Scurry-Rainbow Oil Limited

Annual Report 1979

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*
Partner in the law firm of Jones, Black & Company.
Director: Calgary Power Ltd.

* JOHN P. CRONE, *Calgary, Alberta*
Group Vice-President, Corporate, and Director of Home Oil Company Limited.
Executive Vice-President of the Company.

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

* ANTHONY G. S. GRIFFIN, *Toronto, Ontario*
Chairman of the Boards of The Commercial Life Assurance Company of Canada and The Halifax Insurance Company.
Director: Canadian Corporate Management Co. Ltd., Canadian Industries Limited, Hiram Walker-Consumers Home Ltd., ICI Americas Inc., Raymond International Inc., United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company.

*+ J. GORDON HUTCHISON, F.C.A., *Calgary, Alberta*
Financial Consultant.
Director: Cavalier Energy Inc.

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

* A. M. McINTOSH, *Calgary, Alberta*
Executive Vice-President of Hiram Walker-Consumers Home Ltd.
President and Chief Executive Officer and Director of Home Oil Company Limited.
President of the Company

WILLIAM P. WILDER, *Toronto, Ontario*
President and Chief Executive Officer and Director of Hiram Walker-Consumers Home Ltd.
Director: Allstate Insurance Company of Canada,
Home Oil Company Limited,
John Labatt Limited,
Lever Brothers Limited,
Maclean-Hunter Limited,
Noranda Mines Limited,
Simpsons-Sears Limited.

\+ Member of Audit Committee

* Member of Executive Committee

Executive Officers

A. M. McINTOSH
President

J. H. Geddes
Executive Vice-President and General Manager

J. P. CRONE
Executive Vice-President

B. F. MacNEILL
Vice-Preisdent, Finance

R. G. WATKINS
Vice-President, Mining

D. E. DEAKIN
Treasurer

T. S. HOAR
Secretary

E. JORGENSEN
Comptroller

Registrar and Transfer Agents

Guaranty Trust Company of Canada
Calgary, Alberta; Toronto, Ontario;
Montreal, P.Q.; Vancouver, B.C.
The Canadian Bank of Commerce Trust Company, New York, N.Y.

Stock Listings

Toronto Stock Exchange
Vancouver Stock Exchange
American Stock Exchange

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, June 3, 1980 at 1:30 p.m. at the head office of the Company in Calgary, Alberta. Formal notice of this meeting and proxy material has 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 free of charge upon written request to E. Jorgensen, 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 year 1979 was highlighted by continued improvement in financial and operating performance.

Net earnings from operations for 1979 totalled $13,258,000 or $4.95 per share compared with restated earnings of $4,749,000 or $1.78 per share for 1978.

Net earnings after two non-recurring items amounted to $20,877,000 or $7.80 per share compared with restated earnings of $5,496,000 or $2.06 per share in 1978. The first non-recurring item represents a gain of $5,157,000 from the sale of the Company's interest in the North Sea. The second item represents an extraordinary gain of $2,462,000 as a result of income tax benefits realized on application of prior years' losses.

Net flow of funds from operations totalled $27,286,000 or $10.19 per share compared with $15,579,000 or $5.84 per share for 1978. Gross revenues increased to $44,301,000 from $29,564,000 in 1978 due to higher prices and the increased production of crude oil, natural gas, gold and silver.

Capital expenditures also rose substantially in 1979, to $38,051,000, from $20,898,000, reflecting an active exploration and development program.

Exploration and Production

During the year, the Company participated in the drilling of 176 exploratory and development wells, mostly in Alberta and British Columbia. The drilling resulted in 61 oil and 85 gas wells. Fourteen wells were still drilling at year end.

The main region of exploratory interest continued to be the Gold Creek and Lator-Nell area of northwestern Alberta which accounted for approximately three-quarters of exploratory drilling expenditures. Acreage holdings in that area increased in 1979 to 174,695 gross hectares (431,680 acres) through participation in land sales. Drilling successes in this area are expected to add substantially to the Company's reserves of natural gas.

During 1979, average daily production of crude oil and liquids, before the deduction of royalties, amounted to 1 238 cubic metres (7,780 barrels) compared with 1 055 cubic metres (6,636 barrels) in 1978. Average daily sales of natural gas increased to 530 thousand cubic metres (18.8 MMcf) from 433 thousand cubic metres (15.4 MMcf). The increases were due largely to new production in the Fort St. John area of British Columbia. The bulk of the Company's development expenditures in 1979 was directed to this area.

Mining

Although ore mined in 1979 at the Company's Gooseberry silver/gold mine near Reno, Nevada, declined by nine per cent to 65,227 tons, the production of gold and silver increased by eight per cent and 23 per cent to 10,048 ounces and 413,820 ounces, respectively, reflecting higher recovery factors. Work continued on an underground development program to increase the amount of ore mined.

Engineering studies continued on the feasibility of development of the Company's substantial metallurgical coal reserves at Elk River in southeastern British Columbia. A decision to proceed with a mine is dependent upon an improvement in the demand on world markets for metallurgical coal.

Corporate

The Board of Directors continues to maintain the policy of re-investing all available cash flow and to forego the payment of dividends.

