

Annual Report 1990



NOWSCO WELL SERVICE LTD.



Nowscor Well Service Ltd. is an international company headquartered in Canada, with operations in Canada, the United States, U.K./Europe and Southeast Asia, providing skilled people, specialized technology, products and equipment to the oil and gas industry and mining and industrial sectors.

In the oil and gas industry, which is the Company's principal market, these specialized products, equipment and technology are applied primarily in the cementing and stimulation (including acidizing and fracturing) of wells and in related applications involving nitrogen, carbon dioxide, coiled tubing and leak detection. In Canada, the Company also designs and fabricates specialized equipment for its own use world-wide and for sale to third parties and provides training to a variety of customers. In addition, the Company conducts research and development activities which have resulted in technological advances in those areas of the oil and gas industry in which it operates.

Industrial and pipeline activities include pipeline and transmission systems servicing and industrial plant commissioning and maintenance.

The Company also operates a financial segment which carries on a money market and foreign exchange business and obtains financing for the Company.

The Annual Meeting of the Shareholders of Nowscor Well Service Ltd. will be held at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta on Friday, April 26, 1991 at 4:00 o'clock in the afternoon (local time).

The Year at a Glance

Year	1990	1989	% Change
(thousands of Canadian dollars except per share amounts)			
Revenue	\$220,059	\$171,106	+ 29
Net income	\$ 6,165	\$ 1,485	+315
Funds from continuing operations	\$ 18,401	\$ 15,441	+ 19
Capital expenditures – net	\$ 32,713	\$ 13,473	+143
Dividends declared	\$ 2,257	\$ 3,854	– 41
Number of shares outstanding at year end	16,123,500	16,076,200	
Shareholders at year end	596	646	
Employees at year end	1,441	1,142	
Net income per common share	\$ 0.38	\$ 0.09	+322
4th Quarter	1990	1989	% Change
(thousands of Canadian dollars except per share amounts)			
Revenue	\$ 66,800	\$ 47,615	+ 40
Net income (loss)	\$ 245	\$ (2,712)	+109
Capital expenditures – net	\$ 10,090	\$ 3,400	+197
Net income (loss) per common share	\$ 0.01	\$ (0.17)	+106

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1990 in Review

Industry Overview

As we entered the last decade of the 20th Century, our industry was generally encouraged by the feeling that the economic difficulties of the 80's had been left behind. A growing optimism was evident in the belief that stability was returning to the energy industry. To some extent, Nowesco did experience an improved market during 1990 with revenue from operations activities worldwide growing approximately 33%. However, continued crude oil price instability, together with depressed natural gas pricing and keen competition in the service sector have had a negative effect on profitability.

On a global scale, industry activity was stronger in 1990 than in 1989. This was particularly true of the industry's major participants who continued to shift significant portions of their exploration and production budgets to international areas. The continuing focus of these major companies is on the potentially higher returns expected from access to the larger reservoirs available internationally.

By contrast, smaller independent operators, in keeping with their scope of interest and financial appetite, have continued to focus on the less prolific reservoirs located in Canada and the United States. As is indicated by our revenue growth over the past twelve months, Nowesco has continued to meet the challenge of providing a service which is appropriate to the requirements of each of these diverse groups.

Despite tight market conditions resulting from adversities faced by our clients throughout the year, Nowesco realized good revenue growth in the United States and internationally.

In Canada we maintained a constant market share and experienced revenue growth of approximately 16%. Industry activity reflected optimism during the initial quarter of 1990, with drilling levels exceeding 1989 first quarter results. Most of this activity occurred in the independent and small producer sector, endorsing earlier predictions of a 10% - 15% increase in 1990 Canadian drilling activity. By year's end, however, the actual increase over 1989 was 8%, with 5,881 wells drilled. This represents one of the lowest levels of drilling activity in the past 15 years, and has been observed to be the result of continued low levels of oil well development drilling in Alberta as well as a decline in natural gas development drilling in Saskatchewan. (Canada saw fewer than 6,000 wells completed during the years 1982, 1989 and 1990, compared with a decade high of 11,750

wells drilled in 1985.)

This low level of Canadian drilling activity through 1990 has been attributed to several factors including:

- the merger and subsequent continuing rationalization by several major operating companies,
- low oil prices at the beginning of 1990,
- continued unstable oil prices together with the decline of Canadian natural gas prices,
- high Canadian interest rates, and
- a strong Canadian dollar as measured against the U.S. dollar.

These concerns apparently continue to trouble many operators, as even recent events in the Persian Gulf have had little positive effect on Canadian drilling activity. The resultant weak demand has continued to exert pressure on pricing for our services in Canada as we, at Nowesco, strive to preserve and improve our share of this volatile market.

By contrast, record drilling levels were achieved in the North Sea in 1990. As a result of anticipated legislative changes arising from the Piper Alpha disaster, operators are following more stringent operating guidelines. Nowesco, through its subsidiary McKenna and Sullivan Limited, has benefited as a result of the increased demand for pipeline isolation, purging and inerting services. The U.K./Europe operations increased capital expenditures in 1990 both to comply with the anticipated guidelines and to meet the increased demand for our services.

Again during 1990, Nowesco maintained its commitment to the principle of developing its most valuable resource; people. Despite continued general downsizing of the industry's labour force, Nowesco endeavoured to minimize staff retraction and concentrated on skill development and diversification. We have also continued to expand our research and development efforts in order to provide our clients with continuously improving technical support.

The ongoing effort of our staff and their dedication to corporate objectives is evident in the many successes experienced by the Company over the past year. Management is truly appreciative of the support it receives from all employees!

Financial Performance

1990 was a year of improved financial results. Revenue for the year of \$220.1 million increased 29% compared to 1989. Operational profitability

increased in all major geographic areas. However, certain bases within the U.K./Europe segment were unprofitable and will be closed. Results for the fourth quarter included losses and closure provisions from these operations of \$3.2 million. For the year these losses and provisions totalled \$4.6 million.

Net income of \$6.2 million (\$0.38 per share) increased 315% from \$1.5 million (\$0.09 per share) in 1989. Net income in 1989 included a loss from discontinued operations of \$8.0 million (\$0.50 per share).

At year end the Company's financial condition remained strong with working capital in excess of \$159 million and shareholders' equity of \$158 million.

Outlook

Canada

The sudden rise in crude prices following the Persian Gulf Crisis in August 1990 provided significantly improved cash flow to the producer. The impact of this unexpected additional income may serve to sustain or improve industry investment during 1991. In North America, natural gas prices may well be the key to the activity levels during 1991.

Canada is preparing for additional exports of natural gas to the United States. Currently underway are both pipeline expansion into the northeastern United States and looping of the main transmission line to major eastern Canadian markets. Industry forecasters predict a modest 10% increase in Canadian drilling activity for 1991.

Smaller independent producers in Canada should continue to be as active in the drilling area as they were in 1990. Their improved cash flow of recent months should enable them to take advantage of the many opportunities that still exist in western Canada today.

Off the east coast of Canada, NowSCO has been contracted to provide cementing services for Canada's first offshore oil development project. This program commenced early in 1991 and is expected to be completed by mid 1993.

As a result of several recent acquisitions and subsequent internal restructuring, NowSCO pipeline services have been combined with our industrial services and both have been expanded. We look to 1991 as a growth year for our new Industrial and Pipeline Services Division.

United States

Looking ahead to 1991 we expect to see increased activity in most areas of our operation. The recent extension of tax credits in respect of unconventional natural gas reserves should continue to improve our activity levels in 1991. As well, the expertise we have developed in coalbed methane gas fracturing has enhanced the marketability of our United States operation.

U.K./Europe

NowSCO expects activity levels in the North Sea to continue to be strong throughout 1991, although competition will remain keen and personnel requirements will be a challenge for all. Some rationalization in our foreign operations will take place during 1991, which is expected to have the effect of improving our overall U.K./Europe financial performance.

Expansion of our services into new industrial markets, together with the development of opportunities for conventional services in new areas, will broaden our revenue base in U.K./Europe. We expect U.K./Europe to continue to be a major source of investment and growth for NowSCO, both near and long term.

Equipment additions are planned which will broaden our service capability, particularly in the North Sea. We will also continue to actively pursue new technology and develop additional technical expertise, with particular emphasis on stiff wireline services used in horizontal wells.

