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1987
25th Anniversary

Annual Report

NOWSCO

Corporate Profile

Nowsco Well Service Ltd. is a Canadian-based company which provides, on an international basis, specialized products, equipment and technology principally to owners and operators of oil and gas wells for use in the drilling, completion and re-working of such wells. The Company's 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, endless 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.

The Annual Meeting of the Shareholders of Nowsco Well Service Ltd. will be held at the Calgary Petroleum Club, 319 - 5th Avenue, S.W., Calgary, Alberta on Friday, April 22, 1988 at 4:00 o'clock in the afternoon (local time).

The Year at a Glance

Year	1987	1986	% Change
	(thousands of Canadian dollars except per share amounts)		
Revenue	**$152,541**	$155,667	− 2
Net income before extraordinary item	**$ 13,930**	$ 6,192	+125
Percent of revenue	**9.1%**	4.0%	
Net income per common share before extraordinary item	**$ 0.98**	$ 0.46	+111
Net income (loss) after write-down	**$ 13,930**	$ (37,607)	
Net income (loss) per common share	**$ 0.98**	$ (2.77)	
Cash flow from operations	**$ 28,236**	$ 23,714	+ 19
Cash flow from operations per common share	**$ 1.99**	$ 1.75	+ 14
Capital expenditures — net	**$ 14,278**	$ 13,957	+ 2
Dividends paid	**$ 805**	$ 2,033	− 60
Number of shares outstanding			
End of year	**16,026,000**	13,556,800	
Weighted average during year	**14,216,864**	13,553,522	
Shareholders	**799**	888	
Employees at year end	**1,034**	827	

4th Quarter	1987	1986	% Change
	(thousands of Canadian dollars except per share amounts)		
Revenue	**$ 51,467**	$ 33,667	+ 53
Net income before extraordinary item	**$ 5,970**	$ 1,752	+241
Net income per common share before extraordinary item	**$ 0.40**	$ 0.13	+208
Net income (loss) after write-down	**$ 5,970**	$ (42,047)	
Net income (loss) per common share	**$ 0.40**	$ (3.10)	
Cash flow from operations	**$ 12,302**	$ 5,936	+107
Cash flow from operations per common share	**$ 0.82**	$ 0.44	+ 86
Capital expenditures — net	**$ 9,175**	$ 1,247	+636

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1987 in Review

1987 saw a gradual return to a more stable market for the international oilfield service sector. This recovery grew in strength in the final two quarters, based on the level of world oil prices near OPEC's stated target of $18 US/barrel. Price stability remains tenuous at this point, but the petroleum sector generally is well capitalized and ready to expand exploration and production activities, given favourable economic and market conditions.

Nowsco has been uniquely positioned to benefit from the international pattern of recovery. Increases in activity have been strongest in Canada and the U.K. North Sea, the Company's principal areas of operations.

In Canada, exploration and development investment has risen steadily, sponsored by Provincial royalty holidays and the continuation of the Canadian Exploration Development Incentive Program. In the fourth quarter, Canadian seismic and drilling rig activity recovered to very encouraging levels. Indications are that some 7,000 wells will be drilled in Western Canada during 1988, a slight increase over 1987, and about 10% more than in 1986.

Although Canadian activity has increased, price competition remains very strong in our sector.

Although Nowsco's U.K./Europe results showed only modest improvement during 1987, rig activity in the North Sea continues to increase, offering encouragement for an upturn for this area. The U.K./Europe market is highly competitive and Nowsco's technical capacity, equipment innovations and development of new applications have proven a source of strength.

For this anniversary year, the management of Nowsco would like to recognize and thank the staff, both past and present, for their support and dedication which has made Nowsco the company it is today.

Financial Performance

The gradual recovery in our sector is reflected in the growth of revenues and gains in profitability from operations during the final two quarters. While 1987 revenues were marginally lower than in 1986, cash flow from operations increased 19%.

Corporate strategy during the year was to maintain our competitive advantage in operating efficiency, and to build balance sheet strength and cash reserves. Accordingly, capital spending was curtailed, tight controls were clamped on expenses, and the suspension of dividend payments was maintained until late in the year.

Nowsco was able to take advantage of strong financial markets during September, to complete the sale and distribution of 2,500,000 shares from treasury adding some $51.7 million to the company's cash position.

As a result of the Company's improving profitability, the Board of Directors decided to renew dividend payments and declared a dividend of five cents per share to shareholders of record as of October 30, 1987.

Nowsco believes the recovery pattern within the service sector will create attractive expansion and acquisition opportunities. With a debt equity ratio of 0.27 to 1 and working capital of $92 million, Nowsco has the financial strength to pursue such opportunities aggressively.

Operating Highlights

The efficiency and economizing measures introduced in late 1986 served the Company well in adapting to the cost-conscious and highly competitive environment which is likely to endure for at least the next several years. Canadian, United States and International operations all contributed to profits during 1987.

Nowsco made two acquisitions during the year — some of the assets of an Alberta sand supply company which will enhance our fracturing capabilities in Western Canada, and the shares of McKenna and Sullivan Ltd., an acknowledged leader in the development of North Sea pipeline technology in the U.K. which will complement our current U.K./ Europe capabilities.

Over the course of the year, the Company opened a new operating base in Alberta, two new bases in the United States, and established itself in Egypt. Staff levels have been increased from 827 to more than 1,000 at year end as the recovery continues.

Nowsco now maintains 45 operating bases in fourteen countries.

Executive Appointments

On October 24, 1987 Mr. D.A. Richardson, formerly Senior Vice President and Chief Operating Officer was appointed President and Chief Operating Officer, with Mr. S.P. Shouldice continuing as Chairman and Chief Executive Officer.

Twenty-fifth Anniversary

On October 17, 1962, Nowsco completed its first wellsite treatment — a nitrogen displacement for Unotex Petroleums near Red Deer, Alberta. The Company consisted of two employees operating one oilfield liquid nitrogen trailer and a rented truck. Given today's environment, it is worth recalling how Nowsco has grown and prospered, particularly since much of that growth was achieved in a climate of political and economic volatility.

In the early 1960's, Nowsco's acceptance in the oilfield was attributable to two fundamentals: technology and people. We were introducing a new technology — the use of liquid nitrogen in down-hole applications to stimulate well production. We were also committed to provide the highest level of service, and that meant recruiting highly-qualified and highly-motivated people. Throughout our twenty-five years, those fundamentals have continually created our growth and prosperity.

Our determination to stay at the leading edge of technology has led to many innovations, both in direct oilfield applications and in the design and fabrication of our own equipment. Our Fabrication, Research and Development and Training Centre is approaching its tenth anniversary, and its operations include the fabrication and export of custom-designed oilfield and laboratory equipment and technical training and expertise.

As a service company, our greatest asset is our people. Our objective is to recruit and train a staff which is dedicated to both personal and corporate achievement and customer satisfaction. The Company has made, and will continue to make, significant investment in the continuing professional education and technical training of its employees.

While the immediate future demands that we maintain financial and operational flexibility, our technical expertise and financial strength will permit us to exploit growth and expansion opportunities. In the longer term, the potential of the next twenty-five years far outstrips the achievements of the past twenty-five years.

Without substantial exploration and development effort, both the United States and Canada could be required to sharply increase their imports of petroleum, particularly light crude oils. Throughout the world, considerations in respect of security of supply and economic stability should take on greater importance to countries and regions which have the potential to be self-sufficient.

This will require dramatic advancement of exploration effort, together with an ever-increasing need for higher reservoir recoveries and the stimulation of less prolific reservoirs. In turn, this will offer significant, even unparalleled, opportunities for companies like Nowsco, which are determined to provide their customers with improved technology and efficiency.

S.P. Shouldice

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

D.A. Richardson

D. A. Richardson
President and
Chief Operating Officer

While 1987 saw a gradual return to a more stable well servicing marketplace, the petroleum sector we serve remains a "buyer's market". With the dramatic cuts in industry cash flow in the past two years, and the current uncertainty over energy prices and financial markets, the industry world-wide has adopted a tough, cost-conscious business style which offers no tolerance for waste or inefficiency. After making significant staff reductions and implementing numerous efficiency and economizing measures in late 1986, Nowsco was well prepared to maintain and improve its position in all its markets.

Canada

The active rig count historically has portrayed the "pulse" of the oil and gas industry. Following the expiry of certain provincial government incentives at year end 1986 and the onset of "spring breakup" where road restrictions and weather conditions severely curtail operations in Canada and the U.S., rig activity declined to a utilization rate of less than 10% at the beginning of the second quarter of 1987. The introduction of further government incentives in the form of provincial royalty holidays and federal subsidies for drilling, combined with strong equity markets and apparent crude oil price stability led to significant increases in field activity, beginning at mid-year. In the fourth quarter, the rig utilization rate had rebounded to an average in excess of 40%.

Nowsco maintained all its Canadian operating locations and recently added operations at Red Earth in North/Central Alberta. Staff was increased 30% during the year as all equipment was returned to service.

During the fourth quarter of 1987, Nowsco acquired the inventory and the bulk sand storage and hauling assets of a local sand supply company, at a cost of some $3.8 million. Integration of this company's experienced staff of 16, together with quality control measures, will enhance our fracturing efficiency and capabilities in Canada.

The international marketplace for the fabrication of new oilfield service equipment declined considerably during 1987. After a record year in 1986 in which Nowsco's equipment sales exceeded $15 million and the Company was recognized as Alberta's "international marketing firm of the year", 1987 sales declined some 50%. However, there remains a healthy international demand for the sale of laboratory equipment, designed and fabricated by Nowsco. While our entry into laboratory equipment manufacture was intended to provide superior test equipment for our own R&D efforts, both domestic and international acceptance of our equipment is growing. To meet this demand, Nowsco's line of portable cement testing equipment is now being manufactured at our Fabrication facility on a production basis.

United States

1987 is generally regarded as the worst year in history for exploration and drilling in the U.S. The weekly average rig count has been estimated at 937, barely a third the number considered necessary to meet U.S. energy needs. Despite this, Nowsco achieved a modest, yet very encouraging, turnaround. In 1987 sales were up by 2% and, after two years of losses, our U.S. operations showed profits.

Two techniques developed by Nowsco — "foam cementing" and "foam fracturing" contributed significantly to U.S. sales, particularly in the areas of West Virginia and Kentucky. Two new bases — in Brookville, Pennsylvania and Charleston, West Virginia — were opened in 1987 in response to local market conditions.