Since the last report to shareholders, R. F. Phillips, J. D. Gibson and R. B. Coleman resigned as directors of the Company. On June 19, 1979, A. M. McIntosh was appointed a Director and elected President.

Submitted on behalf of the Board of Directors.

Calgary, Canada
April 18, 1980

A. M. McIntosh
President

OIL AND GAS ACREAGE

December 31, 1979

CANADA	Petroleum and Natural Gas Leases Gross	Petroleum and Natural Gas Leases Net	Reservations, Licences and Permits Gross	Reservations, Licences and Permits Net	Total Gross	Total Net
Alberta	1,307,159	330,561	188,296	24,919	1,495,455	355,480
Arctic Islands	—	—	912,286	100,432	912,286	100,432
British Columbia	447,768	80,945	475,106	59,833	922,874	140,778
Manitoba	32,922	27,930	—	—	32,922	27,930
Northwest Territories	67,676	14,602	691,474	138,474	759,150	153,076
Ontario	479	287	—	—	479	287
Saskatchewan	1,019,504	805,410	—	—	1,019,504	805,410
	2,875,508	1,259,735	2,267,162	323,658	5,142,670	1,583,393
EUROPE						
Netherlands – Offshore	—	—	151,327	4,346	151,327	4,346
	—	—	151,327	4,346	151,327	4,346
UNITED STATES						
Alaska	21,090	15,788	—	—	21,090	15,788
Michigan	29,676	7,675	—	—	29,676	7,675
Montana	2,744	1,950	—	—	2,744	1,950
North Dakota	91,486	9,265	—	—	91,486	9,265
Utah	38,568	4,342	—	—	38,568	4,342
Wyoming	100,727	18,234	—	—	100,727	18,234
	284,291	57,254	—	—	284,291	57,254
Total Acreage at December 31, 1979	3,159,799	1,316,989	2,418,489	328,004	5,578,288	1,644,993
Total Acreage at December 31, 1978	3,463,815	1,451,146	3,389,418	549,253	6,853,233	2,000,399

Conversion to Metric

During 1979 the Canadian petroleum industry commenced using the International System of Units, commonly called the metric system, to report figures related to length, area, volume and mass.

For the convenience of shareholders, a conversion table is provided at right.

Table of basic metric conversion factors*

Measurement	Traditional to Metric	Metric to Traditional
Length	1 mile = 1.609 34 kilometres (km)	1 km = 0.62137 mile
	1 foot = 0.304 80 metre (m)	1 m = 3.28084 feet
Area	1 acre = 0.404 69 hectare (ha)	1 ha = 2.47103 acres
Volume	1 gallon (Can.) = 4.546 09 litres (L)	1 L = 0.21997 gallon (Can.)
	1 barrel = 0.158 99 cubic metre (m^3)	1 m^3 = 6.28970 barrels
	1 MCF = 28.173 99 cubic metres (m^3) (natural gas)	1 m^3 = 0.035494 MCF
Mass	1 pound = 0.453 59 kilogram (kg)	1 kg = 2.20463 pounds
	1 long ton = 1.016 05 tonnes (t) (2,240 pounds)	1 t = 0.98420 long ton
	1 short ton = 0.907 19 tonne (t) (2,000 pounds)	1 t = 1.10232 short tons

*International System of Units (SI) conversion factors used by Canadian Petroleum Association in their statistical handbook effective January 1, 1979.

OIL AND GAS OPERATIONS

During 1979, Scurry-Rainbow maintained an active exploration program within the Gold Creek and Lator areas of Alberta and, to a lesser degree, in British Columbia, Saskatchewan, North Dakota, Utah, Montana and Michigan. Significant development drilling was undertaken within the Eagle and Stoddart areas of British Columbia, with some development drilling in Alberta and Saskatchewan. During the year, the Company was involved in 86 exploratory wells and 90 development wells. Of these wells, 31 were Company operated and the remainder were partner operated or drilled under farmout agreements. The exploratory drilling resulted in 10 oil wells, 49 gas wells, 14 dry holes, and 13 were still drilling or being evaluated at the end of the year. Development drilling resulted in 51 oil wells, 36 gas wells and two dry holes. One well was still drilling at year end.