Also of potential benefit are the developing markets of eastern Europe. In particular, we completed a series of operations in eastern Germany during 1990 and will continue to pursue this market.

Southeast Asia

The increase in activity levels we experienced in Southeast Asia during 1990 should continue throughout 1991. NowSCO's expanded service capability and geographical coverage will serve to enhance our market position in this part of the world.

The Pacific Rim is experiencing major economic growth in many areas including the exploration and development of its energy resources. Though we are pressured by strong competition, a growing market warrants our continued pursuit. Having developed an experienced and competent staff in Southeast Asia, we see opportunities developing for our technology and servicing capabilities. Our major capital investments made in this region during 1990 should result in observable revenue stream improvement in 1991.

Financial

The activities of the Financial segment, which involve investing in short and long term money market instruments and trading in foreign exchange, are expected to continue to make a significant contribution to our 1991 earnings.

Corporate

There is speculation on the effect of events in the Middle East on the oil industry. To the extent that such events have an effect on the demand for oil, Nowesco is likely able to realize a corollary effect on its worldwide activities. However, because we have no current presence in the immediate area, and considering the infrastructure already being established to deal with the re-building process, we do not anticipate that Nowesco will be affected in any significant way.

As a result of continuing change in environmental legislation, together with a growing awareness of these issues in our industry, the Company has instituted certain environmentally motivated changes to its operations. We recognize the importance of this issue and the need for a continued focus on environmental protection in the future.

Corporately, we will continue to consider acquisitions as a means of broadening our revenue base both domestically and internationally. Our acquisition interests focus on business opportunities in areas with which we are familiar and comfortable, and which represent a natural extension of an existing Nowesco business.

Our goal for the 90's is to improve our financial performance through the diversification and expansion of our business, while recognizing that a balance must be maintained between growth and enhancement of staff and technology. We will explore acquisitions with the intention of both broadening our revenue base by accessing new industrial and pipeline business activities which blend with the core business of the Company and putting Nowesco into new geographical areas. The challenges we have faced and overcome in the past decade have prepared us for the future and, given a reasonably stable market, we feel we have the right blend of financial strength and operating ability to achieve this goal.



S.P. Shouldice
Chairman of the Board and
Chief Executive Officer



D.A. Richardson
President and Chief
Operating Officer

Operational Review

Canada

The first quarter of 1990 was characterized by a slight increase in drilling activity accompanied by a slight improvement in prices for services. During the second quarter, the negative impact of a reduction in industry activity, due to "spring breakup", when road bans restrict activity, was softened by activity from the newly formed Industrial and Pipeline Services Division.

This division was introduced during 1990 to add diversity to Nowesco's business in Canada. It provides, to industrial and pipeline clients, technology and services developed in the Company's U.K./Europe operations during the late 1980's. In most instances this service can be provided with traditional oilfield pumping equipment, though slight modification or auxiliary units are sometimes required. This diversification and enhancement of Nowesco's Canadian revenue stream is a tribute to the imaginative use of existing technology by a multi-talented staff and we are encouraged by the level of acceptance of this new service in Canada following only six months of operation.

Nowesco's commitment to keeping technologically competitive continued in 1990 with emphasis on designing improved fluid systems for use in stimulation services, as well as the purchase and development of software used to support the design of cementing services provided to our clients. New mechanical designs were also developed and incorporated into certain of Nowesco's pumping equipment, improving both their efficiency and safety.

As part of our ongoing effort to improve technologically, we have taken steps to enhance the coordination and communication amongst research and development personnel worldwide through the establishment of a Corporate Engineering function.

During 1989, Nowesco filed a claim for \$12.3 million resulting from our subcontract work during that year in the construction of a large earthen dam in western Canada. Our strongly held position is that the scope of our work on this project changed from the bid specifications, and this position has been discussed at great length with the owner throughout 1990. While progress has been made regarding the resolution of this claim, the financial outcome has not yet been determined. No portion of this claim has been included in 1989 or 1990 income.

United States

The Nowesco United States operation showed strong recovery during 1990 with a return to a favourable profit position. Revenues rose approximately 44% during 1990 with a significant contribution coming from its activities in the coalbed - methane gas play of Alabama. Increased customer activity has yielded a slight improvement in the pricing for services. As well a modest expansion of our services into the Michigan market took place in the last quarter of 1990.

Our U.S. management and staff have endured difficult market conditions during the late 1980's and the results of the past year support their faith in the market.

U.K./Europe

Our activities in U.K./Europe were severely hampered during the first quarter by severe weather conditions which affected our off shore business. Despite this unexpected weak start, revenue developed strongly during the last three quarters of 1990.

Much of this revenue was realized from North Sea operations where a Nowesco subsidiary, McKenna and Sullivan Limited, provided a support service in the installation of pipeline isolation valves and associated surface facilities. To a significant degree our success in the North Sea pipeline market is attributable to our custom designed equipment and fluid technology.

We are also encouraged by our new operation in Syria. Since commencement early in the 2nd quarter, revenues have increased steadily. Barring any negative effect of the Persian Gulf crisis, we expect continued strong performance in Syria.

Though competition remains strong in U.K./Europe, we continue to realize the benefit of a qualified and diversified staff which has proven itself to be technically innovative.

Southeast Asia

Southeast Asia was a much busier area for Nowesco during 1990. Though comparable cost increases were evident, sales in this very competitive market increased more than 100% over 1989. Following the award of several major contracts in this region, Nowesco made major capital investments including a stimulation barge which carries crew accommodation facilities as well as production testing and stimulation equipment. Work on these contracts commenced early in the

3rd quarter of 1990. In addition, during 1990 cementing activities were performed under a contract off shore Vietnam. The positive impact of these contracts is expected in 1991 as significant mobilization costs were experienced in 1990.

Following the improved investment commitment of our clients in Thailand, Indonesia, Malaysia, Brunei and New Zealand, we increased our marketing efforts in these areas and, as a result, have significantly improved our presence.

Financial Segment

Nowesco's financial segment performed admirably during 1990. This segment, operated by a small but talented group, has provided a significant income stream for the Company during the recent difficult years. Expertise has been developed in investment strategy in money markets and foreign exchange transactions. Subjected to very strict and conservative guidelines, this financial group has been able to complement our corporate goals and add significantly to a more stable revenue blend. However, surplus funds are not restricted to use in this segment and if required, may be used for expansion or an acquisition in the operations segment or repayment of debt.

New Services

Pigco Pipeline Services Ltd., established in late 1989 under the joint ownership of Nowesco (51%) and Pulsesearch Consolidated Technology Ltd. ("Pulsesearch"), commenced marketing its new Geometry Pigging system in 1990. Jobs were successfully completed in western Canada, eastern Canada and the United Kingdom.

Revenue from this new service has initially fallen short of expectations. However, we feel acceptance of the technology by the industry has improved now that it has been field proven in both oil and gas environments. With the recent acquisition of Formac Services Ltd. and Dowasue Industries Ltd. and the resultant ability to combine these services with the western Canadian pipeline division into a single business unit, we feel our Industrial and Pipeline Services Division has improved potential for future revenue.

Strategic Planning

Much of our diversification, change and rationalization is the direct result of a strategic planning process undertaken during the past several years. This strategy, whereby creative input from management personnel around the world is used to guide future development, will enhance our ability to anticipate and respond to ongoing changes expected to occur in the industry now and throughout the final decade of this century.

Financial Review

Financial Condition and Liquidity

The Company's net cash position at the end of the year of \$106.9 million has decreased from \$137.3 million at December 31, 1989 and \$157.9 million at December 31, 1988. Cash has been used during the two years from December 31, 1988 along with funds from continuing operations of \$18.4 million in 1990 and \$15.4 million in 1989 to:

- purchase equipment and other capital assets to meet ongoing requirements and expansion opportunities in the amount of \$32.7 million in 1990 and \$13.5 million in 1989. These expenditures occurred principally in U.K./Europe and Canada, with the United States and Southeast Asia incurring the balance of capital expenditures.
- repay debt of \$6.8 million during 1990 as compared to increasing debt by \$0.6 million in 1989.
- fund the loss from discontinued operations in 1989 of \$8.0 million which related to a civil construction contract.
- increase working capital by \$10.0 million in 1990 and \$12.7 million in 1989. These increases relate principally to increases in accounts receivable offset in part by increases in accounts payable which relate to the increased activity levels experienced in the fourth quarter of both 1990 and 1989. Receivables are generally settled in the quarter following the sale.
- in 1989, dividends of \$3,854,000 (\$0.24 per share; U.S. \$0.20 per share) were declared and paid. Dividends of \$2,257,000 (\$0.14 per share; U.S. \$0.12 per share) were declared in December, 1990 and paid in January, 1991.