Nowsco's technical capacities earned the company recognition in two areas during 1987. The first was a successful fracture treatment performed on the deepest producing well in West Virginia; the second, the use of a nitrogen inerting technique developed and perfected by Nowsco's U.K. engineering staff to extinguish a large coal mine fire in Pennsylvania. The project required pumping more than 200 million standard cubic feet of nitrogen in 21 days into the mine, Nowsco's first exposure to a project of this magnitude in the U.S.

Given the Company's modest success in the U.S. in 1987, and generally optimistic forecasts for industry activity over the next several years, Nowsco considers the current depressed U.S. market to offer significant opportunities for expansion and will carefully consider opportunities to better position itself geographically to take advantage of the inevitable turnaround in the U.S. petroleum sector.

International

Nowsco was able to maintain its international revenue base during 1987 despite strong discounting efforts by our competitors. The U.K./Europe market showed improvement following mid-year, however the balance of Nowsco's international operating areas showed little change. In U.K./ Europe, the Company's technical capacities and innovative equipment design is continuing to attract clients in a highly competitive market. New applications of Nowsco's coiled tubing operations involving Straddle Packers, Bridge Plugs, milling tools, wire line integration and an innovative down-hole camera are all showing positive results.

In late 1987, Nowsco was awarded the cementing contract for a multi-well program in the southern U.K. This is one of the largest single on-shore developments in Europe.

Marketing efforts in Europe to broaden the application of Nowsco technology to other industrial uses are encouraging. During 1987, mine inerting applications continued to grow. One unique project was the application of nitrogen inerting to control a fire aboard a ship carrying a cargo of dynamite through the English Channel.

Significant staff reductions in Southeast Asia combined with stronger marketing efforts are expected to reverse the unsatisfactory operating results in this area. In late 1987, Nowsco secured a two-year contract to provide well stimulation services off the northwest coast of Borneo. Nowsco is also active in Thailand, Indonesia and the offshore areas of the People's Republic of China. The Company has maintained its operating locations in Southeast Asia and anticipates its operational efficiencies will enhance profitability as this area returns to more stable market conditions.

Operating Results

Revenue

Revenue during 1987 of $152.5 million decreased 2.0% compared to 1986.

During the first quarter revenue decreased 48.7% compared to the first quarter of 1986. This was due to unusually strong sales in the first quarter of 1986 as a result of high activity levels in UK/Europe and in Canada, as the oil and gas industry took advantage of expiring federal government incentive programs.

Revenue of $29.5 million during the second quarter increased 7.5% compared to the second quarter of 1986, with all geographic operating areas showing similar revenues to 1986.

A 21.0% improvement in revenues to $40.0 million in the third quarter compared to the third quarter of 1986 was the result of a gradual rise in world-wide exploration and development activity following the increase in the price of oil. The increase in activity was most predominant in Canada, with a modest improvement seen in UK/Europe operations.

During the fourth quarter, revenue of $51.5 million increased 52.9% compared to 1986. Contributing to the increase were significantly increased revenues in Canada, together with interest earned on the proceeds from the September 29, 1987 share issue.

Costs and Expenses

Material and operating expenses in 1987 decreased 2.5% compared to 1986 in response to the overall reduced activity level during the twelve month period and continued cost saving measures implemented in all operating areas.

General and administrative expenses decreased 19.9% compared to 1986, principally resulting, in the first and second quarters of 1987, from recoveries of bad debts which had been provided for during 1986 and a reduction in administrative employee levels in 1987.

The 19.3% decrease in interest expense reflected lower debt levels following long term debt repayments made during the year together with the impact of lower interest rates.

Depreciation and amortization expense for the year showed a 39.8% decrease compared to 1986, reflecting the reduced carrying value of fixed assets following the asset write-down recorded at December 31, 1986.

Income Taxes

The 1987 provision for income taxes represented an effective tax rate of 13.7% compared to 4.5% during 1986. The low tax rate in both 1987 and 1986 resulted from increased earnings in low tax rate jurisdictions combined with tax losses in higher tax rate areas.

Net Income

Net income before extraordinary item for 1987 of $13.9 million increased 125.0% compared to 1986. The significant increase in profitability in 1987 can be attributed to the reduction in depreciation and amortization expense referred to above as well as major decreases in all other categories of expenses.

The improved profitability was most noticeable after the first quarter. In particular, net income from Canadian operations showed a significant improvement compared to 1986 reflecting increased activity levels. Net income in UK/Europe remained similar to 1986 as a result of intensified price competition in the later part of 1987. A modest profit was recorded in the United States compared to a loss in 1986.

Financial Position

At December 31, 1987, the Company's financial position and liquidity had improved significantly compared to a year ago. The most noticeable change was the Company's working capital position, which improved from $43.0 million at December 31, 1986 to $92.0 million at December 31, 1987, a working capital ratio in excess of 3 to 1.

The improvement in working capital was principally the result of cash received from the issue in September, 1987 of 2.5 million common shares at a price of $21.25 per share. Net proceeds from the issue totalled $51.7 million.

Contributing also to the improvement in the Company's financial position was a 19.1% increase in cash flow from operations during the year compared to 1986.

Following the stock market collapse in October, the Company announced its intention to make a normal course issuer bid to purchase up to 1 million outstanding common shares through The Toronto Stock Exchange. As at December 31, 1987, the Company had acquired 76,200 shares (representing 0.47% of total outstanding shares) for a total cost of $932,000.

Net capital expenditures during 1987 of $14.3 million increased marginally compared to 1986. Included in these expenditures was $3.5 million used in Canada to acquire the capital assets of a supplier of raw materials.

In December, the Company acquired all of the outstanding shares of McKenna and Sullivan Ltd., a private UK company specializing in providing pipeline services to the oil and gas and petrochemical industries, for a cash consideration equivalent to $4.1 million.

Dividends for the year of $805,000 ($0.05 per share) decreased 60.4% compared to $2,033,000 ($0.15 per share) paid in 1986. The resumption of the semi annual dividend in the fourth quarter of 1987, previously suspended in mid 1986, was in response to the evident improvement in profitability during 1987.

Long-term debt decreased by $9.2 million from December 31, 1986 to $31.0 million at December 31, 1987 as a result of repayments made during the year, changes to current maturities and exchange rate fluctuations.

Market information

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

At December 31, 1987, there were 799 shareholders of record of the Company's common shares.

	March 31	June 30	Sept. 30	Dec. 31	Total
	For The Three Months Ended				
	(thousands of Canadian dollars except per share amounts)				
1987					
Revenue	$31,522	$29,525	$40,027	$ 51,467	$152,541
Costs and expenses of operations	24,286	26,393	31,778	40,725	123,182
Interest	1,019	973	970	1,023	3,985
Depreciation and amortization	2,323	2,076	2,330	2,506	9,235
	27,628	29,442	35,078	44,254	136,402
Income before income taxes	3,894	83	4,949	7,213	16,139
Income taxes	988	(727)	705	1,243	2,209
Net income	$ 2,906	$ 810	$ 4,244	$ 5,970	$ 13,930
Net income per common share	$.21	$.06	$.31	$.40	$.98
1986					
Revenue	$61,444	$27,466	$33,090	$ 33,667	$155,667
Costs and expenses of operations	46,455	28,027	26,782	27,646	128,910
Interest	1,589	1,082	1,116	1,152	4,939
Depreciation and amortization	4,126	3,851	3,395	3,965	15,337
	52,170	32,960	31,293	32,763	149,186
Income (loss) before income taxes and extraordinary item	9,274	(5,494)	1,797	904	6,481
Income taxes	3,846	(2,718)	9	(848)	289
Income (loss) before extraordinary item	5,428	(2,776)	1,788	1,752	6,192
Extraordinary item	—	—	—	43,799	43,799
Net income (loss)	$ 5,428	$ (2,776)	$ 1,788	$(42,047)	$ (37,607)
Net income (loss) per common share before extraordinary item	$.40	$(.20)	$.13	$.13	$.46
Net income (loss) per common share	$.40	$(.20)	$.13	$(3.10)	$(2.77)
1985					
Revenue	$46,357	$39,589	$54,587	$ 62,807	$203,340
Costs and expenses of operations	33,964	32,740	39,765	45,976	152,445
Interest	1,234	1,310	1,062	1,286	4,892
Depreciation and amortization	3,631	3,511	3,653	3,631	14,426
	38,829	37,561	44,480	50,893	171,763
Income before income taxes	7,528	2,028	10,107	11,914	31,577
Income taxes	3,211	452	4,059	4,444	12,166
Net income	$ 4,317	$ 1,576	$ 6,048	$ 7,470	$ 19,411
Net income per common share	$.32	$.12	$.44	$.55	$1.43

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	December 31 1987	1986
	(thousands of Canadian dollars)	
Assets		
Current assets		
Cash and short-term deposits	**$ 63,839**	$ 9,641
Accounts receivable	**37,963**	27,688
Income taxes recoverable	**8,534**	11,074
Inventories	**20,325**	21,310
Prepaid expenses	**2,653**	1,504
	133,314	71,217
Property, plant and equipment		
Buildings	**22,458**	20,970
Equipment	**137,397**	123,278
	159,855	144,248
Less accumulated depreciation and amortization	**76,868**	70,306
	82,987	73,942
Land	**4,129**	3,829
	87,116	77,771
Goodwill (net of accumulated amortization of **$1,670,000**; 1986 — $1,164,000)	**21,113**	19,057
	$241,543	$168,045

Approved by the Board

Director

Director

See notes to consolidated financial statements.

	December 31 1987	1986
	(thousands of Canadian dollars)	
Liabilities		
Current liabilities		
Bank indebtedness	**$ 4,680**	$ 6,856
Accounts payable and accrued liabilities	**27,485**	16,400
Income taxes payable	**1,115**	1,513
Current maturities of long-term debt	**8,036**	3,411
	41,316	28,180
Long-term debt	**30,951**	40,161
Deferred income taxes	**7,694**	4,719
Shareholders' Equity		
Share capital		
16,026,000 shares issued and outstanding (1986 — 13,556,800)	**55,019**	3,171
Retained earnings	**93,309**	80,847
Equity translation adjustment	**13,254**	10,967
	161,582	94,985
	$241,543	$168,045

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year Ended December 31 **1987**	1986	1985
	(thousands of Canadian dollars)		
Revenue			
Operations	**$148,926**	$153,593	$202,406
Interest and other income	**3,615**	2,074	934
	152,541	155,667	203,340
Costs and expenses			
Material and operating	**111,624**	114,483	135,526
General and administrative	**11,558**	14,427	16,919
Interest	**3,985**	4,939	4,892
Depreciation and amortization	**9,235**	15,337	14,426
	136,402	149,186	171,763
Income before income taxes and extraordinary item	**16,139**	6,481	31,577
Income Taxes			
Current	**600**	(3,954)	13,637
Deferred	**1,609**	4,243	(1,471)
	2,209	289	12,166
Net income before extraordinary item	**13,930**	6,192	19,411
Extraordinary item			
Write-down of property, plant and equipment, net of deferred income taxes of $22,995,000	**—**	43,799	—
Net income (loss) for the year	**$ 13,930**	$ (37,607)	$ 19,411
Net income per common share before extraordinary item	**$0.98**	$0.46	$1.43
Net income (loss) per common share	**$0.98**	$(2.77)	$1.43

Consolidated Statements of Retained Earnings

	Year Ended December 31 **1987**	1986	1985
	(thousands of Canadian dollars)		
Retained earnings at beginning of year	**$ 80,847**	$120,487	$105,138
Net income (loss) for the year	**13,930**	(37,607)	19,411
Purchase of the Company's shares	**(663)**	—	—
	94,114	82,880	124,549
Dividends paid	**805**	2,033	4,062
Retained earnings at end of year	**$ 93,309**	$ 80,847	$120,487

See notes to consolidated financial statements.