CANADA

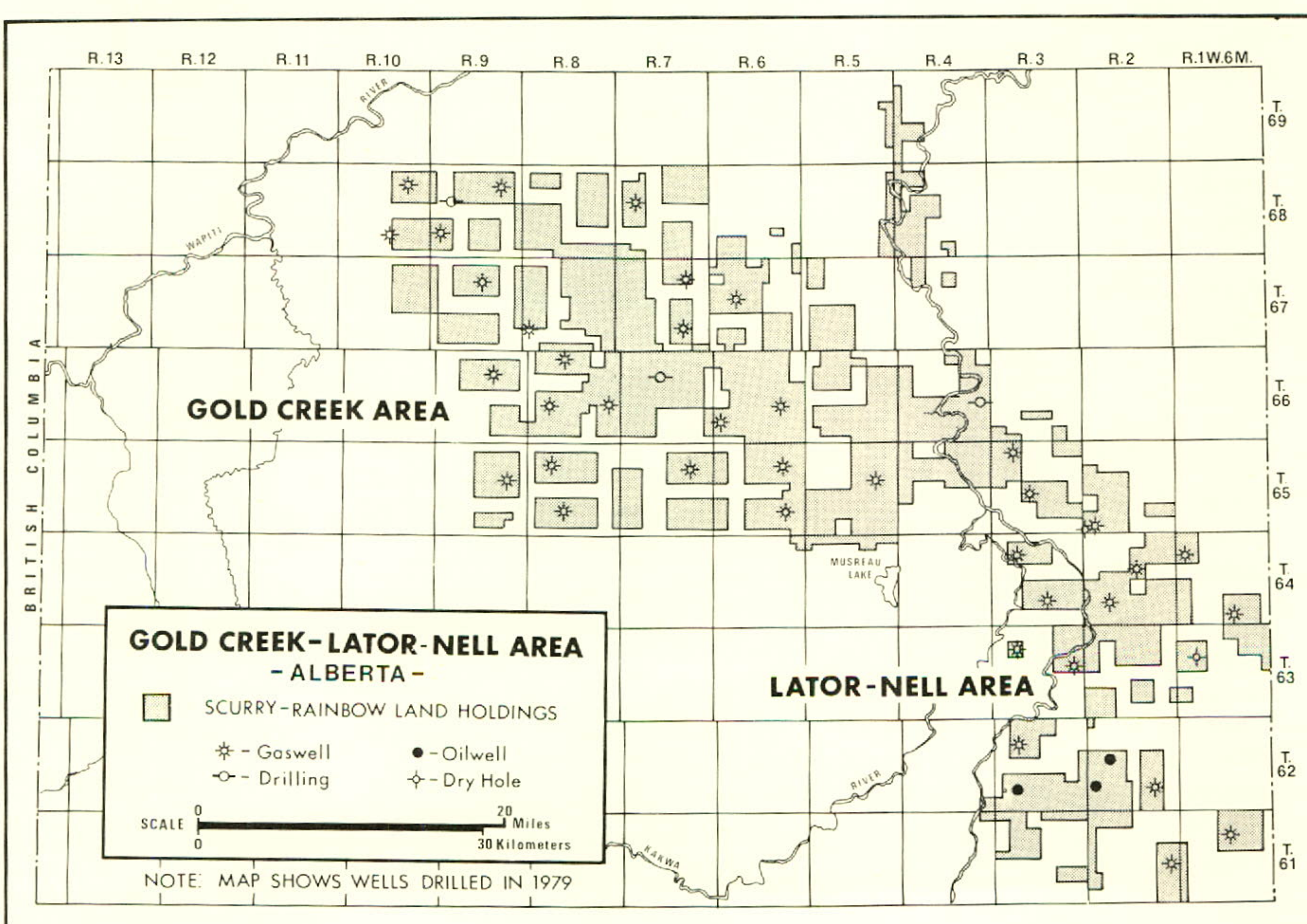
Alberta

The accelerated exploration pace established in 1978 in the Gold Creek area was maintained through 1979. Twenty-seven exploratory wells were drilled on Company lands in this area during the year. The exploratory drilling program resulted in 24 gas wells and, at year end, three wells were still drilling. Four development gas wells were also drilled. Significant gas reserves were established within sandstones of the Upper and Lower Cretaceous section. Oil was encountered in sandstones of the Upper Cretaceous and within the Triassic. The full significance of the oil potential of these reservoirs cannot be assessed until further evaluation has been undertaken.

Twenty exploratory wells were drilled in the Lator-Nell area 25 miles southeast of Gold Creek. This drilling resulted in 15 gas wells, three oil wells and two dry holes. Four development oil wells were also drilled in 1979. The Upper Cretaceous Dunvegan sandstone is the principal producing zone in this area.

Plains Petroleums, 72 per cent owned by the Company, was also active in the Gold Creek and Lator areas where it had interests ranging from 1.66 per cent to 4.66 per cent in 41 exploratory wells. Of these wells, 37 were gas, one was a dry hole and three were drilling at the end of 1979.

Plains also has a 5.6% interest in the Shell et al Waterton 7-20 well which was drilled to a total depth of 5 080 metres and completed as a Devonian Wabamun gas well.



British Columbia

The Company participated directly in nine exploratory wells of which eight were non-operated. This drilling resulted in four gas wells and five dry holes. Successful gas wells were completed in Lower Cretaceous, Bluesky and Lower Gething sandstones, the Triassic LaGlace formation and the Mississippian Debolt.

A further two wells were drilled under farmouts to other operators. One of these wells was under tight hole status at year end, and the other was still drilling.

Saskatchewan

The Company participated in one unsuccessful Mississippian test within the Steelman area during the year. One other well, also in the Steelman area, was drilled under farmout to another operator and this was completed as a Midale oil well.

UNITED STATES

The Company participated in four exploratory wells in the U.S. during 1979. Dry holes were drilled in Utah, Montana and Michigan, and a well being drilled in North Dakota was still drilling at year end.

