana	3,064	1,950	—	—	3,064	1,950
North Dakota	45,744	8,425	—	—	45,744	8,425
Utah	35,154	3,646	—	—	35,154	3,646
Wyoming	119,116	14,269	—	—	119,116	14,269
	<u>232,598</u>	<u>35,924</u>	<u>—</u>	<u>—</u>	<u>232,598</u>	<u>35,924</u>
Total Acreage at September 30, 1980	<u>3,417,384</u>	<u>1,257,925</u>	<u>2,718,231</u>	<u>520,498</u>	<u>6,135,615</u>	<u>1,778,423</u>
Total Acreage at December 31, 1979	<u>3,159,799</u>	<u>1,316,989</u>	<u>2,418,489</u>	<u>328,004</u>	<u>5,578,288</u>	<u>1,644,993</u>

OIL AND GAS OPERATIONS

During the first nine months of 1980, the Company participated in the drilling of 33 exploratory and 52 development wells. Eleven of the exploratory wells were wells in which the Company had working interests and 22 were farmout or overriding royalty wells. Forty-seven of the development wells were wells in which Scurry had working interests and 5 were farmout or overriding royalty wells.

The exploratory drilling resulted in 1 oil well, 18 gas wells, 12 dry holes and 2 drilling at September 30, 1980.

Development drilling during this period resulted in 27 oil wells, 11 gas wells, 3 dry holes and 11 drilling on September 30, 1980.

Principal drilling activity within Alberta occurred within the Gold Creek/Latornell areas south of Grande Prairie where 9 wells were drilled during the first nine months of 1980. In the Eagle/Stoddart areas of British Columbia 7 wells were drilled during the same period.

In the Gold Creek area, target horizons lie within the Upper Cretaceous Dunvegan Sand where oil production has been established, the Lower Cretaceous Blairmore Sands, which have yielded gas, and within the Permian Belloy Sand which has tested oil and gas.

At Irvine Creek, on the south-eastern outskirts of Edmonton, Alberta, the Company drilled a wildcat which encountered oil within the Devonian Wabamun formation. The well, Scurry Hercules, was suspended after encountering completion difficulties. An offset well was spudded in the last half of December.

A seismic program was undertaken on a Foothills play in early 1980 in order to define a development location on the Coleman structure. The well, Coseka et al Coleman, was spudded September 28 and will be drilled to 3 780 metres into the second plate of the Mississippian and Devonian.

The Company also has a small interest in a 2 680 metre test currently drilling off the Netherlands coast. This well was spudded November 11, 1980.

During the first nine months of 1980 crude oil and gas liquids production averaged 1 167 cubic metres (7,334 barrels) per day and natural gas sales averaged 494 thousand cubic metres (17.5 Mmcf) per day. This represents a decrease in crude oil and liquids production of approximately 3% compared to the level established over the same period in 1979. Gas sales remained essentially at the same level established a year ago. New oil production from the Fort St. John area was not sufficient to offset declines experienced in older fields.

In the Fort St. John area of British Columbia a total of 8 wells were drilled in 1980; 4 wells in West Stoddart, 1 in East Eagle and 3 in West Eagle. One well in West Eagle failed to encounter the Belloy Formation and was abandoned. The East Eagle well penetrated the pool gas cap and was left suspended due to high gas/oil ratio limitations. The remaining wells indicated the presence of hydrocarbons and are being completed for production.

Working interest owners in the West Eagle field have pooled their interests under a unitization scheme which became effective December 1, 1980. The Company has been designated as operator with a working interest participation of 33.05%. The West Eagle Unit encompasses approximately 10,000 acres and includes 62 wells. Water injection facilities with a capacity of 12,000 barrels per day have been completed and are presently in the start-up phase.

During 1981 it is proposed to drill 12 in-fill wells in West Eagle to efficiently produce the reservoir and to consolidate our battery facilities to optimize production. Four in-fill locations in West Stoddart and 1 in East Eagle will be considered pending further production history in these areas. Feasibility studies for secondary recovery in both West Stoddart and East Eagle fields will be initiated during 1981.