Consolidated Statements of Changes in Cash Position

	Year Ended December 31		
	1987	1986	1985
	(thousands of Canadian dollars)		
Operating activities:			
Net income (loss) for the year	**$ 13,930**	$(37,607)	$ 19,411
Add (deduct) items not affecting cash:			
Extraordinary item	**—**	43,799	—
Depreciation and amortization	**9,235**	15,337	14,426
Deferred income taxes	**1,609**	4,243	(1,471)
Decrease (increase) in non-cash working capital	**3,462**	(2,058)	(4,452)
Cash flow from operations	**28,236**	23,714	27,914
Investing activities:			
Purchase of property, plant and equipment — net	**(14,278)**	(13,957)	(23,812)
Acquisition of subsidiary	**(4,143)**	—	—
Cash out flow resulting from investing activities	**(18,421)**	(13,957)	(23,812)
Cash inflow before financing activities	**9,815**	9,757	4,102
Financing activities:			
Issue of common shares	**52,117**	17	173
Net (reduction) increase in total long-term debt	**(3,440)**	(4,216)	2,173
Purchase of the Company's shares	**(932)**	—	—
Dividends paid	**(805)**	(2,033)	(4,062)
Cash in (out) flow resulting from financing activities	**46,940**	(6,232)	(1,716)
Increase in net cash position	**56,755**	3,525	2,386
Effect of exchange rate changes on cash	**(381)**	(797)	(652)
Net cash position at beginning of year	**2,785**	57	(1,677)
Net cash position at end of year	**$ 59,159**	$ 2,785	$ 57

Net cash position comprises cash and short-term deposits less bank indebtedness.

Analysis of decrease (increase) in non-cash working capital items:			
Accounts receivable	**$(10,275)**	$ 24,793	$(13,609)
Income taxes recoverable	**2,540**	(9,173)	(1,901)
Inventories	**985**	267	(2,820)
Prepaid expenses	**(1,149)**	376	(315)
Accounts payable and accrued liabilities	**11,085**	(11,195)	5,048
Income taxes payable	**(398)**	(5,882)	4,761
Due to affiliates	**—**	(859)	609
Working capital of acquired subsidiary	**353**	—	—
Effect of exchange rate changes	**321**	(385)	3,775
	$ 3,462	$ (2,058)	$ (4,452)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1987, 1986 and 1985

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 Nowsco Well Service Ltd. and its subsidiaries (hereinafter referred to as the "Company").

Translation of foreign currency financial statements and balances: Foreign subsidiaries' financial statements are translated from the foreign entity currency to Canadian dollars at the following rates: assets and liabilities at the rates prevailing at balance sheet date and revenues and expenses at the weighted average rates throughout the period. Adjustments arising from translation are accumulated as a separate component of shareholders' equity.

Foreign currency denominated liabilities for which hedges have been identified are translated at historic exchange rates.

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

Inventories: Inventories are carried at cost determined under the first-in, first-out or average cost method. The aggregate of such inventories is not in excess of net realizable value.

Revenue recognition: The Company recognizes revenue on equipment construction contracts by the percentage of completion method.

Goodwill: Goodwill resulting from the acquisition of shares of subsidiaries is amortized on a straight-line basis over 5 and 40 years.

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 principally using the straight-line method over the estimated useful lives of the assets (buildings and improvements — 5 to 40 years; equipment — 2 to 20 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.

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, 1986 and 1985, has been reclassified to conform with the current year's presentation.

Note B — Change in Accounting Policy

Pension expenses and obligations: Effective January 1, 1987, in response to a recommendation of the Canadian Institute of Chartered Accountants, the Company changed its method of accounting for pension costs to adopt, on a prospective basis, a policy under which pension costs related to current service are charged to income for the period during which the services are rendered. Actuarial gains and losses, the effects of plan amendments and changes in assumptions are amortized over the expected average remaining service life of the participants in the plan.

Previously, the amount of pension funded was charged as an expense. The effect of this change in accounting policy in 1987 is not material.

Note C — 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 accordance with United States GAAP, foreign currency denominated liabilities would be regarded as hedges of the Company's net investments in foreign subsidiaries and would be accounted for at current exchange rates. Accordingly, total long term debt and the equity translation adjustment balance at December 31, 1987 would have been $50,892,000 and $1,349,000 respectively. This difference between Canadian and United States GAAP has no effect on net income.
2. In 1986, in accordance with United States GAAP, the write-down of property, plant and equipment would not have been recorded as an extraordinary item but would be included in net income (loss) before extraordinary item. The effect of this difference between Canadian and United States GAAP is summarized below:

	Canadian GAAP	United States GAAP
	(thousands of Canadian dollars except per share amounts)	
Net income (loss) before extraordinary item	$ 6,192	$(37,607)
Extraordinary item	(43,799)	—
Net loss for the year	$(37,607)	$(37,607)
Net income (loss) per common share before extraordinary item	$0.46	$(2.77)
Net loss per common share	$(2.77)	$(2.77)

Note D — Equipment Under Capital Leases

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

	1987	1986
	(thousands of Canadian dollars)	
Equipment	**$ 10,319**	$ 7,213
Less accumulated amortization	**3,900**	3,333
	$ 6,419	$ 3,880

Note E — Acquisition

Effective December 4, 1987, the Company acquired all of the outstanding common shares of a company incorporated in the United Kingdom for a cash consideration equivalent to $4,143,000. The acquisition has been accounted for by the purchase method with results of operations included in these financial statements from December 4, 1987. The acquired company is engaged in providing a comprehensive range of pipeline services to the oil and gas and petrochemical industries. The excess of the purchase price over the assigned value of the net assets acquired of $2,562,000 has been allocated to goodwill.

The net earnings of the acquired company for the years ending December 31, 1987 and 1986 are not material in relation to the operations of the Company and therefore pro-forma financial statements have not been provided.

Note F — Share Capital

1. **Authorized —** 48,000,000 common shares without nominal or par value.
2. **Issued and outstanding — 16,026,000 Shares** (1986 — 13,556,800)

   Details of changes in issued share capital, for the two year period ended December 31, 1987 are:

	Number of Shares	Amount (thousands of Canadian dollars)
Balance January 1, 1986	13,550,245	$ 3,154
Issued upon exercise of employee stock options	6,555	17
Balance December 31, 1986	13,556,800	3,171
Issued upon exercise of employee stock options	**45,400**	**453**
Issued for cash consideration net of after tax issue costs of $1,461,000	**2,500,000**	**51,664**
Purchased for cancellation	**(76,200)**	**(269)**
Balance December 31, 1987	**16,026,000**	**$55,019**

   During the year, the Company, under a normal course issuer bid, acquired 76,200 of its common shares for cancellation at a cost of $932,000. The difference of $663,000 between the price paid and the average carrying value of the shares at the date of purchase has been charged to retained earnings. The shares were cancelled effective the date of purchase.

3. **Incentive Stock Option 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 at an option price equal to the market price of the Company's shares on the date of grant discounted up to the maximum amount, presently 10 percent, permitted by The Toronto Stock Exchange. The options are not assignable, are earned as to 20% of the total shares covered thereby for each full year of employment over a five year period commencing on the first anniversary of the date of grant and are exercisable over a ten year period. 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 common shares available under this plan to 10% of the total number of outstanding common shares.

   The purchase price of common shares of the Company under options granted to certain officers and key employees and outstanding as at December 31, 1987 ranged from $9.675 to $10.24. The Company has reserved 61,900 shares (1986 — 108,800) for possible future allocations.

   Changes in the number of common shares under option during the two years ended December 31, 1987 are summarized as follows:

	1987	1986
Outstanding, beginning of year	**570,000**	134,055
Granted	**54,000**	450,000
Cancelled	**(7,100)**	(7,500)
Exercised	**(45,400)**	(6,555)
Outstanding, end of year	**571,500**	570,000

Note G — Long-term Debt

	Maturity	1987	1986
		(thousands of Canadian dollars)	
Revolving term bank loans[1]	1991	**$ 30,896**	$ 33,494
Industrial Revenue Bond[2]	1992	**649**	829
Capital lease obligations[3]	1988-1994	**7,442**	9,249
		38,987	43,572
Less current maturities		**8,036**	3,411
		$ 30,951	$ 40,161

[1] Secured by a demand debenture and a general assignment of accounts receivable. These loans, some of which are translated at historic exchange rates, are repayable in pounds sterling, deutschemarks, guilders and U.S. dollars. The rates of interest under these facilities are variable based on LIBOR, the prime rate or U.S. base rate established from time to time by the Company's Canadian bankers.

[2] 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.

[3] Payable in Canadian and U.S. dollars with fixed interest rates ranging from 2.5% to 8.1% per annum.

The aggregate principal repayments required in each of the four years after 1988 are as follows: 1989 — $8,230,000; 1990 — $8,240,000; 1991 — $11,854,000; and 1992 —$1,261,000. In addition, the Company is entitled to make prepayments of any portion of the term bank loans. Interest on long-term debt in 1987 was **$3,450,000** (1986 — $3,181,000; 1985 — $4,252,000).

The Company at December 31, 1987, had unused long-term loan facilities totalling $6,500,000, upon which a standby fee of ¼% per annum is payable and other unused lines of credit of $22,057,000.

Note H — Contingencies and Commitments

1. The Income Tax Act provides tax incentives to Canadian corporations carrying on manufacturing and processing activities in the form of accelerated capital cost allowance and a reduced rate of income tax (introduced into the Act in 1972) and investment tax credits (introduced into the Act in 1975). The Company has claimed these tax incentives since they were introduced into the Act.