A further three exploratory wells were drilled under farmouts to other operators in Wyoming and North Dakota. This activity resulted in one Cretaceous gas well in Wyoming, a dry hole in North Dakota, and the third well, in Wyoming, was still drilling at year end.

PRODUCTION

Production of crude oil and natural gas liquids during 1979 amounted to 1 238 cubic metres per day, or 7,780 barrels per day, compared with 1 055 cubic metres per day, or 6,636 barrels per day for the previous year. Natural gas production was up from 433 cubic metres per day, or 15.4 MMcf per day, in 1978 to 530 cubic metres per day, or 18.8 MMcf per day in 1979.

The increase in crude oil production is largely from the Fort St. John area of British Columbia, together with the lifting of allowable restrictions in the Redwater field of Alberta to permit higher production rates. Oil production from the West Eagle field north of Fort St. John is expected to increase substantially with the completion of waterflood facilities in the second half of 1980. In the case of natural gas production, rates are higher from the collection of associated gas in the Fort St. John area, together with better performance from the Coleman field.

SOURCE OF PRODUCTION

(Before Deduction of Royalties and Minority Interests)

	Years Ended December 31	
	1979	1978
Crude Oil and Natural Gas Liquids (cubic metres)		
Alberta	131 620	118 591
British Columbia	186 260	125 318
Saskatchewan	124 450	133 135
Manitoba	8 860	7 527
United States	690	324
Total for year	451 880	384 895
Average per day	1 238	1 055
Natural Gas Sales (thousands of cubic metres)		
Alberta	134 090	127 404
British Columbia	56 750	26 361
Saskatchewan	2 440	3 951
Manitoba	50	—
United States	120	241
Total for year	193 450	157 957
Average per day	530	433

RESERVES

The Company's gross proven crude oil, natural gas liquids, natural gas and sulphur reserves as of January 1, 1980 and 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 minority interests.

Further development in the Fort St. John area and exploratory work in the Gold Creek area were the main contributing factors for the increase in both oil and gas reserves.

GROSS PROVEN RESERVES

(Before Deduction of Royalties and Minority Interests)
At January 1, 1980 and 1979

	1980		1979	
	Working Interest	Royalty Interest	Working Interest	Royalty Interest
Crude Oil – M^3	3 059 628	241 083	2 957 386	236 080
Natural Gas Liquids – M^3	238 248	47 648	231 056	56 297
Natural Gas – 10^3M^3	4 518 670	551 470	3 701 583	579 483
Sulphur – Tonnes	425 939	11 705	533 323	12 497

MINING OPERATIONS

Gooseberry Mine

At the Gooseberry mine near Reno, Nevada, mill throughputs averaged 5,480 short tons per month during 1979. Production continued to be constrained by a shortage of underground mining areas. Underground development work was accelerated during the latter half of 1979 with the result that new mining areas are expected to be placed on production at the 1,000-foot level during the second quarter of 1980. The main shaft will also be deepened in 1980 to develop two new working levels at 1,150 feet and 1,300 feet below the surface.

As a result of increased silver and gold prices, the mine generated sizeable cash flows and earnings during 1979. The mine's performance is expected to continue to improve in 1980 as production levels increase.

Coal

In 1979, approval in principle was granted by the British Columbia government to develop the large reserves of metallurgical coal located at Elk River in the southeastern portion of the province. With this approval, work continued on engineering studies that are required for specific permits to develop the mine. A decision to proceed with the mine is dependent upon an improvement in world markets for metallurgical coal.

The extensive coal leases held jointly with Consolidation Coal Company of Canada in the Blairmore area of Alberta are being re-assessed for potential thermal coal production. Exploratory drilling was undertaken on five Plains coal properties in Alberta. Active participation in the Ardley Coal Rights offered by the Alberta government was continued.

Potash

In 1979, the Potash Corporation of Saskatchewan exercised its option and purchased the Company's potash holdings in Saskatchewan for $2,275,000.

Uranium

Scurry-Rainbow participated in 10 uranium exploration projects during the year. Exploratory drilling was undertaken on four of the projects with negative results. Ground assessment surveys with follow-up drilling is proposed for several ongoing and new projects in 1980.

MINING ACREAGE

	Gross	Net
Coal Mining Properties	117,122	51,555
Coal Lease Applications	58,627	45,287
Mining Claims	421,355	162,083
Total	597,104	258,925
Canada		
Alberta	155,589	94,087
British Columbia	74,716	19,435
Saskatchewan	307,640	110,435
Ontario	5,719	5,719
Northwest Territories	52,160	27,969
Foreign		
U.S. – Nevada	1,280	1,280
Total Acreage at December 31, 1979	597,104	258,925
Total Acreage at December 31, 1978	766,743	417,508

FINANCIAL REVIEW

Net earnings, before a gain on the sale of the North Sea properties and before an extraordinary item for 1979, amounted to $13,258,000 ($4.95 per share) compared with restated net earnings, before an extraordinary item, of $4,749,000 ($1.78 per share) for 1978. During 1979, the Company disposed of its entire interest in Block 3/7 in the North Sea, resulting in a gain of $5,157,000 ($1.93 per share), net of applicable income taxes of $803,000. In addition, the Company recorded an extraordinary gain of $2,462,000 ($0.92 per share) representing income tax benefits realized on application of prior years' losses. With the gain on the sale of North Sea properties and the extraordinary item, net earnings for 1979 amounted to $20,877,000 ($7.80 per share) compared with restated earnings of $5,496,000 ($2.06 per share).