SOURCES OF PRODUCTION

(Before deduction of royalties and minority interests)

	Nine Months Ended September 30,		Year Ended December 31,
	1980	1979	1979
Crude oil and natural gas liquids (cubic metres)			
Alberta	79 540	94 940	131 620
British Columbia	141 250	136 910	186 260
Saskatchewan	91 620	90 130	124 450
Manitoba	6 150	6 360	8 860
United States	1 310	660	690
Total	<u>319 870</u>	<u>329 000</u>	<u>451 880</u>
Average per day	<u>1 167</u>	<u>1 205</u>	<u>1 238</u>
Natural gas sales (thousands of cubic metres)			
Alberta	87 460	94 540	134 090
British Columbia	46 020	39 230	56 750
Saskatchewan	1 860	1 880	2 440
Manitoba	—	—	50
United States	110	70	120
Total	<u>135 450</u>	<u>135 720</u>	<u>193 450</u>
Average per day	<u>494</u>	<u>497</u>	<u>530</u>

RESERVES

The Company's gross proven crude oil, natural gas liquids, natural gas and sulphur reserves as of September 30, 1980 and December 31, 1979 are summarized in the table below. The Company's gross reserves are defined as the Company's share of reserves from working interests and overriding royalties, but before the deduction of any royalty interest owned by others and before deduction of minority interests.

GROSS PROVEN RESERVES (Before Deduction of Royalty and Minority Interests)

	September 30, 1980	December 31, 1979
Crude Oil - m ³	3 061 210	3 300 711
Natural Gas Liquids - m ³	247 340	285 896
Natural Gas - 10 ³ m ³	4 918 103	5 070 140
Sulphur - Tonnes	464 002	437 664

MINING OPERATIONS

Gooseberry Mine

For the nine months ended September 30, 1980 the Gooseberry silver-gold mine near Reno, Nevada milled an average of 5,574 tons of ore per month which was marginally more than that milled in the previous year. The average recovery of ore milled was 7.176 troy ounces of silver and 0.141 troy ounces of gold per ton compared to 6.294 troy ounces of silver and 0.153 troy ounces of gold per ton milled during 1979. To increase underground tonnage, development work was accelerated during 1980 resulting in new mining areas being placed on production at the 1,000 foot level during the third quarter of 1980. Preparations have been completed to commence shaft sinking in January 1981 to develop two new working areas on the 1,150 foot and 1,300 foot levels.

During 1980, silver and gold prices fluctuated considerably, however, the overall increase in prices, although partially offset by higher mine operating costs, resulted in the mine generating sizeable cash flows.

Coal

During 1980, work continued on the Elk River metallurgical coal property in southeastern British Columbia. The work included geotechnical field programs that are required in order to obtain government permits to develop a mine. The Company has a 10 percent working interest, plus a royalty interest in the property. A decision to proceed with a mine is dependent upon an improvement in the export markets for coking coal.

The extensive coal leases held jointly with Consolidation Coal Company of Canada in the Blairmore area of Alberta are being assessed for potential thermal coal production. As part of the assessment, drilling programs were undertaken on the Lynx and Adanac properties during 1980. Fill-in drilling was completed on the Duhamel Lake plains coal property located east of Edmonton, Alberta. The Company acquired a 50 percent interest in certain Ardley Coal Rights from the Alberta government. These leases are currently being explored by drilling.

Metallics

The Company participated in 7 uranium projects in Canada during the period. Exploration drilling was undertaken on 3 of the projects with negative results to date. The Company is reactivating base metal and precious metal exploration activities in the U.S. and Canada. Ground assessment surveys with follow-up drilling are proposed for several ongoing and new uranium, base metal and precious metal projects in 1981.

MINING ACREAGE

	<u>Gross Acres</u>	<u>Net Acres</u>
Coal Mining Properties . . .	152,182	69,085
Coal Lease		
Applications	58,627	45,287
Mining Claims	561,866	134,907
Total	<u>772,675</u>	<u>249,279</u>
CANADA		
Alberta	190,649	111,617
British Columbia	71,301	17,726
Saskatchewan	445,366	93,088
Ontario	9,239	7,479
New Brunswick	2,680	670
Northwest Territories . . .	52,160	17,419
	<u>771,395</u>	<u>247,999</u>
UNITED STATES		
Nevada	1,280	1,280
Total acreage at		
September 30, 1980	<u>772,675</u>	<u>249,279</u>
Total acreage at		
December 31, 1979	<u>597,104</u>	<u>258,925</u>

FINANCIAL REVIEW

The Company changed its year end from December 31, to September 30, effective September 30, 1980. The consolidated financial statements cover the results of operations for the nine months ended September 30, 1980 and the year ended December 31, 1979. For comparative purposes, results for the nine months ended September 30, 1979 are included in the five year review of operations on Page 16. Comments presented below relate to the results for the nine months ended September 30, 1980 and 1979.