   Canadian taxation authorities, Federal and Alberta, have carried out reviews of the Company's business activities to determine whether, in their opinions, they qualify as manufacturing and processing activities. As a result of the reviews, the taxation authorities have concluded that the Company's business activities do not so qualify but have indicated that they will continue to treat them as such up to March 23, 1977.

   In 1981, Federal taxation authorities issued Notices of Reassessment in respect of the Company's 1977 to 1979 taxation years disallowing accelerated capital cost allowances and investment tax credits claimed by the Company on a substantial portion of its machinery and equipment on the basis that they do not constitute manufacturing and processing assets and disallowing the reduced rate of tax on income earned by the Company subsequent to March 23, 1977 on the basis that the Company's activities do not constitute manufacturing and processing activities. In 1987, Notices of Reassessment were similarly issued in respect of the Company's 1981 to 1985 taxation years. In 1986, the Alberta taxation authorities issued a Notice of Assessment in respect of the Company's 1985 taxation year on a similar basis.

The Company has filed Notices of Objection in respect of the Notices of Assessment and Reassessment claiming continued entitlement to utilize the income tax incentives available to corporations carrying on manufacturing and processing activities. In 1984, the Federal taxation authorities confirmed the reassessments for 1977 to 1979 and the Company has appealed therefrom in the Federal Court of Canada.

In 1987, the Alberta taxation authorities issued Notices of Reassessment in respect of the Company's 1981 to 1983 taxation years on a similar basis to that described above. The Company intends to file Notices of Objection on a similar basis to that described above in respect of these Reassessments.

The Notices of Assessment and Reassessment claim additional income taxes and interest of approximately $13,200,000 for the years assessed and reassessed. If the Company had computed its income tax provisions for the assessed and reassessed years referred to above and for the subsequent reassessable years on a basis taking into consideration the position of the taxation authorities as set out in the Notices of Assessment and Reassessment and a Federal taxation authorities' interpretation with respect to investment tax credits, retained earnings at December 31, 1987 would have been reduced by approximately $14,000,000.

The Company has received an opinion from special legal counsel that the Company's business activities constitute manufacturing and processing activities and that the Company's machinery and equipment constitute manufacturing and processing machinery and equipment. Management of the Company is of the firm opinion that the Company's tax returns, as filed, are substantially correct. Accordingly, no provision has been made in the Company's accounts to reflect any position other than the Company's continued entitlement to claim the tax incentives available to Canadian corporations carrying on manufacturing and processing activities.

2. A civil action has been brought in the United States against the Company and certain other parties totalling U.S. $23,000,000 as at December 31, 1987. The action alleges fraud, breach of implied contract, negligence and breach of statute relating to certain of the Company's U.S. fracturing operations. The Company has denied all of these allegations and has filed various counter-claims and cross-claims against all other parties to the action. At the present stage of the proceedings, it is not possible to assess the Company's potential liability or the extent of damages, if any, and, as a result, no provision has been made in the consolidated financial statements.

3. The Company has been named as defendant in various legal actions arising in the normal course of business with unprovided claims totalling approximately $1,900,000. Although, at the present stage of proceedings, legal counsel is unable to give opinions with respect to the merits 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 $1,200,000 relating to performance under contracts.

Note I — Pension Plans

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

The following table sets forth the plans' funded status and amounts recognized in the Company's financial statements.

	1987	1986
	(thousands of Canadian dollars)	
Actuarial present values of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $15,773,000 (1986 — $11,045,000)	**$16,928**	$11,663
Projected benefit obligation for service rendered to date	**$21,927**	$17,153
Plans' assets at fair value, primarily listed stocks and bonds	**24,491**	21,005
Plans' assets in excess of projected benefit obligation	**2,564**	3,852
Unamortized actuarial gains and losses and effects of changes in actuarial assumptions since December 31, 1986	**1,541**	—
Unamortized December 31, 1986 actuarial surplus	**(3,559)**	(3,852)
Accrued pension liability	**$ 546**	$ —
Pension expense for the year consists of:		
Benefits earned during the period	**$ 823**	
Interest on projected benefit obligation	**1,242**	
Actual return on plan assets	**(346)**	
Amortization and deferral of actuarial differences and changes in assumptions	**(1,284)**	
Pension expense	**$ 435**	

Pension expense in 1986 under the former accounting policy was $803,000.

At December 31, 1987 the weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligations were 7.3 percent and 5.5 percent, respectively, (December 31, 1986 — 8.0 percent and 5.4 percent, respectively). The expected long-term rate of return on plan assets in 1987 and 1986 was 7.0 percent.

Note J — Segmented Information

The Company provides specialized products, equipment and technology to the oil and gas industry for use during the drilling, completion and production stages of oil and gas wells.

The Company has identified three geographic segments; Canada, the United States, and International, which includes operations in U.K./Europe, Southeast Asia and the Middle East. The following information relates to these geographic segments.

	1987	1986	1985
	(thousands of Canadian dollars)		
Revenue:			
Canada	**$ 78,771**	$ 85,030	$123,602
United States	**18,161**	17,795	25,853
International	**52,899**	52,842	53,885
Corporate	**2,710**	—	—
	$152,541	$155,667	$203,340
Income before income taxes and extraordinary item for segmented reporting purposes:			
Canada	**$ 12,521**	$ 5,816	$ 24,229
United States	**330**	(1,211)	(5,206)
International	**2,434**	1,876	12,554
Corporate	**854**	—	—
	$ 16,139	$ 6,481	$ 31,577
Identifiable assets:			
Canada	**$ 68,028**	$ 67,234	$ 99,620
United States	**13,501**	15,538	29,336
International	**78,558**	66,216	93,521
Corporate	**81,456**	19,057	19,563
	$241,543	$168,045	$242,040

Note K — Income Taxes

The Canadian and foreign components of income before income taxes and extraordinary item are as follows:

	1987	1986	1985
	(thousands of Canadian dollars)		
Income before income taxes and extraordinary item:			
Canadian	**$ 7,437**	$ 2,700	$ 27,610
Foreign	**8,702**	3,781	3,967
	$ 16,139	$ 6,481	$ 31,577
Income taxes:			
Current			
Canadian	**$ 2,064**	$ (2,099)	$ 10,074
Foreign	**(1,464)**	(1,855)	3,563
	$ 600	$ (3,954)	$ 13,637
Deferred			
Canadian	**$ 983**	$ 3,621	$ (3,402)
Foreign	**626**	622	1,931
	$ 1,609	$ 4,243	$ (1,471)

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:

	1987	1986	1985
	(thousands of Canadian dollars)		
Tax and book depreciation	**$ 1,586**	$ 4,070	$ (1,785)
Other — net	**23**	173	314
Provision for deferred income taxes	**$ 1,609**	$ 4,243	$ (1,471)

The Company's consolidated provision for income taxes is based upon tax rates and allowances applicable to the earnings of each of the companies in their respective jurisdictions. As a result, the consolidated tax provision differed from that expected by applying the combined Canadian federal and provincial income tax rate to consolidated income before income taxes and extraordinary item for the following reasons:

	1987	1986	1985
Combined federal and provincial tax rate	**50.7%**	49.2%	48.4%
Differences in foreign statutory tax rates	**(31.6)%**	(44.0)%	(6.0)%
Manufacturing and processing rate reduction	**(5.4)%**	(0.7)%	(3.9)%
Effective consolidated tax rate	**13.7%**	4.5%	38.5%

Auditors' Report

To the Shareholders
Nowsco Well Service Ltd.

We have examined the consolidated balance sheets of Nowsco Well Service Ltd. as at December 31, 1987 and December 31, 1986 and the consolidated statements of income, retained earnings and changes in cash position for each of the three years in the period ended December 31, 1987. Our examinations were 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, 1987 and December 31, 1986 and the results of its operations and the changes in its cash position for each of the three years in the period ended December 31, 1987, in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Ernst + Whinney

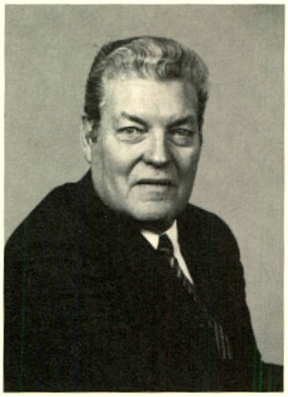
Calgary, Alberta
February 4, 1988

Chartered Accountants

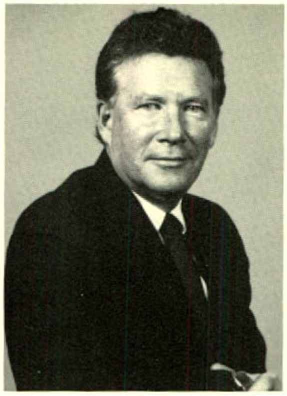
	1987	1986	1985
	(thousands of Canadian dollars except per share amounts)		
Revenue	**$152,541**	$155,667	$203,340
Costs and expenses			
Material and operating	**111,624**	114,483	135,526
General and administrative	**11,558**	14,427	16,919
Interest	**3,985**	4,939	4,892
Depreciation and amortization	**9,235**	15,337	14,426
	136,402	149,186	171,763
Income before income taxes and extraordinary item	**16,139**	6,481	31,577
Income taxes	**2,209**	289	12,166
Minority interest	**—**	—	—
Net income before extraordinary item	**13,930**	6,192	19,411
Extraordinary item — asset write-down	**—**	43,799	—
Net income (loss) for the year	**$ 13,930**	$ (37,607)	$ 19,411
Net income per common share before extraordinary item	**$0.98**	$0.46	$1.43
Net income (loss) per common share	**$0.98**	$(2.77)	$1.43
Cash flow from operations	**$ 28,236**	$ 23,714	$ 27,914
Cash flow from operations per common share	**$1.99**	$1.75	$2.06
Working capital	**$ 91,998**	$ 43,037	$ 45,803
Capital expenditures — net	**$ 14,278**	$ 13,957	$ 23,812
Dividends	**$ 805**	$ 2,033	$ 4,062
Shares outstanding	**16,026,000**	13,556,800	13,550,245
Shareholders	**799**	888	956
Number of employees	**1,034**	827	1,348