Operating revenues after royalties from oil and gas operations increased from $25,008,000 to $33,156,000, an increase of 33 per cent. Volume increases of 18 per cent and 22 per cent for oil and gas respectively, coupled with price increases, accounted for the rise in revenue. The increase in oil volumes mainly arose in the Eagle and Stoddart fields in British Columbia and the Redwater field in Alberta. The increase in gas volumes was primarily attributable to new wells coming on stream in the Cecil area of British Columbia coupled with increased production from the Coleman field.

Gross revenues contributed by the mining operations amounted to $10,866,000 in 1979 compared to $4,128,000 a year earlier. Although ore mined in 1979 declined by 9 per cent to 59,173 tonnes, the production of gold and silver increased by 8 per cent and 23 per cent to 10,048 ounces and 413,820 ounces respectively, reflecting higher recovery factors. The balance of the increase in revenues was attributable to substantial price increases of gold and silver, particularly in the last quarter of 1979.

Operating and general expenses from oil and gas operations increased 18 per cent from $6,474,000 to $7,630,000 in 1979. The increase was associated with higher production from the Fort St. John area in British Columbia coupled with general increases in other fields.

Operating and general expenses from mining operations amounted to $7,324,000 compared with $5,440,000. All of the increase was due to production from the Gooseberry mine and increased royalties paid on higher revenues.

Depletion and depreciation expense increased 13 per cent to $7,350,000 compared with $6,516,000 for 1978. The increase was mainly the result of higher oil and gas production volumes together with a higher depletion factor.

Interest and expense on long term debt amounted to $1,470,000 compared with $1,619,000 for 1978. During early 1979, a U.S. bank production loan was repaid from proceeds on sale of the North Sea properties. During the last half of 1979, bank production loans totalling $10,000,000 were drawn to finance part of the 1979 capital expenditure program. Other interest increased to $777,000 representing higher charges as a result of using bank operating loans which at December 31, 1979 amounted to $3,445,000.

Income tax expense increased from $3,999,000 in 1978 to $6,365,000 in 1979, reflecting a substantial increase in pretax income. The percentage of income tax expense to pretax earnings before the gain on the sale of the North Sea properties, however, declined from 45.7 per cent to 32.4 per cent in 1979. This was attributable to the absence of mining losses suffered in 1978 coupled with the Company's substantial 1979 capital program.

Net flow of funds from operations amounted to $27,286,000 ($10.19 per share) in 1979, compared with $15,579,000 ($5.84 per share) for 1978. The increase resulted from higher production and increased prices from both oil and gas and mining activities. Sale of the North Sea assets and the Saskatchewan potash properties generated $13,493,000. In addition, the Company obtained $10,000,000 in long term bank production loans to finance partially the Company's 1979 capital program.

During 1979, the Company expended $38,051,000 on its capital program compared with $20,898,000 in 1978, an increase of 82 per cent. Of this amount, $20,943,000 was spent on the Company's oil and gas exploration program, including land and lease acquisitions, with the majority of funds being spent in the Gold Creek and Lator-Nell areas of Alberta. Oil and gas development expenditures increased from $9,287,000 in 1978 to $14,449,000 in 1979. The Company continued to concentrate its efforts in the development of its acreage in the Fort St. John area of British Columbia.

Mining development expenditures totalled $1,487,000 which included the acquisition of a 35 per cent net profits interest in the Gooseberry mine, continued development of the mine and Elk River feasibility studies. The Company continued its on-going program of mineral exploration, principally for coal and uranium and spent $1,041,000 in 1979 compared to $715,000 in 1978.

Additional general information is summarized in the five years' 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 per cent owned by Home Oil Company Limited, a wholly-owned subsidiary of Hiram Walker-Consumers Home Ltd. Its headquarters are 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 in Canada, with limited production in the United States. 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 silver-gold mine in Nevada.

TWO YEAR PRICE RANGE OF SHARES

Years Ended December 31

	Toronto Stock Exchange Cdn. Funds		American Stock Exchange U.S. Funds	
	1979	**1978**	**1979**	**1978**
	High Low	**High Low**	**High Low**	**High Low**
First Quarter	28½ - 25⅜	20¼ - 18½	24 - 21⅛	18¼ - 16
Second Quarter	40 - 29	23½ - 21	36 - 24½	20¾ - 18
Third Quarter	58 - 40	25½ - 22½	52 - 33	22⅝ - 20
Fourth Quarter	75 - 50	27 - 25½	69½ - 42	23 - 20⅛

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 December 31, 1979 and 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. 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 December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy for mining operations described in Note 1, on a consistent basis.