At December 31, 1990 the Company had short-term unused lines of credit of \$17.1 million.

Approved capital expenditures for 1991 are approximately \$17.1 million and are expected to be funded from cash flow from operations.

In February, 1991, the Company acquired the outstanding shares of two Canadian companies for a total consideration of \$4.1 million composed of \$3.1 million in cash and an equivalent of \$1.0 million in common shares of the Company. The acquired companies are engaged in providing a comprehensive range of pipeline services to the oil and gas and petrochemical industries. The acquisitions were made to expand the Company's activities in the industrial and pipeline sectors.

The business and activities of the Operations segment of the Company are directly affected by fluctuations in the level of drilling activity carried on by its customers which, in turn, is directly affected by fluctuations in world energy prices resulting from both market forces and government policies. The Company has in place a formal quarterly review, planning and forecasting process which enables management to respond to such fluctuations caused by these external factors.

Expansion of the Company's activities in the industrial and pipeline sectors and closure of certain unprofitable operations are measures which have been taken to improve profitability in 1991.

Activity in the oil and gas industry in Canada, the United States and Internationally is expected to increase in 1991 although margins are expected to continue to be slim as a result of ongoing intense competition.

Operating Results

Net income for 1990 totalled \$6.2 million compared to \$1.5 million in 1989 and \$15.1 million in 1988.

1990 income included the results of certain unprofitable bases in U.K./Europe. As a result of losses during the fourth quarter of \$1.4 million, and \$2.8 million for the year, and the projection of continuing losses, the Company decided to close these operations. As a result of this decision anticipated costs of closure amounting to \$1.8 million, comprising equipment relocation costs and employee severance payments, were provided for in the fourth quarter of 1990. The Company has short term contractual commitments in these areas, and during 1991 will receive revenues and incur costs to honour these commitments. The results from this activity will be reflected in 1991 operations. The majority of the equipment used in these operations will either be sold or be redeployed within the U.K./Europe segment. Management believes this decision will enhance future profitability of the U.K./Europe operations segment.

Net income for 1989 included a loss from discontinued operations of \$8.0 million on a major construction contract. The operations were discontinued at December 31, 1989. The Company has made a claim for \$12.3 million related to the additional labour and material costs incurred as a result of the change in the scope of the work. The claim included imputed interest on the additional \$8 million of costs, the cost of writing off all equipment and a minimal profit margin. Any proceeds will be recorded in income upon resolution of the claim.

Revenue

Total revenue of \$220.1 million increased 29% from 1989 revenue of \$171.1 million and increased 26% from 1988 revenue. Increases over 1989 levels were experienced by all segments although Canadian revenue remained lower than in 1988.

Operations Revenue

	Q1	Q2	Q3	Q4	Total
(millions of Canadian dollars)					
1990	\$41.2	\$39.3	\$56.7	\$61.7	\$198.9
1989	36.9	33.0	38.2	41.2	149.3
1988	48.3	34.7	41.4	39.8	164.2

Canadian operations experienced improvements in each of the four quarters of 1990 from 1989 although it did not achieve 1988 revenues. Revenue continued to be highest in the first and fourth quarters when the colder weather conditions permit greater activity in the northern portion of the country. "Spring break up" towards the end of the first quarter is a time of road restrictions and adverse weather conditions which results in the lowest activity levels of the year.

The lower activity levels of 1989 were a reflection of the major mergers and acquisitions within the oil industry which shifted the focus of producers from drilling and maintenance activities. Significantly higher interest rates in Canada than in the United States and the related strengthening of the Canadian dollar reduced oil revenues to oil producers which also contributed to the lower activity.

U.S. operations revenue improved in each of the four quarters of 1990 compared to both 1989 and 1988. This is principally a result of expansion into new areas - Alabama late in 1989 and Michigan in the fourth quarter of 1990.

U.K./Europe operations revenue increased in each quarter of 1990 over 1989 and 1988 except the first quarter of 1990 when our off-shore operations were adversely affected by severe weather conditions. The 1990 increase was largely due to pipeline related work performed in the North Sea.

Southeast Asia also experienced higher revenues in each of the four quarters than in 1989 and 1988 with sales strengthening through the year. The increased activity resulted from increased penetration of this market with the commencement of cementing operations off-shore of Vietnam and the addition of a stimulation barge contract off-shore of Brunei.

Cementing operations contributed approximately 23% of the Company's consolidated operating revenues in 1990 (1989 - 26%; 1988 - 32%) with sales related to stimulation, related operations and fabrication and training accounting for the balance of operations revenue.

Interest and Other Income

	Q1	Q2	Q3	Q4	Total
(millions of Canadian dollars)					
1990	\$5.0	\$5.8	\$5.2	\$5.1	\$21.1
1989	5.1	4.9	5.4	6.4	21.8
1988	1.6	1.7	2.5	4.9	10.7

Interest and other income decreased marginally from 1989. This was primarily a result of a reduction in investment funds which were used to fund capital expenditures in the operations segment and meet debt repayment obligations, offset by higher interest rates. The increase in the fourth quarter of 1988 was a result of the significant increase in cash and short-term investments which arose when the Company renegotiated its available lines of credit.

Costs and Expenses

Total costs and expenses of \$209.9 million increased 26% from 1989 expenses of \$166.2 million and increased 31% from 1988.

Material and operating expenses of \$155.5 million increased 29% from 1989 compared to a 33% increase in operations revenue. The increase from 1988 was 21% compared to an increase in related revenue of 21%. 1990 included costs related to the expansion into new markets in Southeast Asia and the United States and introduction of the industrial and pipeline division in Canada.

General and administrative expenses of \$21.5 million increased 32% and 47% from 1989 and 1988 expenses respectively. Expenses in 1990 included non recurring professional fees related to the Shareholder Protection Rights Agreement and the Canadian Tax dispute which was resolved during the year and costs associated with relocating additional staff in U.K./Europe from Great Yarmouth to Aberdeen, the Company's regional head office. Increased employee and overhead expenses comprised the balance of the increase.

Interest expense of \$21.6 million increased 20% from 1989 and increased \$15.5 million from 1988. The 1990 increase is a result of higher interest rates offset by a reduction in total debt. Additional financing was obtained in the fourth quarter of 1988 which resulted in a significant increase in interest expense in both 1990 and 1989 over 1988.

Depreciation expense of \$11.3 million increased 4% from 1989 and 6% from 1988. Increases reflect the capital additions during these periods.

Income Taxes

Income tax expense for 1990 was \$4.0 million compared to a recovery of \$4.5 million in 1989 and an expense of \$0.1 million in 1988.

As an international company subject to income taxes at various tax rates in different countries, the Company's consolidated effective tax rate is the result of the blend of pre-tax profits and losses in different tax jurisdictions. Fluctuations in the tax rate occur as the blend changes and in 1990 there were higher earnings in areas with high effective tax rates than in 1989. During both 1990 and 1989, tax losses were incurred for which the tax benefit was not recorded. As a result the Company has tax loss carryforwards of approximately \$38 million (1989 - \$23 million) available to be applied against future years' taxable income in various tax jurisdictions. Under current tax legislation these carryforwards do not expire before 1997.

Impact of Inflation and Changing Prices

The impact of inflation in the jurisdictions in which the Company carries on business has become less significant than in the highly inflationary period of the late 1970's and early 1980's. Over the last five years, as a result of a downturn in the oil industry, the Company's prices to customers have been largely dictated by competitive conditions, which has caused significant discounting throughout this period. The Company's cost of raw materials, spare parts, labour and other expenses have, however, been subject to inflationary increases.

As a result, inflation is not considered to be a major factor affecting continuing operations. Profit margins are expected to improve as demand increases for the Company's products, equipment and technology and the over capacity within the industry declines.

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Auditors' Report

To the Shareholders
Nowesco Well Service Ltd.