1984	1983	1982	1981	1980	1979	1978
$196,792	$161,087	$146,217	$140,850	$135,544	$81,144	$65,184
125,705	101,683	90,501	90,189	84,733	52,608	42,457
15,708	14,835	12,284	10,429	7,169	5,339	4,873
3,892	3,408	3,899	1,604	1,338	1,228	712
14,885	11,177	10,100	7,825	5,270	3,812	3,094
160,190	131,103	116,784	110,047	98,510	62,987	51,136
36,602	29,984	29,433	30,803	37,034	18,157	14,048
11,377	10,460	11,025	11,059	14,270	7,538	5,455
4,049	3,461	3,329	2,908	2,423	33	407
21,176	16,063	15,079	16,836	20,341	10,586	8,186
—	—	—	—	—	—	—
$ 21,176	$ 16,063	$ 15,079	$ 16,836	$ 20,341	$10,586	$ 8,186
$1.56	$1.19	$1.12	$1.25	$1.51	$0.79	$0.62
$1.56	$1.19	$1.12	$1.25	$1.51	$0.79	$0.62
$ 39,712	$ 24,572	$ 29,076	$ 23,321	$ 25,956	$15,373	$ 5,791
$2.94	$1 82	$2.15	$1.73	$1.94	$1.16	$0.44
$ 35,930	$ 28,421	$ 14,518	$ 16,480	$ 13,709	$ 5,094	$ 5,349
$ 24,296	$ 16,570	$ 35,770	$ 25,397	$ 19,823	$15,654	$16,220
$ 4,060	$ 3,787	$ 3,649	$ 4,848	$ 2,683	$ 1,596	$ 1,215
13,533,245	13,526,345	13,522,045	13,478,045	13,428,945	13,328,250	13,284,300
1,158	1,348	1,611	1,664	1,783	1,067	963
1,352	1,208	1,048	1,020	983	783	638

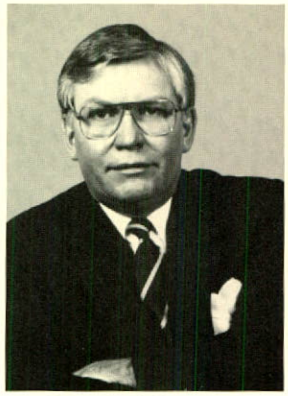
Board of Directors



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, Dominion Securities Inc.

Clifford F. Dow
Wooster, Ohio
Vice President and General Manager of U.S. Operations of the Company.

William A. Elser
Calgary, Alberta
President & Chief Executive Officer, ATCOR Ltd.

Maclean E. Jones
Calgary, Alberta
Senior Partner, Bennett Jones, 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
Robert G. Wells	Vice President
Alastair J. Robertson	Corporate Controller
Grant Trevathan	Assistant Secretary

C

1987

NOWSCO WELL SERVICE LTD.

INFORMATION FOR THE ANALYST

NOWSCO

NOWSCO — the Company

What are the primary strengths of Nowsco today? Quality and determination: the quality of our staff, our equipment and our technology, combined with our determination to be successful, innovative, and the most respected company in our field.

We believe that these are the attributes that have identified our people and our company since its inception, and are the same attributes that will continue to distinguish us in the future.

Nowsco was formed in 1962 with just two employees operating one oilfield liquid nitrogen trailer and a rented truck. From this inauspicious beginning in Western Canada, we have grown, developed, and expanded into the worldwide market place.

In 1962 our goal was to establish a reputable oilfield service company whose people were dedicated to supplying what we defined as 'service' . . . to provide the most qualified people and reliable wellsite equipment, complemented by the latest in technical developments and procedures and to efficiently and effectively meet the requirements of our customers to aid them in their ongoing search for oil and gas.

This was the goal established when our company was founded, and we have never lost sight of it. In fact, it has formed our operational philosophy and has served us well and will continue to dominate our future undertakings.

We are justifiably proud of our achievements to date, but even more, we are proud of our people. They are our principal asset and the major reason for our achievements to date. It is their combined loyalty, effort, pride and dedication to service that has brought Nowsco to its current level of success. With their continued support, we are very confident about our company's future.

Over the years we have broadened our areas of expertise to answer the demands of a growing industry.

Today we offer those years of experience and technical competence, along with specialized equipment and products, to meet the cementing and stimulation requirements of the oil and gas industry worldwide.

Corporate History

1962 — Nowsco (condensed from Nitrogen Oil Well Service Company) is formed and operates out of a single office in Red Deer, Alberta.

The first two employees, both of whom are still with the company, are trained to introduce liquid nitrogen applications to the oil and gas industry of Western Canada. The first wellsite treatment is completed: a nitrogen displacement for Unotex Petroleums on October 17, 1962.

1963-1964 — The industry comes to widespread acceptance of the many down-hole applications for nitrogen. To meet this growing demand for wellsite servicing, Nowsco expands its fleet to four liquid nitrogen pumping units and its staff to eight, of whom four are still with us.

1965 — Nowsco builds its first fluid pumper to offer acidizing to its customers, a business already well established by competitor companies.

1966 — The first cementing unit is built and stationed in Swift Current, Saskatchewan, further diversifying Nowsco's capabilities.

1967 — Annual sales exceed 1 million dollars.

1968 — Nowsco enters the international market for the first time with nitrogen equipment transported to the state of Alaska to displace wells in Cook Inlet.

1970 — Nowsco introduces the first Endless Tubing Unit (E.T.U.) to the Canadian oil industry and makes a major capital investment in the equipment needed to enter the hydraulic fracturing market.

1972 — In April, Nowsco becomes a Canadian public company, with shares trading on the Toronto Stock Exchange.

1973 — Annual sales exceed 10 million dollars and capital expenditures top 3 million dollars. Staff levels pass the 150 mark, and the first international base is established in England to service the developing North Sea oil industry.

1975 — The first base in Continental Europe is opened at Vechta, West Germany. Foam fracturing technology is being pioneered in Western Canada. The first sale of Nowsco-designed equipment to India is completed. Annual sales break the 50 million dollar mark for the first time.

1976 — 'In house' laboratory facilities are opened in Calgary, a significant extension of the technological services offered to Nowsco customers.

1977 — Expansion in the international market continues with the establishment of an operational base in Singapore. Here, the first offshore stimulation barge, "Super Stimulator I", is built and based.

1979 — In November, the Fabrication, Research & Development and Training Centre is opened in Calgary, part of Nowsco's continuous program of expansion and upgrading of in-house technological expertise. This 32 thousand square foot complex rapidly becomes the 'heart' and the 'brains' of a fast-growing corporate body. Here, research programs are conducted along with fabrication of specialized equipment. Currently, as many as

500 Nowsco employees are trained annually, as well as some 200 domestic and international employees of client companies.

1980's — Annual sales reach in excess of 100 million dollars. Equipment sales in excess of 10 million dollars are made to India and Pakistan and a major expansion into the U.S. market is accomplished. Today, more than four hundred mobile oilfield units are operated from twenty one bases in Canada, two bases in the United States, fourteen in U.K./Europe, four in Southeast Asia and three in the Middle East.

1985 — With revenue up 3% to $203.3 million, 1985 was a year of continued growth. Record revenues were achieved in Canada, resulting from increased activity levels throughout the industry following the implementation of The Western Accord by the new Federal Conservative Government. The Company consolidated its operations in the United States in response to a major decline in that marketplace. In contrast, during the year good growth was experienced in U.K./Europe and a significant portion of the 1985 capital expenditure program was directed towards that area.

1986 — After a strong first quarter, particularly in Canada as the oil and gas industry took advantage of expiring PIP grants, the collapse of the world oil price affected activity levels in all geographic operating areas. As a result, revenue declined 23% compared to 1985 to $155.7 million. The company quickly reacted to the downturn with cost saving measures including a significant decrease in the number of employees and salary reductions.

In the fourth quarter an asset write-down of $43.8 million was recorded to reflect a more appropriate carrying value of fixed assets in recognition of reduced activity levels and intensified price competition.

The 61% interest in Nowsco held by Big Three Industries, Inc. was sold in October to two brokerage firms who subsequently through a secondary offering distributed the shares broadly to numerous investors and institutions.

Corporate Information

SUBSIDIARY COMPANIES	Nowsco Well Service (U.K.) Limited Nowsco Well Service Norge A/S Nowsco Well Service GmbH Nowsco Well Service Srl Nowsco Well Service (S.E. Asia) PTE. Ltd. Nowsco Well Service International Ltd. Nowsco (U.K.) Group Limited Nowsco Well Service (Europe) B.V. Nowsco (Neth) Group B.V. Nowsco of Canada Ltd. Nowsco (IFC) B.V. Nowsco International Limited Nowsco Well Service Company Limited N.W.S. Administrative Services Limited
REGISTRAR AND TRANSFER AGENT	The Canada Trust Company Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal
SOLICITORS	Bennett Jones Calgary, Alberta
BANKERS	Canadian Imperial Bank of Commerce Calgary, Alberta Citibank Canada Calgary, Alberta
AUDITORS	Thorne Ernst & Whinney, Chartered Accountants Calgary, Alberta
STOCK LISTED	Toronto Stock Exchange NASDAQ
HEAD OFFICE	1300, 801 - Sixth Avenue, S.W., Calgary, Alberta, T2P 4E1

Operating Locations

CANADA
ALBERTA
Brooks
Calgary
Drayton Valley
Edmonton
Grande Prairie
High Level
Lac La Biche
Lloydminster
Medicine Hat
Peace River
Red Deer
Whitecourt
Slave Lake

BRITISH COLUMBIA
Fort St. John
Ft. Nelson

SASKATCHEWAN
Estevan
Kindersley
Swift Current

MANITOBA
Waskada

NEWFOUNDLAND
St. John's

NOVA SCOTIA
Dartmouth

UNITED STATES
OHIO
Wooster

WEST VIRGINIA
Clarksburg

U.K. AND EUROPE
Great Yarmouth, U.K.
Aberdeen, U.K.
Leeds, U.K.
London, U.K.
Long Parish, U.K.
Tuxford, U.K.
Vechta, West Germany
Montereau, France
Pescara, Italy
Ravenna, Italy
Siracusa, Italy
Stavanger, Norway
Bergen, Norway
Emmen, Netherlands


S.E. ASIA
Singapore
Jakarta, Indonesia
Hong Kong
Miri, Sarawak
MIDDLE EAST
Dubai, U.A.E.
Muscat, Oman
Fahud, Oman