Calgary, Canada
February 22, 1980

THORNE RIDDELL
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS
(Thousands of Canadian Dollars)

	For the years ended December 31 1979	1978 (Note 1)
REVENUE		
Operating	$44,022	$29,136
Equity income	35	71
Other income	244	357
	44,301	29,564
EXPENSE		
Operating and general	14,954	11,914
Depletion and depreciation	7,350	6,516
Interest and expense on long term debt	1,470	1,619
Other interest	777	698
Minority interest	127	69
	24,678	20,816
	19,623	8,748
INCOME TAXES (Note 5)		
Current	(72)	(153)
Deferred	6,437	4,152
	6,365	3,999
EARNINGS BEFORE GAIN ON SALE OF NORTH SEA PROPERTIES	13,258	4,749
GAIN ON SALE OF NORTH SEA PROPERTIES (net of applicable income taxes of $803,000)	5,157	—
NET EARNINGS BEFORE EXTRAORDINARY ITEMS	18,415	4,749
EXTRAORDINARY ITEMS		
Income tax benefits realized on application of prior years' losses	2,462	—
Recovery of investment in Minerales Santa Rita S.A. de C.V.	—	747
NET EARNINGS	$20,877	$ 5,496
EARNINGS PER SHARE		
Earnings before gain on sale of North Sea properties	$4.95	$1.78
Gain on sale of North Sea properties	1.93	—
Net earnings before extraordinary items	6.88	1.78
Extraordinary items	0.92	.28
Net earnings	$7.80	$2.06

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(Thousands of Canadian Dollars)

	For the years ended December 31 1979	1978
BALANCE, AT BEGINNING OF YEAR		
As previously reported	$10,521	$4,659
Change in accounting policy (Note 1)	(2,421)	(2,055)
As restated	8,100	2,604
Net earnings	20,877	5,496
BALANCE, AT END OF YEAR	$28,977	$8,100

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Thousands of Canadian Dollars)

	For the years ended December 31 1979	1978
FUNDS WERE OBTAINED FROM		
Operations	$27,286	$15,579
Sale of assets	13,493	276
Long term borrowings	10,000	—
Deferred production revenue	418	378
Repayment of advances	—	1,008
Issuance of capital stock	—	1,014
Other	—	298
	51,197	18,553
FUNDS WERE USED FOR		
Property, plant and equipment	38,051	20,898
Reduction in long term debt	6,832	2,877
Acquisition of minority interest	484	—
Other	37	—
	45,404	23,775
INCREASE (DECREASE) IN WORKING CAPITAL	5,793	(5,222)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	9,934	4,712
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 4,141	$ 9,934

	1979	1978
CHANGES IN COMPONENTS OF WORKING CAPITAL		
INCREASE (DECREASE) IN CURRENT ASSETS:		
Cash and short term deposits	$ (1,251)	$ 485
Accounts receivable	6,993	581
Income taxes recoverable	(82)	1,488
Inventories	1,479	1,113
	7,139	3,667
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Bank indebtedness	(3,379)	3,002
Accounts payable and accrued charges	4,385	5,336
Income taxes payable	—	(232)
Due to parent company, Home Oil Company Limited	79	289
Current maturities on long term debt	261	494
	1,346	8,889
INCREASE (DECREASE) IN WORKING CAPITAL	$ 5,793	$ (5,222)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1979 and 1978
(Thousands of Canadian Dollars)

ASSETS

	1979	1978 (Note 1)
CURRENT ASSETS		
Cash and short term deposits	$ 512	$ 1,763
Accounts receivable	12,727	5,734
Income taxes recoverable	1,406	1,488
Inventories, at lower of cost and realizable value	3,040	1,561
	17,685	10,546
INVESTMENTS IN 50% OWNED COMPANY	1,011	1,076
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 2)	169,585	144,012
Accumulated depletion and depreciation	61,527	59,047
	108,058	84,965
OTHER ASSETS	770	685
	$127,524	$ 97,272

Approved on behalf of the Board:

Director

Director

LIABILITIES

	1979	1978 (Note 1)
CURRENT LIABILITIES		
Bank indebtedness (Note 3)	$ 3,445	$ 6,824
Accounts payable and accrued charges	15,454	11,069
Due to parent company, Home Oil Company Limited	368	289
Current maturities on long term debt	2,559	2,298
	21,826	20,480
DEFERRED PRODUCTION REVENUE	796	378
LONG TERM DEBT (Note 4)	19,054	15,780
DEFERRED INCOME TAXES	22,714	17,936
MINORITY INTEREST	1,449	1,890

SHAREHOLDERS' EQUITY (Note 6)

	1979	1978
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	28,977	8,100
	61,685	40,808
	$127,524	$ 97,272

NOTES TO 1979 AND 1978 CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts shown in thousands of Canadian dollars)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

(a) The consolidated financial statements include the accounts of all companies 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) Northwestern Europe — the United Kingdom and the Northwestern European Continental Shelf which encompasses all sectors of the North Sea, the Celtic Sea and the English Channel.

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 meters of crude oil based on the relative energy content.

Expenditures in Northwestern Europe 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 year 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.

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 which are translated at the rate of exchange applicable to the related asset) are translated using average rates of exchange throughout the year. Foreign currency gains and losses are included in the determination of net earnings.