We have audited the consolidated balance sheets of Nowesco Well Service Ltd. as at December 31, 1990, December 31, 1989 and December 31, 1988 and the consolidated statements of income, retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990, December 31, 1989 and December 31, 1988 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Calgary, Alberta
February 11, 1991

	December 31		
	1990	1989	1988
(thousands of Canadian dollars)			

Assets

Current assets

Cash and short-term investments.....	\$ 33,674	\$ 6,667	\$ 7,896
Marketable securities.....	93,398	150,672	156,225
Accounts receivable	62,290	41,529	32,578
Income taxes recoverable	7,689	12,103	5,726
Inventories	22,434	18,786	18,564
Prepaid expenses.....	3,611	2,906	2,408
	223,096	232,663	223,397

Property, plant and equipment

Buildings.....	22,543	21,242	22,658
Equipment	182,763	143,756	142,497
	205,306	164,998	165,155
Less accumulated depreciation and amortization	97,747	83,972	78,630
	107,559	81,026	86,525
Land.....	4,433	3,729	3,853
	111,992	84,755	90,378

Goodwill (net of accumulated amortization of \$6,140,000

(1989 – \$4,588,000; 1988 – \$2,844,000)

18,382

19,536

21,606

Approved by the Board

APB Shandur

Director

W. E. L. E. S.

Director

\$353,470

\$336,954

\$335,381

See notes to consolidated financial statements

Liabilities

Current liabilities

	December 31		
	1990	1989	1988
(thousands of Canadian dollars)			
Bank indebtedness	\$ 20,174	\$ 20,059	\$ 6,223
Accounts payable and accrued liabilities	32,170	23,159	20,182
Dividends payable	2,257	—	—
Income taxes payable	351	316	618
Current maturities of long-term debt	8,326	8,375	1,275
	<hr/> 63,278	<hr/> 51,909	<hr/> 28,298
Long-term debt	128,648	135,392	141,957
Deferred income taxes	3,579	2,266	7,290

Shareholders' Equity

Share capital

16,123,500 shares issued and outstanding			
(1989 – 16,076,200; 1988 – 16,051,300)	55,984	55,517	55,271
Retained earnings	106,051	102,143	104,512
Equity translation adjustment	(4,070)	(10,273)	(1,947)
	<hr/> 157,965	<hr/> 147,387	<hr/> 157,836

**Consolidated
Statements
of Income**

	Year Ended December 31		
	1990	1989	1988
(thousands of Canadian dollars)			
Revenue			
Operations	\$198,887	\$149,263	\$164,153
Interest and other income	21,172	21,843	10,768
	220,059	171,106	174,921
Costs and expenses			
Material and operating	155,467	120,849	128,287
General and administrative	21,468	16,290	14,585
Interest	21,636	18,103	6,151
Depreciation and amortization	11,310	10,922	10,705
	209,881	166,164	159,728
Income from continuing operations before income taxes	10,178	4,942	15,193
Income taxes			
Current	3,087	423	318
Deferred	926	(4,963)	(178)
	4,013	(4,540)	140
Net income from continuing operations	6,165	9,482	15,053
Loss from discontinued operations,			
net of income tax recovery of \$650,000	—	7,997	—
Net income for the year	\$ 6,165	\$ 1,485	\$ 15,053
Net income per common share from continuing operations	\$ 0.38	\$ 0.59	\$ 0.94
Net income per common share	\$ 0.38	\$ 0.09	\$ 0.94
Consolidated Statements of Retained Earnings			
	Year Ended December 31		
	1990	1989	1988
(thousands of Canadian dollars)			
Retained earnings at beginning of year	\$102,143	\$104,512	\$ 93,309
Net income for the year	6,165	1,485	15,053
	108,308	105,997	108,362
Dividends	2,257	3,854	3,850
Retained earnings at end of year	\$106,051	\$102,143	\$104,512

See notes to consolidated financial statements

**Consolidated
Statements
of Changes
in Cash
Position**

Operating activities:

	Year Ended December 31	1990	1989	1988
(thousands of Canadian dollars)				
Net income from continuing operations	\$ 6,165	\$ 9,482	\$ 15,053	
Add (deduct) items not affecting cash:				
Depreciation and amortization	11,310	10,922	10,705	
Deferred income taxes	926	(4,963)	(178)	
Funds from continuing operations	18,401	15,441	25,580	

Funds from continuing operations

(Increase) in non-cash working capital excluding discontinued operations	(9,965)	(12,669)	(746)	
Cash flow from continuing operations	8,436	2,772	24,834	
Cash (out) flow from discontinued operations	–	(6,991)	–	

Cash (out) flow from operations

Cash (out) flow from operations	8,436	(4,219)	24,834	
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Investing activities:

Purchase of property, plant and equipment – net	(32,713)	(13,473)	(20,796)	
Cash (out) flow before financing activities	(24,277)	(17,692)	4,038	

Financing activities:

Issue of common shares	467	246	252	
Net (reduction) increase in total long-term debt	(6,798)	601	97,919	
Dividends declared	(2,257)	(3,854)	(3,850)	
Dividends unpaid	2,257	–	–	
Cash (out) flow resulting from financing activities	(6,331)	(3,007)	94,321	
(Decrease)increase in net cash position	(30,608)	(20,699)	98,359	
Effect of exchange rate changes on cash	226	81	380	
Net cash position at beginning of year	137,280	157,898	59,159	
Net cash position at end of year	\$106,898	\$137,280	\$157,898	

Net cash position comprises cash and short-term investments and marketable securities less bank indebtedness.

Analysis of (increase) in non-cash working capital from continuing operations:

Accounts receivable	\$ (20,761)	\$ (7,956)	\$ 5,385	
Income taxes recoverable	4,414	(843)	2,808	
Inventories	(3,648)	(270)	1,761	
Prepaid expenses	(705)	(519)	245	
Accounts payable and accrued liabilities	9,011	1,960	(7,303)	
Income taxes payable	35	(246)	(497)	
Effect of exchange rate changes	1,689	(4,795)	(3,145)	
	\$ (9,965)	\$ (12,669)	\$ (746)	

December 31, 1990, 1989, and 1988

Unless stated otherwise, all amounts are expressed in Canadian dollars.

Note A – Significant Accounting Policies

Basis of consolidation: The consolidated financial statements include the accounts of Nowesco Well Service Ltd. and its subsidiaries (hereinafter referred to as the "Company").

Translation of foreign currency financial statements and balances: Foreign operations' financial statements are translated from the foreign entity currency to Canadian dollars as follows:

Self-sustaining Foreign Operations: All assets and liabilities are translated at the rates prevailing at the balance sheet date. Revenues and expenses are translated at the weighted average rates throughout the year.

Adjustments arising from translation are accumulated in the equity translation adjustment (ETA) account, a separate component of shareholders' equity.

Integrated Foreign Operations: Monetary items are translated at the rates prevailing at the balance sheet date and non-monetary items are translated at historic rates. Revenues and expenses are translated at weighted average rates throughout the year (other than depreciation which is translated at the same rates as the related assets). Translation gains and losses are included in income.

During the year and in 1989 certain of the Company's foreign operations became financially dependent on the parent company and are now classified as integrated. All remaining operations continue to be classified as self-sustaining.

During 1988 the Company's method of recording foreign currency denominated liabilities changed. Certain foreign currency denominated liabilities were identified as hedges of the Company's net investment in foreign subsidiaries and accordingly were translated at current exchange rates, with the corresponding foreign currency exchange adjustment being included in the ETA account. Previously the foreign currency denominated liabilities were regarded as being hedged by foreign currency revenue streams of subsidiaries and were translated at historic exchange rates. This change in accounting treatment results in consistency between Canadian and United States' generally accepted accounting principles and has no effect on net income.

Exchange gains and losses resulting from both the translation of unhedged foreign currency monetary items and reductions in the Company's net investment in foreign operations are included in income.

Marketable securities: Marketable securities, consisting of short and long term bonds and commercial paper, are carried at the lower of cost plus accrued interest or market value. At December 31, 1990, 1989 and 1988 cost plus accrued interest approximated market value.

Inventories: Inventories are carried at the lower of cost determined under the first-in, first-out or average cost method or net realizable value.

Revenue recognition: The company recognizes revenue on long-term contracts by the percentage of completion method. Revenue relating to claims for additional compensation is recognized only when the claims are settled.

Property, plant and equipment: Property, plant and equipment are stated at cost, net of provisions for permanent impairment of carrying values. The net cost of assets retired or otherwise disposed of and the related accumulated allowance for depreciation are eliminated from the accounts in the year of disposal and the resulting gain or loss is included in income at that time.