Net earnings, before extraordinary and non-recurring items, amounted to \$12,957,000 (\$4.84 per share) in 1980 compared with \$6,955,000 (\$2.60 per share) in 1979. In addition, the Company realized extraordinary gains of \$1,805,000 (\$0.67 per share) in 1980 and \$1,372,000 (\$0.51 per share) in 1979 representing income tax reductions on application of prior years' losses. In 1979, the Company recorded a non-recurring gain of \$5,181,000 (\$1.93 per share) on the sale of North Sea properties. Accordingly, net earnings in 1980 totalled \$14,762,000 (\$5.51 per share) compared with \$13,508,000 (\$5.04 per share) in 1979.

The improvement in earnings arises from both the Company's oil and gas and mining segments of operations. The contribution from the oil and gas segment is a result of higher prices. The mining segment benefited from an increase of approximately 23 percent in silver production and a substantial rise in the prices of silver and gold in 1980.

Flow of funds from operations also showed a significant increase rising from \$17,197,000 in 1979 to \$26,945,000 in 1980. Of the increase, approximately \$6,000,000 relates to the operations of the Gooseberry Mine and the balance is attributable to the oil and gas segment of the business.

The Company expended \$25,666,000 on its capital program in 1980. Of this amount, \$10,282,000 relates to the drilling of 47 development wells. Amounts totalling \$5,282,000 were spent on production equipment, the bulk of which relate to facilities in the Fort St. John area. Exploration drilling expenditures aggregated \$7,675,000. Amounts totalling \$2,159,000 were expended on the Company's mining activities which included continued development of the Gooseberry Mine, Elk River engineering work, and various coal and uranium prospects.

Additional information is summarized in the five year review of operations.

CORPORATE PROFILE

Scurry-Rainbow Oil Limited, incorporated in Alberta in 1954, is engaged in the exploration, development and production of petroleum and natural gas, and in the exploration for various minerals. The Company is approximately 88.5 percent indirectly owned by Home Oil Company Limited, the energy company of Hiram Walker-Consumers Home Ltd. The Company's head office is located in Calgary, Alberta. Exploration activities are conducted in Canada and the United States. Production of petroleum and natural gas is primarily located in the four western provinces of Canada. The Company does not engage in refining or retail marketing. The Company has substantial undeveloped coal reserves in southwestern Alberta and southeastern British Columbia, and a producing silver-gold mine in Nevada.

PRICE RANGE OF SHARES

Years Ended December 31, 1980 and 1979

	Toronto Stock Exchange Cdn. Dollars				American Stock Exchange U.S. Dollars			
	1980		1979		1980		1979	
	High	Low	High	Low	High	Low	High	Low
First Quarter	104½	60	28½	25¾	93½	49	24	21⅞
Second Quarter	109	75¼	40	29	96½	62	36	24½
Third Quarter	113½	83	58	40	96¾	74⅞	52	33
Fourth Quarter	104½	61	75	50	89½	53	69½	42

The Company has not declared or paid any dividends on its outstanding shares.

AUDITORS' REPORT

To the Shareholders of
Scurry-Rainbow Oil Limited

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited as at September 30, 1980 and December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the nine months ended September 30, 1980 and for the year ended December 31, 1979. Our examination was made in accordance with 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 September 30, 1980 and December 31, 1979 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
November 18, 1980

THORNE RIDDELL
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

(Thousands of Canadian Dollars)