Note 1 Change in Accounting Policy

Prior to 1979 mining expenditures were accumulated by area. Costs applicable to each producing area were depleted using the unit of production method based upon estimated recoverable reserves and costs applicable to other areas were written off when there was little prospect of further work being carried out by the Company or its partners.

Effective January 1, 1979 the Company retroactively changed to the accounting policy described under "Summary of significant accounting policies". This change in accounting reduced net earnings for the year ended December 31, 1979 and 1978 by $178,000 ($0.07 per share) and $366,000 ($0.14 per share) respectively. The cumulative effect of this change in accounting to January 1, 1978 of $2,055,000 has been charged to retained earnings at that date.

Note 2 Property, Plant and Equipment

	1979		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration, development and equipment			
— North America	$134,615	$48,088	$ 86,527
— Production equipment	20,950	7,977	12,973
Mining properties and equipment			
— Producing	6,447	1,128	5,319
— Non-producing	3,397	3,383	14
— Equipment	2,878	530	2,348
Land, buildings and other equipment	1,298	421	877
	$169,585	$61,527	$108,058

	1978 (Note 1)		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration, development and equipment			
— North America	$106,306	$44,020	$62,286
— Northwestern Europe	7,851	2,686	5,165
— Production equipment	15,642	7,357	8,285
Mining properties and equipment			
— Producing	5,338	660	4,678
— Non-producing	4,963	3,711	1,252
— Equipment	2,742	303	2,439
Land, buildings and other equipment	1,170	310	860
	$144,012	$59,047	$84,965

Note 3 Bank Indebtedness

Bank indebtedness in 1978 was secured by accounts receivable and certain interests in petroleum and natural gas leases.

Note 4 Long Term Debt

	Maturity	1979	1978
7.25% Subordinated debentures*	1988	$11,850	$12,935
Bank production loan	1984	9,464	—
Bank production loan ($3,950,000 U.S.)		—	4,437
Non-interest bearing advances under exploration agreement		—	381
Non-interest bearing agreement (1979 - $274,000 U.S.; 1978 - $299,000 U.S.)	1990	270	295
Other		29	30
		21,613	18,078
Less: Current minimum maturities		2,559	2,298
		$19,054	$15,780

* Subject to annual sinking fund requirements of $1,067,000 on November 1 of each year until 1987.

Debentures repurchased by the Company may be applied against its sinking fund obligations. Debentures repurchased to December 31, 1979 satisfied the November 1, 1979 instalment and a balance of $681,000 remains to be applied against future sinking fund payments.

The bank production loan is secured by accounts receivable and certain petroleum and natural gas leases.

The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to 1979 are as follows: 1980 - $2,559,000; 1981 - $3,235,000; 1982 - $3,235,000; 1983 - $3,235,000; 1984 - $1,979,000.

Note 5 Income Taxes

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

	1979		1978 (Note 1)	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
Computed "expected" tax expense	$9,027	46.0%	$4,024	46.0%
Royalties and other payments to provincial governments	5,836	29.8	4,251	48.6
Other non-deductible costs	302	1.5	1,584	18.1
Equity income	(16)	(0.1)	(33)	(0.4)
Depletion allowances on Canadian oil and gas production income	(2,250)	(11.5)	(1,438)	(16.4)
Federal resource allowance	(4,539)	(23.1)	(3,278)	(37.5)
Provincial income taxes less federal tax abatements	252	1.3	420	4.8
Refund of taxes under incentive plans	(2,247)	(11.5)	(1,531)	(17.5)
Actual tax expense — current and deferred	$6,365	32.4%	$3,999	45.7%

Note 6 Shareholders' Equity

During 1978 the Company issued 30,435 common shares on conversion of 7.25% debentures. As a result, $106,000 was credited to capital stock and $908,000 to contributed surplus.

There are restrictions on the payment of dividends under the Trust Indenture securing the 7.25% subordinated debentures. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings at December 31, 1979.

Note 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.

	1979		1978 (Note 1)	
	Operating Revenue	Segment Earnings	Operating Revenue	Segment Earnings (Loss)
Petroleum and natural gas	$33,156	$ 19,990	$25,008	$13,332
Mining	10,866	1,728	4,128	(2,626)
	$44,022	21,718	$29,136	10,706
Equity income		35		71
Other income		244		357
Interest expense		(2,247)		(2,317)
Minority interest expense		(127)		(69)
Income taxes		(6,365)		(3,999)
Earnings before gain on sale of North Sea properties		$ 13,258		$ 4,749
Identifiable assets				
Petroleum and natural gas		$109,931		$82,363
Mining		14,329		10,218
Corporate assets		2,253		3,615
Investment in 50% owned company		1,011		1,076
		$127,524		$97,272
Capital expenditures				
Petroleum and natural gas		$ 35,523		$19,649
Mining		2,528		1,249
		$ 38,051		$20,898
Depletion and depreciation				
Petroleum and natural gas		$ 5,536		$ 5,202
Mining		1,814		1,314
		$ 7,350		$ 6,516

Note 8 Remuneration of Directors and Officers

Remuneration paid to directors and senior officers in their respective capacities was $43,000 and $280,000 (1978 - $43,000 and $208,000).