Financial Information

Condensed Comparative Balance Sheets

(Thousands of dollars)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
ASSETS										
Current assets										
Cash	**$ 9,641**	$ 4,995	$ 4,073	$ 14,721	$ 5,709	$ 6,216	$ 1,682	$ 136	$ 55	$ 645
Receivables	**27,688**	55,105	41,496	36,430	29,343	25,780	29,889	20,619	18,600	10,764
Income taxes recoverable	**11,074**	1,901	—	—	—	—	—	—	—	—
Inventories	**21,310**	23,160	20,340	20,649	18,541	21,433	13,336	7,629	5,160	3,367
Prepaids	**1,504**	1,880	1,565	1,695	1,329	1,994	801	301	535	452
	71,217	87,041	67,474	73,495	54,922	55,423	45,708	28,685	24,350	15,228
Property, Plant and Equipment										
Equipment	**123,278**	169,845	142,769	121,293	110,971	83,439	63,128	48,834	37,643	25,375
Buildings and Land	**24,799**	23,856	21,503	21,456	19,685	14,690	12,333	9,162	5,933	2,881
Accumulated depreciation and amortization	**(70,306)**	(58,265)	(48,441)	(35,421)	(25,714)	(17,119)	(12,023)	(9,112)	(6,534)	(4,340)
	77,771	135,436	115,831	107,328	104,942	81,010	63,438	48,884	37,042	23,916
Goodwill — net	**19,057**	19,563	20,068	—	—	—	—	—	—	—
	$168,045	$242,040	$203,373	$180,823	$159,864	$136,433	$109,146	$77,569	$61,392	$39,144
LIABILITIES										
Current liabilities										
Bank indebtedness	**$ 6,856**	$ 4,938	$ 5,750	$ 22,371	$ 19,655	$ 17,178	$ 8,796	$10,009	$ 8,987	$ 3,078
Payables	**16,400**	27,108	21,451	18,889	15,597	16,427	15,485	10,784	9,065	7,506
Income taxes	**1,513**	7,395	2,634	2,991	5,192	1,954	7,134	2,343	678	443
Current maturities of long-term debt	**3,411**	1,797	1,709	823	371	3,384	584	455	271	—
	28,180	41,238	31,544	45,074	40,815	38,943	31,999	23,591	19,001	11,027
Long-term debt	**40,161**	46,342	42,813	16,149	12,951	6,044	5,498	6,368	5,269	—
Deferred taxes	**4,719**	23,092	22,417	21,595	20,889	19,014	13,844	9,936	8,260	6,464
Minority interest	**—**	—	—	8,494	7,522	5,300	2,813	590	860	725
SHAREHOLDERS' EQUITY										
Share capital	**3,171**	3,154	2,981	2,935	2,908	2,816	2,664	2,414	2,322	2,219
Retained earnings	**80,847**	120,487	105,138	88,022	75,746	64,316	52,328	34,670	25,680	18,709
Equity translation adjustment	**10,967**	7,727	(1,520)	(1,446)	(967)	—	—	—	—	—
	94,985	131,368	106,599	89,511	77,687	67,132	54,992	37,084	28,002	20,928
	$168,045	$242,040	$203,373	$180,823	$159,864	$136,433	$109,146	$77,569	$61,392	$39,144

Condensed Comparative Income Statements

(Thousands of dollars)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue	**$155,667**	$203,340	$196,792	$161,087	$146,217	$140,850	$135,544	$81,144	$65,184	$42,237
Costs and expenses										
Material and operating	**114,483**	135,526	125,705	101,683	90,501	90,189	84,733	52,608	42,457	26,226
General and administrative	**14,427**	16,919	15,708	14,835	12,284	10,429	7,169	5,339	4,873	3,047
Interest	**4,939**	4,892	3,892	3,408	3,899	1,604	1,338	1,228	712	211
Depreciation and amortization	**15,337**	14,426	14,885	11,177	10,100	7,825	5,270	3,812	3,094	1,844
	149,186	171,763	160,190	131,103	116,784	110,047	98,510	62,987	51,136	31,328
Net income before income taxes and extraordinary item	**6,481**	31,577	36,602	29,984	29,433	30,803	37,034	18,157	14,048	10,909
Income taxes	**289**	12,166	11,377	10,460	11,025	11,059	14,270	7,538	5,455	4,416
Minority interest	**—**	—	4,049	3,461	3,329	2,908	2,423	33	407	364
Net income before extraordinary item	**6,192**	$ 19,411	$ 21,176	$ 16,063	$ 15,079	$ 16,836	$ 20,341	$10,586	$ 8,186	$ 6,129
Extraordinary item	**43,799**	—	—	—	—	—	—	—	—	—
Net (loss) income for the year	**$ (37,607)**	$ 19,411	$ 21,176	$ 16,063	$ 15,079	$ 16,836	$ 20,341	$10,586	$ 8,186	$ 6,129

Changes in Cash Position

(Thousands of dollars)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Cash provided from operating activities										
Net (loss) income	$ (37,607)	$19,411	$21,176	$16,063	$15,079	$16,836	$20,341	$10,586	$ 8,186	$ 6,129
Non cash items:										
Extraordinary item	43,799	—	—	—	—	—	—	—	—	—
Depreciation and amortization	15,337	14,426	14,885	11,177	10,100	7,825	5,270	3,812	3,094	1,844
Deferred taxes	4,243	(1,471)	1,758	1,360	2,184	5,170	3,907	1,675	1,796	2,332
Minority interest	—	—	4,049	3,461	3,329	2,908	2,423	33	407	364
(Increase) in non-cash working capital	(444)	(4,364)	(1,270)	(7,037)	(1,627)	(6,618)	(5,856)	(685)	(7,647)	(2,207)
Cash flow from operations	25,328	28,002	40,598	25,024	29,065	26,121	26,085	15,421	5,836	8,462
Investing activities										
Capital expenditures — net	(13,957)	(23,812)	(24,296)	(16,570)	(35,770)	(25,397)	(19,823)	(15,654)	(16,220)	(9,917)
Acquisition of minority interest	—	—	(32,500)	—	—	—	—	—	—	—
	(13,957)	(23,812)	(56,796)	(16,570)	(35,770)	(25,397)	(19,823)	(15,654)	(16,220)	(9,917)
Cash in (out) flow before financing activities	11,371	4,190	(16,198)	8,454	(6,705)	724	6,262	(233)	(10,384)	(1,455)
Financing activities										
Net (reduction) increase in long-term debt	(5,830)	2,085	25,525	3,059	6,795	546	(870)	1,099	5,269	—
Issue of common shares	17	173	46	27	92	152	250	92	103	103
Dividends paid	(2,033)	(4,062)	(4,060)	(3,787)	(3,649)	(4,848)	(2,683)	(1,596)	(1,215)	(769)
Minority dividend/other	—	—	—	(2,035)	(411)	(422)	(200)	(303)	(272)	(28)
	(7,846)	(1,804)	21,511	(2,736)	2,827	(4,572)	(3,503)	(708)	3,885	(694)
Increase (decrease) in net cash position	3,525	2,386	5,313	5,718	(3,878)	(3,848)	(2,759)	(941)	(6,499)	(2,149)
Effect of exchange rate changes on cash	(797)	(652)	660	578	894	—	—	—	—	—
Net cash position at beginning of year	57	(1,677)	(7,650)	(13,946)	(10,962)	(7,114)	(9,873)	(8,932)	(2,433)	(284)
Net cash position at end of year	$ 2,785	$ 57	$ (1,677)	$ (7,650)	$ (13,946)	$ (10,962)	$ (7,114)	$ (9,873)	$ (8,932)	$ (2,433)

Net cash position comprises cash (including short-term deposits) less bank indebtedness.

Analysis of (increase) in non-cash working capital:	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Receivables	$ 24,793	$ (13,609)	$ (5,066)	$ (7,087)	$ (3,563)	$ 4,109	$ (9,270)	$ (2,019)	$ (7,836)	$ (3,833)
Income taxes recoverable	(9,173)	(1,901)	—	—	—	—	—	—	—	—
Inventories	267	(2,820)	309	(2,108)	2,982	(8,097)	(5,707)	(2,469)	(1,793)	(1,385)
Prepaids	376	(315)	130	(366)	665	(1,193)	(500)	234	(83)	(353)
Payables	(11,195)	5,048	2,318	3,557	13	1,081	3,874	2,120	872	3,833
Income taxes payable	(5,882)	4,761	(357)	(2,201)	3,238	(5,180)	4,791	1,665	235	(259)
Current maturities of long-term debt	1,614	88	886	452	(3,013)	2,800	129	184	271	—
Due to affiliates	(859)	609	244	(265)	(843)	(138)	827	(400)	687	(160)
Effect of exchange rate changes	(385)	3,775	266	981	(1,016)	—	—	—	—	—
	$ (444)	$ (4,364)	$ (1,270)	$ (7,037)	$ (1,627)	$ (6,618)	$ (5,856)	$ (685)	$ (7,647)	$ (2,207)

Employee Productivity

Based on number of employees at end of year.

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue	**$188,231**	$150,846	$145,556	$133,350	$139,520	$138,088	$137,888	$103,632	$102,169	$ 89,866
Net income before minority interest and extraordinary item	**$ 7,487**	$ 14,400	$ 18,658	$ 16,162	$ 17,565	$ 19,357	$ 23,158	$ 13,562	$ 13,469	$ 13,815
Number of employees at end of year	**827**	1,348	1,352	1,208	1,048	1,020	983	783	638	470

Selected Analyses and Ratios

See glossary of terms.