The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets (buildings and improvements – 5 to 50 years; equipment – 2 to 25 years).

Leases: Leases which transfer substantially all of the benefits and risks incident to ownership of property are recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized on a straight-line basis over its estimated useful life.

Goodwill: Goodwill resulting from the acquisition of shares of subsidiaries is amortized on a straight-line basis ranging from 1 to 40 years.

Net income per common share: Net income per common share is based on the weighted average number of shares outstanding during the year. Fully diluted net income per share is not presented because the dilutive effect of common shares under option, if such options were exercised, would not be material.

Comparative financial information: Certain comparative information for the years ended December 31, 1989 and 1988, has been reclassified to conform with the current year's presentation.

Note B – Equipment Under Capital Leases

Property, plant and equipment includes the following equipment under capital leases:

	1990	1989	1988
(thousands of Canadian dollars)			
Equipment.....	\$ 12,440	\$ 11,591	\$ 9,506
Less accumulated amortization	6,971	5,649	4,688
	\$ 5,469	\$ 5,942	\$ 4,818

Note C – Long Term Debt

	Maturity	1990	1989	1988
(thousands of Canadian dollars)				
Term bank loan (1)(3).....	no fixed maturity	\$ 80,000	\$ 80,000	\$ 80,000
Notes payable (2)(3).....	1994	51,559	57,598	–
Capital lease obligations (4)	1992–1994	5,184	5,821	5,653
Industrial Revenue Bond (5)	1992	231	348	477
Bridge and operating bank loans (3)		–	–	54,160
Revolving term bank loan (6).....		–	–	2,942
		136,974	143,767	143,232
Less current maturities		8,326	8,375	1,275
		\$128,648	\$135,392	\$141,957

(1) The rate of interest under this facility is variable based on the prime rate or market rates for Bankers' Acceptances.

Upon twelve months written notice from the lender, the term bank loan converts to a five year term, payable in equal quarterly installments bearing interest based on the market rates for Bankers' Acceptances.

(2) Denominated in Australian dollars and is repayable in full in 1994. By way of foreign exchange swap and forward contracts, the loan is effectively repayable in Canadian dollars and is amortized over five years at an effective pre-tax interest rate of 13.4%.

(3) Jointly secured by a demand debenture and a general assignment of accounts receivable and shares of certain of the Company's subsidiaries. The lenders have the immediate right to accelerate repayment upon 20% or greater of the share ownership of the Company becoming concentrated in the hands of one voting block.

(4) Payable in Canadian and U.S. dollars with fixed interest rates ranging from 4.9% to 9.7% per annum.

(5) Secured by certain land and buildings and repayable in U.S. dollars. The rate of interest is 75% of the Company's U.S. banker's prime rate.

(6) Secured by a demand debenture and a general assignment of accounts receivable. The rates of interest under this facility were variable based on LIBOR or prime.

The aggregate principal repayments required in each of the four years after 1991 are as follows: 1992 – \$8,265,000; 1993 – \$7,959,000; 1994 – \$32,325,000; 1995 – \$99,000. In addition, the Company is entitled to make prepayments on the term bank loan. Interest on long-term debt in 1990 was **\$18,562,000** (1989 – \$15,100,000; 1988 – \$5,028,000).

At December 31, 1990 the Company had unused short-term lines of credit amounting to \$17,100,000 (1989 – \$17,216,000; 1988 – \$21,832,000).

Note D – Share Capital

- Authorized** – an unlimited number of common shares without nominal or par value.
- Issued and Outstanding** – details of changes in issued share capital, for the three year period ended December 31, 1990 are:

	Number of Shares	Amount
		(thousands of Canadian dollars)
Balance January 1, 1988.....	16,026,000	\$ 55,019
Issued upon exercise of employee stock options.....	25,300	252
Balance December 31, 1988.....	16,051,300	\$ 55,271
Issued upon exercise of employee stock options.....	24,900	246
Balance December 31, 1989.....	16,076,200	55,517
Issued upon exercise of employee stock options.....	47,300	467
Balance December 31, 1990	16,123,500	\$ 55,984

3. Stock Related Incentive Plans

The Company maintains an Incentive Stock Option Plan and a Stock Appreciation Rights Plan.

Under the terms of the Incentive Stock Option Plan, options may be granted at the discretion of the Board of Directors to full time officers and employees of the Company. The option price equals the market price of the Company's shares on the date of grant discounted at the discretion of the Board of Directors up to the maximum amount permitted by The Toronto Stock Exchange (presently 10%). The options are not assignable, are earned as to 20% of the shares covered thereby for each full year of employment over a five year period commencing on the date of grant. The options expire after the 10th anniversary of the date of grant. All options granted under the plan become immediately exercisable upon the acquisition by any purchaser (or affiliate thereof) of 20% or more of the common shares of the Company. Restrictions imposed by The Toronto Stock Exchange limit the number of shares available under the Incentive Stock Option Plan to 10% of the total number of outstanding common shares.

The Stock Appreciation Rights Plan mirrors the terms of the Incentive Stock Option Plan except that upon exercise of a right the holder receives, as cash remuneration, the positive difference between the base value of the right and the closing price of the Company's shares on the exercise date. The plan is available to officers and employees of the Company who reside in the United States.

The purchase price of common shares of the Company under options granted to certain officers and key employees and outstanding as at December 31, 1990 ranged from \$9.675 to \$16.25. The base value of rights outstanding at December 31, 1990 ranged from \$9.675 to \$10.40. The Company has reserved **555,100** shares (1989 – 706,800; 1988 – 708,200) for possible future allocations under the Incentive Stock Option Plan.

Changes in the number of common shares under option and stock appreciation rights during the three years ended December 31, 1990 are summarized as follows:

	Common Shares Under Option			Stock Appreciation Rights		
	1990	1989	1988	1990	1989	1988
Outstanding, beginning of year.....	476,400	499,900	571,500	42,600	54,000	–
Granted.....	154,500	5,000	29,000	–	–	54,000
Cancelled.....	(2,800)	(3,600)	(75,300)	–	(8,200)	–
Exercised.....	(47,300)	(24,900)	(25,300)	(4,400)	(3,200)	–
Outstanding, end of year	580,800	476,400	499,900	38,200	42,600	54,000

4. Shareholder Protection Rights Agreement

On April 27, 1990 the shareholders of the Company approved a Shareholder Protection Rights Agreement.

Under the Agreement, one right was issued in respect of each outstanding common share. The rights will not be exercisable and will not trade separately from the common shares at any time prior to a person or group acquiring, or announcing an intention to acquire (in a manner that does not constitute a "permitted bid"), 19.9% or more of the Company's common shares. If this event occurs, the rights may be exercised by all holders (other than an Acquiring Person, as defined) to purchase a determined number of common shares of the Company at a 50% discount to the then prevailing market price.

"Permitted Bids" are defined as tenders to all of the shareholders in accordance with relevant securities legislation and other objective conditions.

Note E – Equity Translation Adjustment

The following is an analysis of the equity translation adjustment component of shareholders' equity:

	1990	1989	1988
(thousands of Canadian dollars)			
Balance at beginning of year	\$ (10,273)	\$ (1,947)	\$ 13,254
Translation of self-sustaining subsidiaries	6,203	(8,326)	(2,778)
Redesignation of hedge (Note A)	–	–	(11,905)
Released to income	–	–	(518)
Balance at end of year	<u>\$ (4,070)</u>	<u>\$ (10,273)</u>	<u>\$ (1,947)</u>

Note F – Contingencies and Commitments

1. During 1990, the long standing dispute between the Company and Canadian taxation authorities regarding Nowasco's entitlement to certain manufacturing and processing incentives was resolved entirely in favour of the Company.
2. On October 18, 1990, the District Court of West Virginia dismissed a claim against the Company and certain other parties totalling U.S. \$3,000,000 (1988 – U.S. \$13,000,000; 1987 – U.S. \$23,000,000; reductions due to partial dismissals) in which allegations of fraud, breach of implied contract, negligence and breach of statute had been made. Settlement costs related to this matter were U.S. \$190,000 during 1990.
3. The Company has been named as defendant in various legal actions arising in the normal course of business. In addition, the Company has potential liability in certain foreign jurisdictions for claims by taxation authorities. The aggregate amount of potential liability related to the legal actions and tax claims is **\$7,000,000** (1989 – \$9,600,000; 1988 – \$1,600,000). Although at the present stage of proceedings legal counsel are unable to give opinions with respect to the possible outcome of these actions, management of the Company believes these claims are substantially without merit, and as such no provision has been made for these amounts in the consolidated financial statements.
4. The Company has letters of credit outstanding totalling **\$3,237,000** (1989 – \$2,848,000; 1988 – \$2,718,000) relating to performance under contracts.