FIVE YEAR REVIEW OF OPERATIONS

CONSOLIDATED STATEMENT OF EARNINGS

	Years ended December 31			Years ended September 30	
	1979	1978	1977	1976	1975
Revenue					
Crude Oil	$22,590,000	$17,337,000	$13,851,000	$10,341,000	$ 9,459,000
Natural gas and related products	10,566,000	7,671,000	7,520,000	5,428,000	3,611,000
Mining	10,866,000	4,128,000	1,092,000	57,000	—
Equity income (loss)	35,000	71,000	(2,950,000)	—	(8,000)
Other income	244,000	357,000	207,000	1,783,000	2,284,000
	44,301,000	29,564,000	19,720,000	17,609,000	15,346,000
Expenses					
Operating and general	15,081,000	11,983,000	6,980,000	4,548,000	3,582,000
Depletion and depreciation	7,350,000	6,516,000	6,651,000	4,876,000	3,923,000
Interest	2,247,000	2,317,000	1,172,000	1,227,000	1,373,000
Other charges	—	—	—	—	400,000
	24,678,000	20,816,000	14,803,000	10,651,000	9,278,000
	19,623,000	8,748,000	4,917,000	6,958,000	6,068,000
Income Taxes					
Current	(72,000)	(153,000)	1,269,000	2,598,000	1,885,000
Deferred	6,437,000	4,152,000	2,043,000	(23,000)	1,339,000
	6,365,000	3,999,000	3,312,000	2,575,000	3,224,000
Earnings before gain on sale of North Sea properties	13,258,000	4,749,000	1,605,000	4,383,000	2,844,000
Gain on sale of North Sea properties (net of applicable income taxes of $803,000)	5,157,000	—	—	—	—
Net earnings before extraordinary items	18,415,000	4,749,000	1,605,000	4,383,000	2,844,000
Extraordinary items	2,462,000	747,000	(6,205,000)	—	—
Net earnings (loss)	$20,877,000	$ 5,496,000	$ (4,600,000)	$ 4,383,000	$ 2,844,000
Earnings per share					
Earnings before gain on sale of North Sea properties	$ 4.95	$ 1.78	$ 0.60	$ 1.66	$ 1.07
Gain on sale of North Sea properties	1.93	—	—	—	—
Net earnings before extraordinary items	6.88	1.78	0.60	1.66	1.07
Extraordinary items	0.92	0.28	(2.34)	—	—
Net earnings (loss)	$ 7.80	$ 2.06	$ (1.74)	$ 1.66	$ 1.07

CONSOLIDATED BALANCE SHEET

	1979	1978	1977	1976	1975
Working capital (deficiency)	$ (4,141,000)	$ (9,934,000)	$ (4,712,000)	$ 7,953,000	$ 8,299,000
Investments and advances	1,011,000	1,076,000	1,366,000	1,754,000	5,926,000
Capital assets — net	108,058,000	84,965,000	70,859,000	56,229,000	48,713,000
Other assets	770,000	685,000	929,000	599,000	501,000
Deferred production revenue	796,000	378,000	—	—	—
Long term debt — net	19,054,000	15,780,000	18,539,000	16,058,000	17,321,000
Deferred income taxes	22,714,000	17,936,000	13,784,000	10,951,000	10,973,000
Minority interest	1,449,000	1,890,000	1,821,000	1,736,000	1,738,000
Shareholders' equity	61,685,000	40,808,000	34,298,000	37,790,000	33,407,000

		Years ended December 31			Years ended September 30	
		1979	1978	1977	1976	1975
CAPITAL EXPENDITURES	Acquisition of property	$ 5,685,000	$ 1,687,000	$ 2,539,000	$ 2,114,000	$ 782,000
	Exploration and development expenditures	27,761,000	16,462,000	11,486,000	9,821,000	4,127,000
	Production equipment	4,474,000	2,545,000	2,545,000	534,000	232,000
	Other capital assets	131,000	204,000	441,000	97,000	58,000
	Total capital expenditures	$38,051,000	$20,898,000	$17,011,000	$12,566,000	$ 5,199,000
LANDHOLDINGS	Petroleum and natural gas					
	Gross acreage	5,578,000	6,853,000	8,058,000	8,793,000	9,460,000
	Net acreage	1,645,000	2,000,000	2,633,000	2,543,000	2,576,000
	Mining					
	Gross acreage	597,000	767,000	283,000	286,000	254,000
	Net acreage	259,000	418,000	259,000	252,000	220,000
DRILLING ACTIVITY	Gross wells drilled	162	169	108	52	38
	Net oil and gas wells — working interest	25	20	11	5	3
	— royalty interest	1	12	7	1	4
PRODUCTION	Crude oil and natural gas liquids — cubic metres per day	1 238	1 055	1 040	991	1 153
	Natural gas — thousand cubic metres per day	530	433	470	474	406
SHARES	Shares outstanding					
	end of year	2,678,356	2,678,356	2,647,921	2,647,921	2,647,921
	average for the year	2,678,356	2,668,211	2,647,921	2,647,921	2,647,921

The above data incorporates retroactive adjustments