	Nine Months Ended September 30, 1980	Year Ended December 31, 1979
REVENUE		
Operating	\$43,544	\$44,022
Equity income	50	35
Other income	697	244
	<u>44,291</u>	<u>44,301</u>
EXPENSE		
Operating and general	15,605	14,954
Depletion and depreciation	7,011	7,350
Interest and expense on long term debt	1,820	1,470
Other interest	474	777
Minority interest	85	127
	<u>24,995</u>	<u>24,678</u>
	<u>19,296</u>	<u>19,623</u>
INCOME TAXES (note 6)		
Current	(736)	(72)
Deferred	7,075	6,437
	<u>6,339</u>	<u>6,365</u>
EARNINGS BEFORE GAIN ON SALE OF NORTH SEA PROPERTIES	12,957	13,258
GAIN ON SALE OF NORTH SEA PROPERTIES (net of applicable income taxes of \$803,000)	—	5,157
NET EARNINGS BEFORE EXTRAORDINARY ITEMS	12,957	18,415
EXTRAORDINARY ITEMS		
Income tax benefits realized on application of prior years' losses	1,805	2,462
NET EARNINGS	<u>\$14,762</u>	<u>\$20,877</u>
EARNINGS PER SHARE		
Earnings before gain on sale of North Sea properties	\$ 4.84	\$ 4.95
Gain on sale of North Sea properties	—	1.93
Net earnings before extraordinary items	4.84	6.88
Extraordinary items	0.67	0.92
Net Earnings	<u>\$ 5.51</u>	<u>\$ 7.80</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Thousands of Canadian Dollars)

	Nine Months Ended September 30, 1980	Year Ended December 31, 1979
BALANCE AT BEGINNING OF PERIOD	\$28,977	\$ 8,100
Net earnings	<u>14,762</u>	<u>20,877</u>
BALANCE AT END OF PERIOD	<u>\$43,739</u>	<u>\$28,977</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Thousands of Canadian Dollars)

	Nine Months Ended September 30, 1980	Year Ended December 31, 1979
FUNDS WERE OBTAINED FROM		
Operations	\$26,945	\$27,286
Long term borrowings	13,700	10,000
Sale of assets	189	13,493
Deferred production revenue	315	418
	<u>41,149</u>	<u>51,197</u>
FUNDS WERE USED FOR		
Property, plant and equipment	25,666	38,051
Reduction in long term debt	7,460	6,832
Acquisition of minority interest	—	484
Other	158	37
	<u>33,284</u>	<u>45,404</u>
INCREASE IN WORKING CAPITAL POSITION	7,865	5,793
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	(4,141)	(9,934)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	<u>\$ 3,724</u>	<u>\$ (4,141)</u>

CONSOLIDATED BALANCE SHEET
(Thousands of Canadian Dollars)

ASSETS

	<u>September</u> <u>30, 1980</u>	<u>December</u> <u>31, 1979</u>
CURRENT ASSETS		
Cash and short term deposits	\$ 196	\$ 512
Notes receivable from an affiliated company	6,554	—
Accounts receivable	11,892	12,727
Income taxes recoverable	1,527	1,406
Inventories	<u>2,493</u>	<u>3,040</u>
	22,662	17,685
INVESTMENT IN 50% OWNED COMPANY	<u>986</u>	<u>1,011</u>
PROPERTY, PLANT AND EQUIPMENT,		
at cost (note 3)	194,504	169,585
Accumulated depletion and depreciation	<u>67,936</u>	<u>61,527</u>
	126,568	108,058
OTHER ASSETS	<u>981</u>	<u>770</u>
	<u>\$151,197</u>	<u>\$127,524</u>

Approved on behalf of the Board:

Arthur J. L. L. L.

Director

W. L. L. L.

Director

LIABILITIES

	September 30, 1980	December 31, 1979
CURRENT LIABILITIES		
Bank indebtedness (note 4)	\$ 3,718	\$ 3,445
Accounts payable and accrued charges	14,105	15,454
Due to parent company, Home Oil Company Limited	1,086	368
Current maturities on long term debt	29	2,559
	<u>18,938</u>	<u>21,826</u>
DEFERRED PRODUCTION REVENUE	1,111	796
LONG TERM DEBT (note 5)	<u>25,183</u>	<u>19,054</u>
DEFERRED INCOME TAXES	27,984	22,714
MINORITY INTEREST	<u>1,534</u>	<u>1,449</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
7,500,000 Shares, par value \$3.50 each		
Issued		
2,678,356 Shares	9,374	9,374
CONTRIBUTED SURPLUS	23,334	23,334
RETAINED EARNINGS	<u>43,739</u>	<u>28,977</u>
	76,447	61,685
	<u>\$151,197</u>	<u>\$127,524</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts shown in thousands of Canadian dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

- (a) The financial statements include the accounts in which the Company has ownership of more than 50% of the voting capital stock.
- (b) 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 on the balance sheet at cost plus its share of undistributed earnings or losses.
- (c) The excess of the cost of shares in subsidiaries and a company accounted for by the equity method over the underlying book value at dates of acquisition has been allocated to property, plant and equipment and is subject to the accounting policies outlined below.