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
*Number of shares outstanding at year end	**13,556,800**	13,550,245	13,533,245	13,526,345	13,522,045	13,478,045	13,428,945	13,328,250	13,284,300	13,217,700
*Stock range (T.S.E.)										
High	**$ 17½**	$ 26⅜	$ 23¼	$ 23½	$ 19	$ 29	$ 35	$ 15½	$ 9⅜	$ 6⅛
Low	**$ 9⅜**	$ 17⅛	$ 17	$ 14	$ 9¼	$ 13¼	$ 14¼	$ 6⅞	$ 4¾	$ 2¾
Year-end	**$ 10¾**	$ 17⅝	$ 19	$ 17½	$ 18¼	$ 15¾	$ 26⅜	$ 15⅜	$ 6⅞	$ 5⅞
Per share:										
Net income before extraordinary item	**$ 0.46**	$ 1.43	$ 1.56	$ 1.19	$ 1.12	$ 1.25	$ 1.51	$ 0.79	$ 0.62	$ 0.47
Net income	**$ (2.77)**	$ 1.43	$ 1.56	$ 1.19	$ 1.12	$ 1.25	$ 1.51	$ 0.79	$ 0.62	$ 0.47
Cash flow	**$ 1.87**	$ 2.07	$ 3.00	$ 1.85	$ 2.15	$ 1.94	$ 1.94	$ 1.16	$ 0.44	$ 0.64
Dividends	**$ 0.15**	$ 0.30	$ 0.30	$ 0.28	$ 0.27	$ 0.36	$ 0.20	$ 0.12	$ 0.09	$ 0.06
Book value	**$ 7.01**	$ 9.69	$ 7.88	$ 6.62	$ 5.75	$ 4.98	$ 4.10	$ 2.78	$ 2.11	$ 1.58
****Profitability:**										
Pre-tax margin	**4.2 %**	15.5 %	18.6 %	18.6 %	20.1 %	21.9 %	27.3 %	22.4 %	21.6 %	25.8 %
Net income margin	**4.0 %**	9.5 %	10.8 %	10.0 %	10.3 %	12.0 %	15.0 %	13.1 %	12.6 %	14.5 %
Effective tax rate	**4.5 %**	38.5 %	31.1 %	34.9 %	37.5 %	35.9 %	38.5 %	41.5 %	38.8 %	40.5 %
Return on equity	*****4.6 %**	16.3 %	21.6 %	19.2 %	20.8 %	27.6 %	44.1 %	32.5 %	33.5 %	33.7 %
Return on capital employed	*****3.1 %**	10.8 %	13.8 %	11.8 %	13.2 %	19.4 %	30.5 %	20.8 %	22.8 %	26.1 %
P/E ratio	**23.4**	12.3	12.2	14.7	16.3	12.6	17.5	19.4	11.1	12.5
P/CF ratio	**5.7**	8.5	6.3	9.5	8.5	8.1	13.6	13.3	15.6	9.2
Coverage:										
Current ratio	**2.5**	2.2	2.1	1.6	1.3	1.4	1.4	1.2	1.3	1.4
Debt/cash flow ratio	**2.0**	1.1	1.2	1.6	1.1	1.0	0.6	1.1	2.5	0.4
Debt/equity ratio	**0.5**	0.4	0.5	0.4	0.4	0.4	0.3	0.4	0.5	0.1
Current debt coverage ratio	**3.8**	4.2	8.6	6.6	4.0	11.9	14.2	9.6	8.2	40.1
Year to year changes:										
Revenue	**(23.4)%**	3.3 %	22.2 %	10.2 %	3.8 %	3.9 %	67.0 %	24.5 %	54.3 %	39.3 %
Pre-tax income	**(79.5)%**	(13.7)%	22.1 %	1.9 %	(4.4)%	(16.8)%	104.0 %	29.3 %	28.8 %	33.3 %
Net income before extraordinary item	**(68.1)%**	(8.3)%	31.8 %	6.5 %	(10.4)%	(17.2)%	92.2 %	29.3 %	33.6 %	27.3 %
Cash flow	**(9.5)%**	(31.0)%	62.2 %	(13.9)%	11.3 %	0.1 %	69.2 %	164.2 %	31.0 %	17.9 %

* Adjusted for stock splits in April 1975, September 1978 and April 1980.
** Based upon net income before extraordinary item.
***Excludes effect of extraordinary item recorded at December 31, 1986.

Non Canadian Operations

(Thousands of dollars)

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Revenue	**$ 70,637**	$ 79,738	$95,340	$76,136	$57,172	$35,890	$24,535	$11,121	$11,223	$5,353
Income before income taxes, minority interest, extraordinary item	**$ 665**	$ 7,348	$18,406	$13,604	$11,522	$ 8,648	$ 6,009	$ 68	$ 831	$ 743
Pre-tax margin	**0.9%**	9.2%	19.3%	17.9%	20.2%	24.1%	24.5%	0.1%	7.4%	13.9%
Minority interest in income of consolidated subsidiaries	**—**	—	$ 4,049	$ 3,461	$ 3,329	$ 2,908	$ 2,423	$ 33	$ 407	$ 364
Identifiable assets	**$ 81,754**	$122,857	$97,105	$87,182	$74,406	$48,203	$23,135	$13,806	$12,773	$6,756

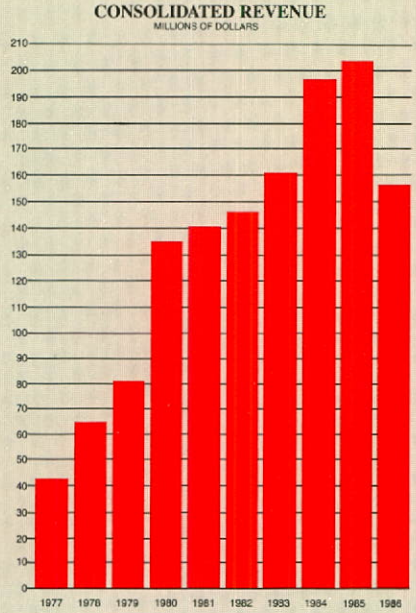
Quarterly Analysis

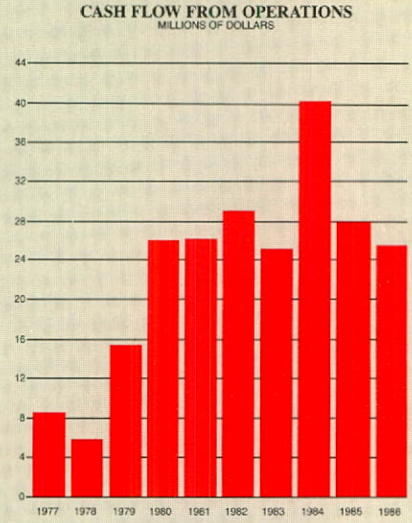
(Thousands of dollars)

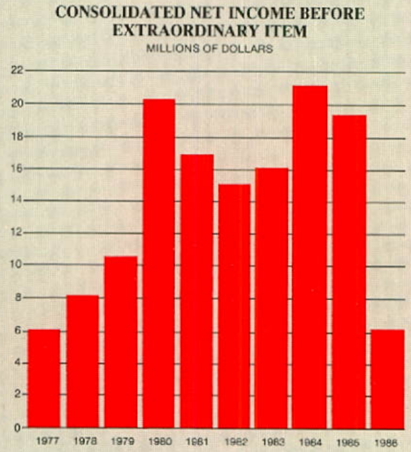
	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
1st Quarter										
Revenue	**$ 61,444**	$46,357	$51,123	$40,773	$41,331	$45,686	$35,489	$20,035	$15,974	$11,406
Cost of sales/ operating	**48,044**	35,198	37,237	28,508	29,677	30,320	22,269	13,776	10,821	7,233
Depreciation and amortization	**4,126**	3,631	3,027	2,861	2,189	1,526	1,390	919	670	385
Net income before taxes and minority interest	**9,274**	7,528	10,859	9,404	9,465	13,840	11,830	5,340	4,483	3,788
Income taxes	**3,846**	3,211	3,969	3,516	4,113	5,532	4,777	2,136	1,840	1,580
Minority interest	**—**	—	1,113	506	546	702	318	208	19	99
Net income	**$ 5,428**	$ 4,317	$ 5,777	$ 5,382	$ 4,806	$ 7,606	$ 6,735	$ 2,996	$ 2,624	$ 2,109
* Net income per share	**$ 0.40**	$ 0.32	$ 0.43	$ 0.40	$ 0.36	$ 0.57	$ 0.51	$ 0.20	$ 0.20	$ 0.16
2nd Quarter										
Revenue	**$ 27,466**	$39,589	$40,236	$30,433	$27,272	$27,290	$26,063	$13,142	$11,234	$ 6,822
Cost of sales/ operating	**29,109**	34,050	32,695	25,859	22,226	21,717	20,189	11,448	9,602	5,714
Depreciation and amortization	**3,851**	3,511	2,959	2,793	2,442	1,816	1,179	932	687	424
Net income before taxes and minority interest	**(5,494)**	2,028	4,582	1,781	2,604	3,757	4,695	762	945	684
Income taxes	**(2,718)**	452	798	453	619	1,233	1,730	74	390	305
Minority interest	**—**	—	1,517	921	869	931	764	221	206	75
Net income	**$ (2,776)**	$ 1,576	$ 2,267	$ 407	$ 1,116	$ 1,593	$ 2,201	$ 467	$ 349	$ 304
* Net income per share	**$ (0.20)**	$ 0.12	$ 0.16	$ 0.03	$ 0.08	$ 0.11	$ 0.16	$ 0.04	$ 0.03	$ 0.03
3rd Quarter										
Revenue	**$ 33,090**	$54,587	$52,419	$44,936	$33,586	$33,135	$35,404	$23,149	$17,552	$11,031
Cost of sales/ operating	**27,898**	40,827	37,923	31,557	24,608	24,308	24,227	16,887	12,731	6,755
Depreciation and amortization	**3,395**	3,653	3,937	2,951	2,518	2,160	1,270	1,025	897	446
Net income before taxes and minority interest	**1,797**	10,107	10,559	10,428	6,460	6,667	9,907	5,237	3,924	3,830
Income taxes	**9**	4,059	3,766	3,939	2,350	2,793	3,672	2,413	1,708	1,730
Minority interest	**—**	—	1,041	991	990	638	533	(225)	136	176
Net income	**$ 1,788**	$ 6,048	$ 5,752	$ 5,498	$ 3,120	$ 3,236	$ 5,702	$ 3,049	$ 2,080	$ 1,924
* Net income per share	**$ 0.13**	$ 0.44	$ 0.43	$ 0.40	$ 0.23	$ 0.24	$ 0.42	$ 0.24	$ 0.15	$ 0.15
4th Quarter										
Revenue	**$ 33,667**	$62,807	$53,014	$44,945	$44,028	$34,739	$38,588	$24,818	$20,424	$12,978
Cost of sales/ operating	**28,798**	47,262	37,450	34,002	30,173	25,877	26,555	17,064	14,888	9,782
Depreciation and amortization	**3,965**	3,631	4,962	2,572	2,951	2,323	1,431	936	840	589
Net income before taxes, minority interest and extraordinary item	**904**	11,914	10,602	8,371	10,904	6,539	10,602	6,818	4,696	2,607
Income taxes	**(848)**	4,444	2,844	2,552	3,943	1,501	4,091	2,915	1,517	801
Minority interest	**—**	—	**378	1,043	924	637	808	(171)	46	14
Net income before extraordinary item	**$ 1,752**	$ 7,470	$ 7,380	$ 4,776	$ 6,037	$ 4,401	$ 5,703	$ 4,074	$ 3,133	$ 1,792
Extraordinary item	**43,799**	—	—	—	—	—	—	—	—	—
Net (loss) income	**$(42,047)**	$ 7,470	$ 7,380	$ 4,776	$ 6,037	$ 4,401	$ 5,703	$ 4,074	$ 3,133	$ 1,792
* Net income per share before extra ordinary item	**$ 0.13**	$ 0.55	$ 0.54	$ 0.36	$ 0.45	$ 0.33	$ 0.42	$ 0.31	$ 0.24	$ 0.13
* Net income per share	**$ (3.10)**	$ 0.55	$ 0.54	$ 0.36	$ 0.45	$ 0.33	$ 0.42	$ 0.31	$ 0.24	$ 0.13

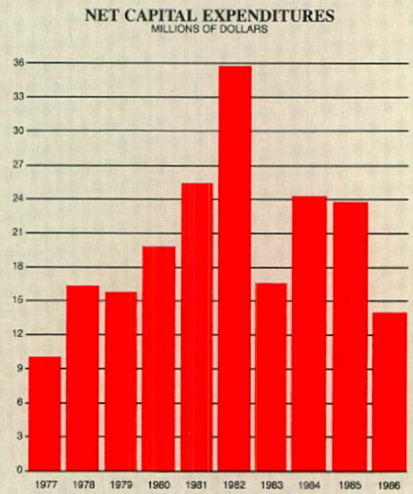
*Adjusted for stock splits in April 1975, September 1978 and April 1980.