Note G – Pension Plans

The Company has defined benefit pension plans covering most of its employees. The benefits are based on years of service and employees' compensation levels. The Company's policy is to fund the plans based on requirements as determined by independent actuaries.

The following table is disclosure required by Canadian and United States' GAAP and sets forth the funded status of the combined plans and amounts recognized in the Company's financial statements:

	1990	1989	1988
	(thousands of Canadian dollars)		
Actuarial present value of accumulated benefit obligations for services rendered to date using current salary levels, including vested benefits of \$21,553,000 (1989 – \$16,675,000; 1988 – \$14,716,000)	<u><u>\$ 23,251</u></u>	<u><u>\$ 17,809</u></u>	<u><u>\$ 15,573</u></u>
Actuarial present value of projected benefit obligations for services rendered to date using projected salary level	<u><u>\$ 33,353</u></u>	<u><u>\$ 25,410</u></u>	<u><u>\$ 22,342</u></u>
Fair market value of pension plans' assets, primarily listed stocks and bonds held either directly or indirectly through an integrated fund	<u><u>30,273</u></u>	<u><u>28,850</u></u>	<u><u>25,237</u></u>
Projected benefit obligations (in excess of) less than plans' assets	<u><u>(3,080)</u></u>	<u><u>3,440</u></u>	<u><u>2,895</u></u>
Add (deduct):			
Unrecognized portion of prior service cost	<u><u>2,004</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Unamortized portion of (gains)/losses as a result of the plans' experience and from changes in actuarial assumptions since December 31, 1986	<u><u>2,488</u></u>	<u><u>(1,445)</u></u>	<u><u>(756)</u></u>
Unamortized portion of December 31, 1986 plan surplus	<u><u>(2,736)</u></u>	<u><u>(2,994)</u></u>	<u><u>(3,262)</u></u>
Accrued pension liability	<u><u>\$ (1,324)</u></u>	<u><u>\$ (999)</u></u>	<u><u>\$ (1,123)</u></u>
Pension expense for the year consists of:			
Current year's service cost	<u><u>\$ 1,977</u></u>	<u><u>\$ 1,728</u></u>	<u><u>\$ 1,404</u></u>
Interest on projected benefit obligation	<u><u>3,013</u></u>	<u><u>1,816</u></u>	<u><u>1,820</u></u>
Return on plan assets	<u><u>(3,098)</u></u>	<u><u>(2,080)</u></u>	<u><u>(2,388)</u></u>
Amortization and deferral of actuarial differences and changes in assumptions	<u><u>(694)</u></u>	<u><u>(590)</u></u>	<u><u>185</u></u>
Pension expense	<u><u>\$ 1,198</u></u>	<u><u>\$ 874</u></u>	<u><u>\$ 1,021</u></u>

At December 31, 1990 the discount rate and rate of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligations ranged from 9 to 10.5 percent and 4.5 to 8 percent respectively, (December 31, 1989 – 7 to 10 percent and 5 to 8 percent, respectively; December 31, 1988 – 7 to 10 percent and 5 to 8 percent, respectively). The expected long-term rates of return on plan assets in 1990, 1989 and 1988 ranged from 7 to 10 percent.

Note H – Discontinued Operations and Claims Outstanding

Early in 1989 the Company completed the acquisition of a company involved in a construction contract. These operations were discontinued on December 31, 1989 after the completion of the contract. Gross revenues on this contract for 1989 were \$8,994,000. The remaining fixed assets of the business have been written down to their estimated net realizable value of \$200,000 (1989 – \$700,000) and are intended to be sold in 1991. Excluding inter-company balances, current assets of \$1,322,000 (1989 – \$2,023,000) will be used to repay the remaining current liabilities of \$76,000 (1989 – \$1,097,000).

The Company is of the opinion that the scope of work required under this construction contract was changed. As a result, additional labour and material costs were incurred. The Company has filed claims with respect to these costs and additional work performed totalling approximately \$12,300,000. Negotiations are ongoing regarding this dispute. Upon resolution, any proceeds will be recorded in income.

Note I – Income Taxes

The Canadian and foreign components of income from continuing operations before income taxes are as follows:

	1990	1989	1988
	(thousands of Canadian dollars)		
Income (loss) from continuing operations before income taxes:			
Canadian.....	\$ (21,355)	\$ (20,057)	\$ 1,580
Foreign.....	<u>31,533</u>	<u>24,999</u>	<u>13,613</u>
	<u><u>\$ 10,178</u></u>	<u><u>\$ 4,942</u></u>	<u><u>\$ 15,193</u></u>
Income taxes:			
Current			
Canadian.....	\$ –	\$ –	\$ (120)
Foreign.....	<u>3,087</u>	<u>423</u>	<u>438</u>
	<u><u>\$ 3,087</u></u>	<u><u>\$ 423</u></u>	<u><u>\$ 318</u></u>
Deferred			
Canadian.....	\$ –	\$ (4,371)	\$ 1,124
Foreign.....	<u>926</u>	<u>(592)</u>	<u>(1,302)</u>
	<u><u>\$ 926</u></u>	<u><u>\$ (4,963)</u></u>	<u><u>\$ (178)</u></u>

The provision for deferred income taxes results from timing differences in the recognition of revenues and expenses for income tax and financial statement purposes. The tax effects of these differences are as follows:

	1990	1989	1988
	(thousands of Canadian dollars)		
Depreciation.....	\$ 1,385	\$ (5,851)	\$ (1,198)
Interest and other.....	<u>(459)</u>	<u>888</u>	<u>1,020</u>
Provision for deferred income taxes	<u><u>\$ 926</u></u>	<u><u>\$ (4,963)</u></u>	<u><u>\$ (178)</u></u>

The Company's consolidated income tax provision is based upon the tax rates and allowances applicable to each of the various income tax jurisdictions under which the Company operates. As a result, the consolidated tax provision differs from that expected by applying the combined Canadian federal and provincial income tax rate to consolidated income from continuing operations before income taxes for the following reasons:

	1990	1989	1988
	(thousands of Canadian dollars)		
Expected combined Canadian federal and provincial tax.....	\$ 4,826	\$ 2,120	\$ 7,080
Differences in foreign statutory tax rates	<u>(10,893)</u>	<u>(11,672)</u>	<u>(8,033)</u>
Permanent differences.....	<u>411</u>	<u>308</u>	<u>(1,896)</u>
Unrecognized recoveries on losses.....	<u>9,669</u>	<u>4,128</u>	<u>3,218</u>
Manufacturing and processing rate reduction.....	<u>–</u>	<u>576</u>	<u>(229)</u>
Consolidated income tax provision	<u><u>\$ 4,013</u></u>	<u><u>\$ (4,540)</u></u>	<u><u>\$ 140</u></u>

The Company has tax loss carry forwards totalling approximately \$38 million (1989 – \$23 million) available to be applied against future years' taxable income in various tax jurisdictions. Under current tax legislation these tax loss carryforwards do not expire before 1997.

Note J – Segmented Information

The Company has identified two industry segments: Operations, which provides specialized products, equipment and technology to the oil and gas industry, mining and industrial sectors; and Financial, which carries on a money market and foreign exchange business and obtains financing for the Company. Interest and other income, and interest expense relate to both industry segments.

The Company has identified geographic segments for the operations segment as Canada, United States and International which includes operations in U.K./Europe, North Africa and Southeast Asia. The Financial segment is considered to be a separate geographic segment operating throughout the world.