OIL AND GAS OPERATIONS

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

- (a) North America – Canada and the United States.
- (b) North Sea.

Costs accumulated in the North America cost centre are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. Natural gas reserves and production are converted to equivalent cubic metres of crude oil based on the relative energy content.

Expenditures in the North Sea were amortized on a straight-line basis to date of disposition in 1979.

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

MINING OPERATIONS

Mining costs are charged to earnings in the period of expenditure (included in depletion) until such time as the presence of economically recoverable reserves is established. Subsequent expenditures are capitalized and charged to earnings as set out below. Economically recoverable reserves are defined by Company engineers as reserves which are capable or have a reasonable prospect of sustaining commercial production. Proceeds on partial disposition of non-producing properties are deducted from the related costs without recognition of gain or loss.

Costs are accumulated by producing area and are depleted using the unit of production method based upon estimated recoverable reserves, as determined by Company engineers.

DEPRECIATION

Depreciation of plant and equipment, other than mining equipment, has been provided in the accounts of the Company on a straight-line basis at rates which are estimated to amortize the costs of the assets less salvage value over their useful lives. Mining equipment is depreciated using the unit of production method based upon estimated recoverable ore reserves.

INVENTORIES

Precious metal inventories are valued at market. All other inventories are valued at the lower of cost and net realizable values.

FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities are translated to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities are translated at the rate in effect at the time the original transactions took place. Revenue and expense items (excluding depletion and depreciation

The bank revolving term loan is secured by accounts receivable and interests in certain petroleum and natural gas leases.

The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to September 30, 1980 are as follows: 1981 - \$29,000; 1982 - \$1,654,000; 1983 - \$3,374,000; 1984 - \$3,374,000; 1985 - \$3,374,000.

6. INCOME TAXES

Income tax expense differs from the amounts which would be obtained by applying the Canadian federal income tax rate to the respective periods' pretax earnings before gain on sale of North Sea properties and before extraordinary items. These differences result from the following items:

	Nine Months Ended September 30, 1980		Year Ended December 31, 1979	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
Computed "expected" tax expense	\$8,876	46.0%	\$9,027	46.0%
Royalties and other payments to provincial governments	4,874	25.3	5,836	29.8
Other non-deductible costs	116	0.6	302	1.5
Equity income	(23)	(0.1)	(16)	(0.1)
Depletion allowances on Canadian oil and gas production income	(2,571)	(13.3)	(2,250)	(11.5)
Federal resource allowance	(3,699)	(19.2)	(4,539)	(23.1)
Provincial income taxes less federal tax abatements	293	1.5	252	1.3
Refund of taxes under incentive plans	(1,527)	(7.9)	(2,247)	(11.5)
Actual tax expense — current and deferred	<u>\$6,339</u>	<u>32.9%</u>	<u>\$6,365</u>	<u>32.4%</u>

7. BUSINESS SEGMENTS

The Company's operations are conducted through two business segments, petroleum and natural gas and mining. Presented below are segmented data relative to these activities.