**Prior quarters' adjustments.







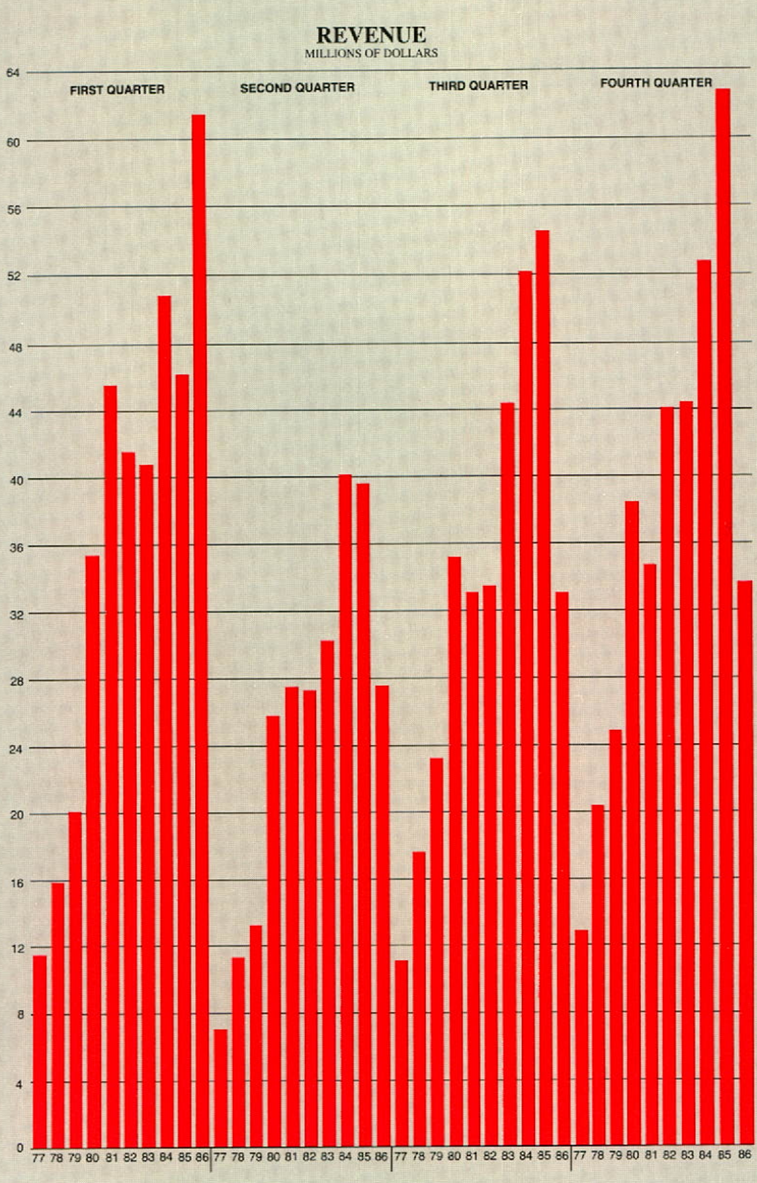


MARKET INFORMATION

The principal public trading market for the Company's Common Shares is The Toronto Stock Exchange (TSE) in Canada (symbol NWS). In the United States, the Common Shares are quoted on the NASDAQ System (symbol NWELF).

The following table sets forth the high and low prices, and the volumes traded during the periods indicated:

	TSE		NASDAQ	
	Hig	Low	High	Low
	(Canadian dollars)		(United States dollars)	
1986				
1st Quarter	17.500	9.500	12.375	6.750
2nd Quarter	12.750	9.375	9.000	6.750
3rd Quarter	12.875	10.250	8.875	7.250
4th Quarter	11.500	10.500	8.250	7.375
1985				
1st Quarter	24.750	18.500	17.500	13.750
2nd Quarter	26.375	18.500	19.000	13.500
3rd Quarter	21.000	19.000	14.875	13.500
4th Quarter	19.625	17.125	14.000	12.250
Volume traded:				
1986	**2,813,565**		**645,605**	
1985	1,831,560		440,783	


REVENUE
MILLIONS OF DOLLARS
FIRST QUARTER
SECOND QUARTER
THIRD QUARTER
FOURTH QUARTER
0
4
8
12
16
20
24
28
32
36
40
44
48
52
56
60
64
77 78 79 80 81 82 83 84 85 86
77 78 79 80 81 82 83 84 85 86
77 78 79 80 81 82 83 84 85 86
77 78 79 80 81 82 83 84 85 86

Glossary of Terms

Net income per share	Net income before extraordinary item for the year divided by average number of shares outstanding during year.
Cash flow per share	Cash flow from operations divided by average number of shares outstanding during year.
Book value per share	Net assets at end of year divided by number of shares outstanding at end of year.
Pre-tax margin	Income before income taxes, minority interest and extraordinary item as a percentage of revenue.
Net income margin	Net income before extraordinary item for the year as a percentage of revenue.
Effective tax rate	Total income taxes as a percentage of pre-tax income.
Average shareholders' equity	Average of shareholders' equity at beginning and end of year.
Return on equity	Net income before extraordinary item for the year as a percentage of average shareholders' equity.
Capital employed	Average of gross property plant and equipment at beginning and end of year.
Return on capital employed	Net income before extraordinary item for the year as a percentage of average capital employed.
P/E ratio	T.S.E. market price at end of year divided by net income per share for the year.
P/CF ratio	T.S.E. market price at end of year divided by cash flow per share for the year.
Current ratio	Current assets divided by current liabilities.
Debt/cash flow ratio	Total long and short term borrowings divided by cash flow from operations.
Debt/equity ratio	Total long and short term borrowings divided by shareholders' equity at end of year.
Current debt coverage ratio	Cash flow from operations divided by interest plus scheduled principal repayments.

Corporate Management

Board of Directors

D. J. Anderson Calgary, Alberta	Retired Production Manager, Shell-Expro (U.K.)
A. J. Day Calgary, Alberta	Vice President and Chief Financial Officer of the Company
B. W. Douglas Toronto, Ontario	Vice President and Director, Dominion Securities, Inc.
C. F. Dow Wooster, Ohio	Vice President and General Manager of the U.S. Operation of the Company
W. A. Elser Calgary, Alberta	President and Chief Executive Officer, ATCOR Ltd.
M. E. Jones Calgary, Alberta	Senior Partner, Bennett Jones, Barristers and Solicitors
D. A. Richardson Calgary, Alberta	Senior Vice President and Chief Operating Officer of the Company
S. P. Shouldice Calgary, Alberta	President and Chief Executive Officer of the Company

Officers

S. P. Shouldice	Chairman of the Board, President and Chief Executive Officer
D. A. Richardson	Senior Vice President and Chief Operating Officer
A. J. Day	Vice President, Chief Financial Officer, Secretary and Treasurer
C. F. Dow	Vice President
R. G. Wells	Vice President
A. J. Robertson	Corporate Controller
G. Trevathan	Assistant Secretary

Management

H. A. Anderson	Manager of Engineering
A. J. Bezanson	Manager of Tax and Treasury
J. R. Delorey	Manager of Research and Development
F. P. Hagan	Manager of Sales
R. J. Harrington	Manager of Safety
J. I. Helmer	Manager of Fabrication and Special Projects
L. D. Hooker	Manager of International Marketing
K. W. Strate	Internal Auditor
G. J. Boelens	Manager of S.E. Asia Operations
F. W. Brown	Manager of Middle East Operations
M. L. Cobbe	Manager of U.K./Europe Operations
R. J. Dunlop	Operations Manager of U.S. Division

Biographies
Corporate Executives

S. Patrick Shouldice

51, Chairman, President and Chief Executive Officer, is the Corporation's senior policy maker, supervising, directing and controlling its general business and affairs. He was one of the original two employees of the Corporation who commenced in 1962. He has been instrumental in introducing many of the Nitrogen techniques still used by the oil and gas industry today.

Douglas A. Richardson

56, Senior Vice President and Chief Operating Officer, is responsible for operations of the Corporation world-wide, and is largely responsible for the direction and growth Nowsco has achieved in the last 20 years. He gained wide oilfield experience in the years prior to joining the Corporation in 1964 and was in charge of Nowsco's expansion into the acidizing segment of the industry.

Alan J. Day

48, Vice President and Chief Financial Officer, is responsible for corporate finance on an international basis. He is also Secretary and Treasurer and directs the management of the Global Treasury operations and is responsible for Investor Relations. He joined Nowsco in 1966 and was appointed a director in 1979.

Notes

Notes

NOWSCO WELL SERVICE LTD.

1300, 801 - 6 Avenue S.W.
Calgary, Alberta, Canada T2P 4E1
Tel. (403) 261-2990 Telex 03-825617

Printed in Canada

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SOLICITORS	Bennett Jones Calgary, Alberta
BANKERS	Canadian Imperial Bank of Commerce Calgary, Alberta
	Citibank Canada Calgary, Alberta
AUDITORS	Thorne Ernst & Whinney, Chartered Accountants Calgary, Alberta
STOCK LISTED	The Toronto Stock Exchange NASDAQ
HEAD OFFICE	1300, 801 - Sixth Avenue, S.W., Calgary, Alberta, Canada, T2P 4E1
SUBSIDIARY COMPANIES	Nowsco Well Service (U.K.) Limited Nowsco Well Service Norge A/S Nowsco Well Service GmbH Nowsco Well Service Srl Nowsco Well Service (S.E. Asia) PTE. Ltd. Nowsco Well Service International Ltd. Nowsco (U.K.) Group Limited Nowsco Well Service (Europe) B.V. Nowsco (Neth) Group B.V. Nowsco of Canada Ltd. Nowsco (IFC) B.V. Nowsco International Limited Nowsco Well Service Company Limited N.W.S. Administrative Services Limited McKenna and Sullivan 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, Nowsco Well Service Ltd., 1300, 801 - Sixth Avenue S.W., Calgary, Alberta, Canada, T2P 4E1.

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