	1990	1989	1988			
	(thousands of Canadian dollars)					
Revenue:						
Operations segment						
Canada.....	\$ 77,189	\$ 66,723	\$ 91,435			
United States.....	28,139	19,605	16,941			
International	94,568	65,786	57,500			
	<u>199,896</u>	<u>152,114</u>	<u>165,876</u>			
Financial segment	20,163	18,992	9,045			
	<u>\$220,059</u>	<u>\$171,106</u>	<u>\$174,921</u>			
Income from continuing operations before income taxes for segmented reporting purposes:						
Operations segment						
Canada.....	\$ 112	\$ (550)	\$ 8,450			
United States.....	2,307	(512)	(165)			
International	(1,543)	(1,697)	(3,066)			
	<u>876</u>	<u>(2,759)</u>	<u>5,219</u>			
Financial segment	9,302	7,701	9,974			
	<u>\$ 10,178</u>	<u>\$ 4,942</u>	<u>\$ 15,193</u>			
Identifiable assets:						
Operations segment						
Canada.....	\$ 79,696	\$ 76,532	\$ 74,824			
United States.....	19,044	13,375	13,834			
International	111,453	92,874	84,485			
	<u>210,193</u>	<u>182,781</u>	<u>173,143</u>			
Financial segment	143,277	154,173	162,238			
	<u>\$353,470</u>	<u>\$336,954</u>	<u>\$335,381</u>			

Substantially all capital expenditures and depreciation and amortization expense for the year relate to the Operations segment.

The Financial segment is shown after the elimination of inter-segment transactions and balances. The eliminations made against the Financial segment are as follows:

	1990	1989	1988			
	(thousands of Canadian dollars)					
Revenue.....						
Identifiable assets.....						
	\$ 13,694	\$ 9,829	\$ 7,359			
	<u>\$ 96,162</u>	<u>\$ 76,299</u>	<u>\$ 61,988</u>			

Note K – United States’ Accounting Principles

The consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles (GAAP), conform with those generally accepted in the United States, except as follows:

1. In 1990 United States’ GAAP requires the following disclosure not required under Canadian GAAP:

Financial Instruments with Off Balance Sheet Risk

The Company has entered into foreign exchange swap agreements and forward foreign exchange contracts in connection with its Australian dollar notes payable to eliminate the impact of exchange rate fluctuations on principal and interest payments and to reduce its effective interest rate to 13.4%. At December 31, 1990 the Company had swap and forward exchange contracts outstanding in the aggregate amount equivalent to \$55.6 million which mature coincidentally with required repayments of principal and interest. The Company is exposed to credit loss in the unlikely event of non performance by the other party to the contracts and agreements, a Schedule A Canadian Chartered Bank. The amount of accounting loss which would be recorded at December 31, 1990 in the event of non performance is \$4.0 million.

The financial segment trades in the foreign exchange and money markets involving major international currencies. While the Company is exposed to market risk with respect to open foreign exchange positions, the Company follows strict guidelines to limit the extent of potential loss, including institutional stop loss provisions and limitations on the extent of exposure to any one currency. At December 31, 1990 spot and forward foreign currency exchange and option contracts were outstanding in the aggregate Canadian equivalent of \$13.5 million which mature prior to February 14, 1991.

2. In 1988, the Company recognized a release of \$518,000 from the ETA account to income upon the reduction of its net investment in certain foreign subsidiaries. Under United States’ GAAP, the ETA is only released to income upon the sale or complete liquidation of an investment in a foreign entity. Accordingly, under United States’ GAAP, the ETA balance at December 31, 1988 would have been \$(1,429,000), net income for the year then ended would have been \$14,535,000 and net income per common share would have been \$0.91.

Note L – Subsequent Events

During February 1991, the Company acquired all of the outstanding common shares of two companies incorporated in Canada for a total consideration of \$4,050,000 composed of \$3,050,000 in cash and an equivalent of \$1,000,000 in common shares of the Company. The acquisitions will be accounted for by the purchase method with results of operations included in the financial statements from the date of acquisition. The acquired companies are engaged in providing a comprehensive range of pipeline services to the oil and gas and petrochemical industries. The excess of the purchase prices over the assigned value of the net assets acquired of \$2,550,000 will be allocated to goodwill.

The net earnings of the acquired companies for the year ending December 31, 1990 are not material in relation to the operations of the Company and therefore pro-forma financial statements have not been provided.

	For the Three Months Ended				
	March 31	June 30	Sept. 30	Dec. 31	Total
	(in thousands of Canadian dollars except per share amounts)				
1990					
Revenue					
Operations.....	\$ 41,189	\$ 39,299	\$ 56,738	\$ 61,661	\$198,887
Interest and other income	4,976	5,825	5,232	5,139	21,172
	46,165	45,124	61,970	66,800	220,059
Material and operating	32,901	33,028	41,407	48,131	155,467
General and administrative	5,017	4,539	4,787	7,125	21,468
Interest	5,315	5,572	5,409	5,340	21,636
Depreciation and amortization	2,398	2,166	3,253	3,493	11,310
	45,631	45,305	54,856	64,089	209,881
Income (loss) before income taxes	534	(181)	7,114	2,711	10,178
Income taxes (recovery).....	(436)	365	1,618	2,466	4,013
Net income (loss)	\$ 970	\$ (546)	\$ 5,496	\$ 245	\$ 6,165
Net income (loss) per common share	\$.06	(\$.03)	\$.34	\$.01	\$.38
 1989					
Revenue					
Operations.....	\$ 36,864	\$ 32,985	\$ 38,162	\$ 41,252	\$149,263
Interest and other income	5,155	4,862	5,463	6,363	21,843
	42,019	37,847	43,625	47,615	171,106
Material and operating	29,095	28,642	29,493	33,619	120,849
General and administrative	4,087	3,902	3,782	4,519	16,290
Interest	4,161	4,809	4,682	4,451	18,103
Depreciation and amortization	3,002	2,886	3,042	1,992	10,922
	40,345	40,239	40,999	44,581	166,164
Income (loss) from continuing operations before income taxes	1,674	(2,392)	2,626	3,034	4,942
Income taxes (recovery).....	(1,429)	(3,289)	(1,544)	1,722	(4,540)
Net income from continuing operations	3,103	897	4,170	1,312	9,482
Loss from discontinued operations	(1,377)	(642)	(1,954)	(4,024)	(7,997)
Net income (loss)	\$ 1,726	\$ 255	\$ 2,216	\$ (2,712)	\$ 1,485
Net income (loss) per common share	\$.11	\$.01	\$.14	\$ (.17)	\$.09

Quarterly Financial Summary (continued)

	For the Three Months Ended				
	March 31	June 30	Sept. 30	Dec. 31	Total
	(in thousands of Canadian dollars except per share amounts)				

1988	March 31	June 30	Sept. 30	Dec. 31	Total
Revenue					
Operations					
Operations	\$ 48,300	\$ 34,733	\$ 41,370	\$ 39,750	\$164,153
Interest and other income	1,615	1,678	2,531	4,944	10,768
	49,915	36,411	43,901	44,694	174,921
Material and operating	37,022	27,839	32,324	31,102	128,287
General and administrative	3,666	3,781	2,807	4,311	14,585
Interest	932	915	1,083	3,221	6,151
Depreciation and amortization	2,837	2,637	2,520	2,711	10,705
	44,457	35,172	38,734	41,365	159,728
Income before income taxes	5,458	1,239	5,167	3,329	15,193
Income taxes (recovery)	1,000	(453)	889	(1,296)	140
Net income	\$ 4,458	\$ 1,692	\$ 4,278	\$ 4,625	\$ 15,053
Net income per common share	\$.28	\$.10	\$.27	\$.29	\$.94

Market Information

The principal public trading markets for the Company's common shares are The Toronto Stock Exchange (TSE) in Canada (symbol NWS), and the NASDAQ System (symbol NWELF) in the United States.

The following table sets forth the high and low prices for the Company's common shares on the TSE and on the NASDAQ System for the periods indicated:

	TSE		NASDAQ	
	High	Low	High	Low
(Canadian \$)				
1990				
1st Quarter	18 1/2	15 3/4	15 3/8	13 5/8
2nd Quarter	17 7/8	14 3/4	15 1/8	12 7/8
3rd Quarter	16 7/8	14 1/2	14 1/2	12 7/8
4th Quarter	16	13 1/4	13 3/4	11 5/8
1989				
1st Quarter	15 1/4	13 3/4	12 3/4	11 1/2
2nd Quarter	16	12 1/2	13 3/8	10 5/8
3rd Quarter	14 3/4	13 1/2	12 1/4	11 3/4
4th Quarter	17 1/8	13 1/4	14 5/8	11 1/2
1988				
1st Quarter	17 3/8	12 1/4	13 3/4	9 3/8
2nd Quarter	19	15	15 3/8	12
3rd Quarter	17	13	14	10 5/8
4th Quarter	13 1/2	12 1/4	11 1/4	9 5/8

At December 31, 1990 there were 596 shareholders of record (1989 - 646; 1988 - 732) of the Company's common shares.