	Nine Months Ended September 30, 1980		Year Ended December 31, 1979	
	Operating Revenue	Segment Earnings	Operating Revenue	Segment Earnings
Petroleum and natural gas	\$28,394	\$ 15,467	\$33,156	\$ 19,990
Mining	15,150	5,461	10,866	1,728
	<u>\$43,544</u>	20,928	<u>\$44,022</u>	21,718
Equity income		50		35
Other income		697		244
Interest expense		(2,294)		(2,247)
Minority interest expense		(85)		(127)
Income taxes		(6,339)		(6,365)
Earnings before gain on sale of North Sea properties		<u>\$ 12,957</u>		<u>\$ 13,258</u>
Identifiable assets				
Petroleum and natural gas		\$135,067		\$109,931
Mining		13,407		14,329
Corporate assets		1,737		2,253
Investment in 50% owned company		986		1,011
		<u>\$151,197</u>		<u>\$127,524</u>
Capital expenditures				
Petroleum and natural gas		\$ 23,507		\$ 35,523
Mining		2,159		2,528
		<u>\$ 25,666</u>		<u>\$ 38,051</u>
Depletion and depreciation				
Petroleum and natural gas		\$ 5,770		\$ 5,536
Mining		1,241		1,814
		<u>\$ 7,011</u>		<u>\$ 7,350</u>
Geographic Information				
	<u>Canada</u>	<u>U.S.A.</u>	<u>Canada</u>	<u>U.S.A.</u>
Operating revenue	<u>\$ 28,284</u>	<u>\$15,260</u>	<u>\$ 33,169</u>	<u>\$10,853</u>
Operating income	<u>\$ 15,084</u>	<u>\$ 5,844</u>	<u>\$ 19,025</u>	<u>\$ 2,693</u>
Identifiable assets	<u>\$126,464</u>	<u>\$24,733</u>	<u>\$110,139</u>	<u>\$17,385</u>

8. RELATED PARTY TRANSACTIONS

Home Oil Company Limited ("Home") owns approximately 88.5% of the issued and outstanding shares of the Company. During the nine months ended September 30, 1980, Home furnished certain accounting, administrative, technical and other services at charges equal to the cost of services rendered.

The notes receivable from an affiliated company (\$5,600,000 U.S. at September 30, 1980) bear interest at U.S. treasury bill rates plus ¼%.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid to directors and senior officers in their respective capacities was \$31,000 and \$nil.

FIVE YEAR REVIEW OF OPERATIONS

	Nine Months Ended September 30,		Year Ended December 31,			Year Ended September 30,
	1980	1979	1979	1978	1977	1976
Revenue						
Crude Oil	\$18,586,000	\$16,350,000	\$22,590,000	\$17,337,000	\$13,851,000	\$10,341,000
Natural gas and related products	9,808,000	6,928,000	10,566,000	7,671,000	7,520,000	5,428,000
Mining	15,150,000	5,792,000	10,866,000	4,128,000	1,092,000	57,000
Equity income (loss)	50,000	27,000	35,000	71,000	(2,950,000)	—
Other income	697,000	117,000	244,000	357,000	207,000	1,783,000
	<u>44,291,000</u>	<u>29,214,000</u>	<u>44,301,000</u>	<u>29,564,000</u>	<u>19,720,000</u>	<u>17,609,000</u>
Expenses						
Operating and general	15,690,000	10,607,000	15,081,000	11,983,000	6,980,000	4,548,000
Depletion and depreciation	7,011,000	6,072,000	7,350,000	6,516,000	6,651,000	4,876,000
Interest	2,294,000	1,655,000	2,247,000	2,317,000	1,172,000	1,227,000
	<u>24,995,000</u>	<u>18,334,000</u>	<u>24,678,000</u>	<u>20,816,000</u>	<u>14,803,000</u>	<u>10,651,000</u>
	<u>19,296,000</u>	<u>10,880,000</u>	<u>19,623,000</u>	<u>8,748,000</u>	<u>4,917,000</u>	<u>6,958,000</u>
Income taxes						
Current	(736,000)	103,000	(72,000)	(153,000)	1,269,000	2,598,000
Deferred	7,075,000	3,822,000	6,437,000	4,152,000	2,043,000	(23,000)
	<u>6,339,000</u>	<u>3,925,000</u>	<u>6,365,000</u>	<u>3,999,000</u>	<u>3,312,000</u>	<u>2,575,000</u>
Earnings before gain on sale of North Sea properties						
	12,957,000	6,955,000	13,258,000	4,749,000	1,605,000	4,383,000
Gain on sale of North Sea properties (net of applicable income taxes)						
	—	5,181,000	5,157,000	—	—	—
Net earnings before extraordinary items						
	12,957,000	12,136,000	18,415,000	4,749,000	1,605,000	4,383,000
Extraordinary items						
	1,805,000	1,372,000	2,462,000	747,000	(6,205,000)	—
Net earnings (loss)						
	<u>\$14,762,000</u>	<u>\$13,508,000</u>	<u>\$20,877,000</u>	<u>\$ 5,496,000</u>	<u>\$ (4,600,000)</u>	<u>\$ 4,383,000</u>
Earnings per share						
Earnings before gain on sale of North Sea properties						
	\$ 4.84	\$ 2.60	\$ 4.95	\$ 1.78	\$ 0.60	\$ 1.66
Gain on sale of North Sea properties						
	—	1.93	1.93	—	—	—
Net earnings before extraordinary items						
	4.84	4.53	6.88	1.78	0.60	1.66
Extraordinary items						
	0.67	0.51	0.92	0.28	(2.34)	—
Net earnings (loss)						
	<u>\$ 5.51</u>	<u>\$ 5.04</u>	<u>\$ 7.80</u>	<u>\$ 2.06</u>	<u>\$ (1.74)</u>	<u>\$ 1.66</u>