1990 **1989** **1988**
(in thousands of Canadian dollars except per share amounts)

Revenue	\$220,059	\$171,106	\$174,921
Costs and expenses			
Material and operating	155,467	120,849	128,287
General and administrative	21,468	16,290	14,585
Interest	21,636	18,103	6,151
Depreciation and amortization	11,310	10,922	10,705
	209,881	166,164	159,728
Income from continuing operations			
before income taxes and minority interest	10,178	4,942	15,193
Income taxes	4,013	(4,540)	140
Minority interest	—	—	—
Net income from continuing operations	6,165	9,482	15,053
Extraordinary item – asset writedown	—	—	—
Loss from discontinued operations	—	7,997	—
Net income (loss) for the year	\$ 6,165	\$ 1,485	\$ 15,053
Net income from continuing operations			
per common share before extraordinary item	\$ 0.38	\$ 0.59	\$ 0.94
Net income (loss) per common share	\$ 0.38	\$ 0.09	\$ 0.94
Funds flow from continuing operations	\$ 18,401	\$ 15,441	\$ 25,580
Cash flow from continuing operations	\$ 8,436	\$ 2,772	\$ 24,834
Total assets	\$353,470	\$336,954	\$335,381
Working capital	\$159,818	\$180,754	\$195,099
Capital expenditures – net	\$ 32,713	\$13,473	\$ 20,796
Long-term debt	\$128,648	\$135,392	\$141,957
Shareholders' equity	\$157,965	\$147,387	\$157,836
Dividends (1)	\$ 2,257	\$ 3,854	\$ 3,850
Shares outstanding at December 31	16,123,500	16,076,200	16,051,300
Shareholders	596	646	732
Number of employees	1,441	1,142	1,182

This data is based on Canadian generally accepted accounting principles (GAAP). There were no differences from United in 1988. In 1987 under United States' GAAP certain hedged foreign currency liabilities would have been accounted for at \$50,892,000 and \$1,349,000 respectively. In 1986 under United States' GAAP the asset write-down would not have been were no material differences in the years prior to 1986.

(1) Dividends paid to shareholders outside of Canada are generally subject to withholding tax at 15% for the United

1987	1986	1985	1984	1983	1982	1981
\$152,541	\$155,667	\$203,340	\$196,792	\$161,087	\$146,217	\$140,850
112,454	114,483	135,526	125,705	101,683	90,501	90,189
10,728	14,427	16,919	15,708	14,835	12,284	10,429
3,985	4,939	4,892	3,892	3,408	3,899	1,604
9,235	15,337	14,426	14,885	11,177	10,100	7,825
136,402	149,186	171,763	160,190	131,103	116,784	110,047
16,139	6,481	31,577	36,602	29,984	29,433	30,803
2,209	289	12,166	11,377	10,460	11,025	11,059
—	—	—	4,049	3,461	3,329	2,908
13,930	6,192	19,411	21,176	16,063	15,079	16,836
—	43,799	—	—	—	—	—
—	—	—	—	—	—	—
\$ 13,930	\$ (37,607)	\$ 19,411	\$ 21,176	\$ 16,063	\$ 15,079	\$ 16,836
\$ 0.98	\$ 0.46	\$ 1.43	\$ 1.56	\$ 1.19	\$ 1.12	\$ 1.25
\$ 0.98	\$ (2.77)	\$ 1.43	\$ 1.56	\$ 1.19	\$ 1.12	\$ 1.25
\$ 24,774	\$ 25,772	\$ 32,366	\$ 41,868	\$ 32,061	\$ 30,692	\$ 32,740
\$ 28,236	\$ 23,714	\$ 27,914	\$ 39,712	\$ 24,572	\$ 29,076	\$ 23,321
\$241,543	\$168,045	\$242,040	\$203,373	\$180,823	\$159,864	\$136,433
\$ 91,988	\$ 43,037	\$ 48,803	\$ 35,930	\$ 28,421	\$ 14,518	\$ 16,480
\$ 14,278	\$ 13,957	\$ 23,812	\$ 24,296	\$ 16,570	\$ 35,770	\$ 25,397
\$ 30,951	\$ 40,161	\$ 46,342	\$ 42,813	\$ 16,149	\$ 12,951	\$ 6,044
\$161,582	\$ 94,985	\$131,368	\$106,599	\$ 89,511	\$ 77,687	\$ 67,132
\$ 805	\$ 2,033	\$ 4,062	\$ 4,060	\$ 3,787	\$ 3,649	\$ 4,848
16,026,000	13,556,800	13,550,245	13,533,245	13,526,345	13,522,045	13,478,045
799	888	956	1,158	1,348	1,611	1,664
1,034	827	1,348	1,352	1,208	1,048	1,020

States' GAAP in 1990 and 1989. Note K of Notes to the Consolidated Financial Statements describes differences current exchange rates rather than historic rates. Total long-term debt and ETA at December 31, 1987 would have been recorded as an extraordinary item but would have been included in net income (loss) before extraordinary item. There

States and other countries where tax treaties apply and 25% for non-tax treaty countries.

Board of Directors

DONALD J. ANDERSON Calgary, Alberta	Retired
ALAN J. DAY Calgary, Alberta	Vice President and Chief Financial Officer of the Company
BRYCE W. DOUGLAS Toronto, Ontario	Vice President and Director, RBC Dominion Securities, Inc. (securities firm)
CLIFFORD F. DOW Wooster, Ohio	Vice President and General Manager of U.S. Operations of the Company
WILLIAM A. ELSER Calgary, Alberta	Retired (previously President and Chief Executive Officer, Atcor Ltd., natural resource company)
MACLEAN E. JONES Calgary, Alberta	Retired (previously Senior Partner, Bennett Jones Verchere, Barristers and Solicitors)
DOUGLAS A. RICHARDSON Calgary, Alberta	President and Chief Operating Officer of the Company
S. PATRICK SHOULDICE Calgary, Alberta	Chairman of the Board and Chief Executive Officer of the Company

Officers

S. PATRICK SHOULDICE	Chairman of the Board and Chief Executive Officer
DOUGLAS A. RICHARDSON	President and Chief Operating Officer
ALAN J. DAY	Vice President, Chief Financial Officer, Secretary and Treasurer
CLIFFORD F. DOW	Vice President
ALASTAIR J. ROBERTSON	Corporate Controller
KENNETH M. BAGAN	Assistant Secretary
GRANT TREVATHAN	Assistant Secretary

REGISTRAR AND TRANSFER AGENT	The Montreal Trust Company of Canada; Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal.
SOLICITORS	Bennett Jones Verchere, Calgary, Alberta.
BANKERS	Canadian Imperial Bank of Commerce, Calgary, Alberta. Royal Bank of Canada, Calgary, Alberta.
AUDITORS	KPMG Peat Marwick Thorne, Chartered Accountants, Calgary, Alberta.
STOCK LISTED	The Toronto Stock Exchange NASDAQ
CORPORATE OFFICES	2750, 801 – 6th Avenue S.W., Calgary, Alberta Canada T2P 4L8
SIGNIFICANT SUBSIDIARY COMPANIES	Nowesco Well Service (U.K.) Limited Nowesco Well Service Norge A/S Nowesco Well Service GmbH Nowesco Well Service (S.E. Asia) PTE. Ltd. Nowesco (U.K.) Group Limited Nowesco (Neth) Group B.V. Nowesco (IFC) B.V. Nowesco International Limited Nowesco Well Service Company Limited N.W.S. Administrative Services Limited International Nowesco Well Service Inc. McKenna and Sullivan Limited PIGCO Pipeline Services Ltd.
AVAILABILITY OF FORM 10-K	Upon request of any shareholder, the Company will provide, without charge, a copy of its annual report on Form 10-K, as filed with the Securities and Exchange Commission. Please direct your request to The Secretary, Nowesco Well Service Ltd., 2750, 801 – 6th Avenue S.W., Calgary, Alberta, Canada, T2P 4L8.

Notes



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