CONSOLIDATED STATEMENT OF EARNINGS

FLOW OF FUNDS	From Operations	\$26,945,000	\$17,197,000	\$27,286,000	\$15,579,000	\$13,245,000	\$ 8,981,000
CONSOLIDATED BALANCE SHEET	Working Capital (deficiency)	\$ 3,724,000	\$ (9,195,000)	\$ (4,141,000)	\$ (9,934,000)	\$ (4,712,000)	\$ 7,953,000
	Investments and advances	986,000	1,003,000	1,011,000	1,076,000	1,366,000	1,754,000
	Capital assets — net	126,568,000	100,052,000	108,058,000	84,965,000	70,859,000	56,229,000
	Other assets	981,000	775,000	770,000	685,000	929,000	599,000
	Deferred production revenue	1,111,000	604,000	796,000	378,000	—	—
	Long term debt — net	25,183,000	15,149,000	19,054,000	15,780,000	18,539,000	16,058,000
	Deferred income taxes	27,984,000	21,164,000	22,714,000	17,936,000	13,784,000	10,951,000
	Minority interest	1,534,000	1,402,000	1,449,000	1,890,000	1,821,000	1,736,000
Shareholders' equity	76,447,000	54,316,000	61,685,000	40,808,000	34,298,000	37,790,000	
CAPITAL EXPENDITURES	Acquisition of property	\$ 383,000	\$ 3,264,000	\$ 5,685,000	\$ 1,687,000	\$ 2,539,000	\$ 2,114,000
	Exploration and development expenditures	19,606,000	20,061,000	27,761,000	16,462,000	11,486,000	9,821,000
	Production equipment	5,584,000	3,095,000	4,474,000	2,545,000	2,545,000	534,000
	Other capital assets	93,000	44,000	131,000	204,000	441,000	97,000
	Total capital expenditures	<u>\$25,666,000</u>	<u>\$26,464,000</u>	<u>\$38,051,000</u>	<u>\$20,898,000</u>	<u>\$17,011,000</u>	<u>\$12,566,000</u>
LANDHOLDINGS	Petroleum and natural gas						
	Gross acreage	6,136,000	6,086,000	5,578,000	6,853,000	8,058,000	8,793,000
	Net acreage	1,778,000	1,766,000	1,645,000	2,000,000	2,633,000	2,543,000
	Mining						
	Gross acreage	773,000	551,000	597,000	767,000	283,000	286,000
	Net acreage	249,000	236,000	259,000	418,000	259,000	252,000
DRILLING ACTIVITY	Gross wells drilled	72	119	162	169	108	52
	Net oil and gas wells — working interest	9	17	25	20	11	5
	— royalty interest	—	—	1	12	7	1
PRODUCTION	Crude oil and natural gas liquids						
	— cubic metres per day	1 167	1 205	1 238	1 055	1 040	991
	Natural gas — thousand cubic metres per day	494	497	530	433	470	474
SHARES	Shares outstanding						
	end of period	2,678,356	2,678,356	2,678,356	2,678,356	2,647,921	2,647,921
	average for the period	2,678,356	2,678,356	2,678,356	2,668,211	2,647,921	2,647,921

The above data incorporate retroactive adjustments.

