NOWSCO WELL SERVICE LTD.

Annual Report 1985

Contents

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 Thursday, April 24, 1986 at 4:00 o'clock in the afternoon (local time).

The Year at a Glance

	1985	1984	% Change
	(in thousands of dollars)		
Revenue	**$203,340**	$196,792	+ 3
Net income	**$ 19,411**	$ 21,176	− 8
Percent of revenue	**9.5%**	10.8%	
Net income per share	**$1.43**	$1.56	− 8
Proceeds from issue of share capital	**$ 173**	$ 46	+276
Cash flow from operations	**$ 32,366**	$ 41,868	− 23
Capital expenditures — net	**$ 23,812**	$ 24,296	− 2
Dividends paid	**$ 4,062**	$ 4,060	
Depreciation and amortization	**$ 14,426**	$ 14,885	− 3
Number of shares issued and outstanding at year end	**13,550,245**	13,533,245	
Shareholders	**956**	1,158	
Employees at year end	**1,348**	1,352	

4th Quarter

	1985	1984	% Change
	(in thousands of dollars)		
Revenue	**$ 62,807**	$ 53,014	+ 18
Net income	**$ 7,470**	$ 7,380	+ 1
Net income per share	**$.55**	$.54	+ 2
Cash flow from operations	**$ 8,235**	$ 12,918	− 36
Capital expenditures — net	**$ 2,280**	$ 6,314	− 64

To the Shareholders

On behalf of your Board of Directors, we are pleased to report record revenues for 1985 of $203.3 million, an increase of 3.3% over 1984 revenues. Net income for 1985 was $19.4 million a decrease of 8.3% from 1984 levels. This represents earnings per share for 1985 of $1.43 compared to $1.56 for 1984.

During 1985 we realized a good sales growth of 21.8% in Canada where the oil and gas industry reacted most favorably to The Western Accord as implemented by the new Federal Conservative Government in early 1985. Most of the undesirable features of Canada's 1980 National Energy Policy (NEP) that had curtailed industry activity for the previous four years, were removed or phased out. Greatly restored investor confidence was the net result, and by late 1985 Canadian industry activity was approaching the pre-NEP level.

In contrast to Canada, industry activity in our operating areas of the United States declined quickly and significantly during the year, which resulted in a serious erosion of our prices as severe discounting within our service sector prevailed. Sales in the United States declined 32.0% which resulted in an operating loss. In response to this situation we have now reduced our United States staff by more than 50%, closed four operating bases, returned excess operating equipment for use in Canada, and implemented many cost-saving measures. These moves are intended to substantially improve our future performance in Appalachia and while we expect the current industry downturn to continue throughout 1986 in the United States, we plan to maintain our presence for the eventual turnaround of this market place.

Internationally, we experienced a 6.0% decline in sales during 1985. A major factor in this decline was the termination at the end of 1984 of a stimulation contract in Southeast Asia which had contributed some 30% of our International revenues during 1984. The

S. P. Shouldice, President and Chief Executive Officer

D. A. Richardson, Senior Vice President and Chief Operating Officer

impact of this was lessened by a strong sales growth in our other International areas of operation. Particularly in U.K./Europe, 1985 was a successful year and this should continue in the foreseeable future. New market areas are being pursued, and although still in their infancy, they will be a contributing factor in 1986.

The Company's financial condition remains sound. While the impact of the uncertainty of world oil prices is of great concern to our industry and makes the future difficult to predict, Nowsco is prepared to meet this challenge. The loyalty and efforts of our dedicated staff have served us well in the past and we are confident of their unfailing support in the future. Our industry will prevail and we at Nowsco, by maintaining an efficient and flexible approach to face the challenges that lay ahead, will continue to contribute quality service and be in a position to benefit from any industry upturn.

SP Shouldice

S. P. Shouldice

D.A. Richardson

D. A. Richardson

General

During 1985 the industry we serve showed a strong recovery in Canada, a sustained growth in most of our operations internationally, and a very sudden and unexpected downturn in the United States. The ongoing problem of an oversupply of drilling and servicing equipment in most areas of the world continued to depress prices throughout the industry. This ongoing competitiveness of our business has affected profit margins. In response we continued our efforts to improve operating efficiencies, broaden our geographic income base and further develop our technical and servicing capabilities. Our increased emphasis on international marketing for the sale of our equipment into select areas of the world proved to be particularly successful in 1985.

Our capital expenditures for the past year of some $24 million were routed primarily into U.K./Europe and Canada to meet increased activity levels. The majority of this expenditure was in the form of new equipment custom designed and built at our Calgary Fabrication Centre.

Canada

In the Spring of 1985 the new Federal Conservative Government fulfilled its election promise and implemented through The Western Accord the removal of many of the undesirable features of the National Energy Policy which had severely curtailed industry activities since 1980. As a result, investor confidence grew significantly during the second half of 1985 and Canada's active drilling rig count by year-end approached 500 rigs. During the year, industry drilled in excess of 11,000 wells in Canada, an increase of over 20% from 1984. Most of this increase was in the three western provinces of British Columbia, Alberta and Saskatchewan.

In spite of this increased activity level, competition continued to be very keen throughout the year with discounting even more severe than last year. Nowsco's activity in Canada reached record levels late in 1985 yielding revenues of $123.6 million, an increase of 21.8% over 1984. To achieve this record sales level we had increased our Canadian staff at year-end by 11%.

In Canada all segments of our traditional business grew during 1985, and in addition, we experienced significant increases in the demand for our FOAMED CEMENT, FRACSURE stimulation treatments, and SLT (String Leak Testing) applications. All of these procedures were developed and/or perfected by our growing worldwide staff of capable engineering and research

FRACSURE designed sand-frac in northern Alberta personnel. Increased industry acceptance of these techniques will serve us well in the future for both on-shore and off-shore applications on a worldwide basis.

Throughout 1985 our Calgary Fabrication Centre was very active building new equipment for use in Canada and U.K./Europe. Late in the year, fabrication commenced for the sale of some $5 million worth of offshore stimulation equipment for ultimate use in Brazil. This equipment is scheduled for delivery during the second quarter of 1986 under a financing agreement with Canada's Economic Development Corporation. Additional equipment sales into select foreign countries have been successfully negotiated for delivery in 1986 thus ensuring on-going maximum utilization of our fabrication facilities. Increased sales efforts have yielded good results in the international market as many foreign countries seek to purchase customized equipment of Nowsco's design to enhance their domestic production. In many cases, such as Brazil, we will be complementing these sales with the technology transfer of our engineering and operating expertise.

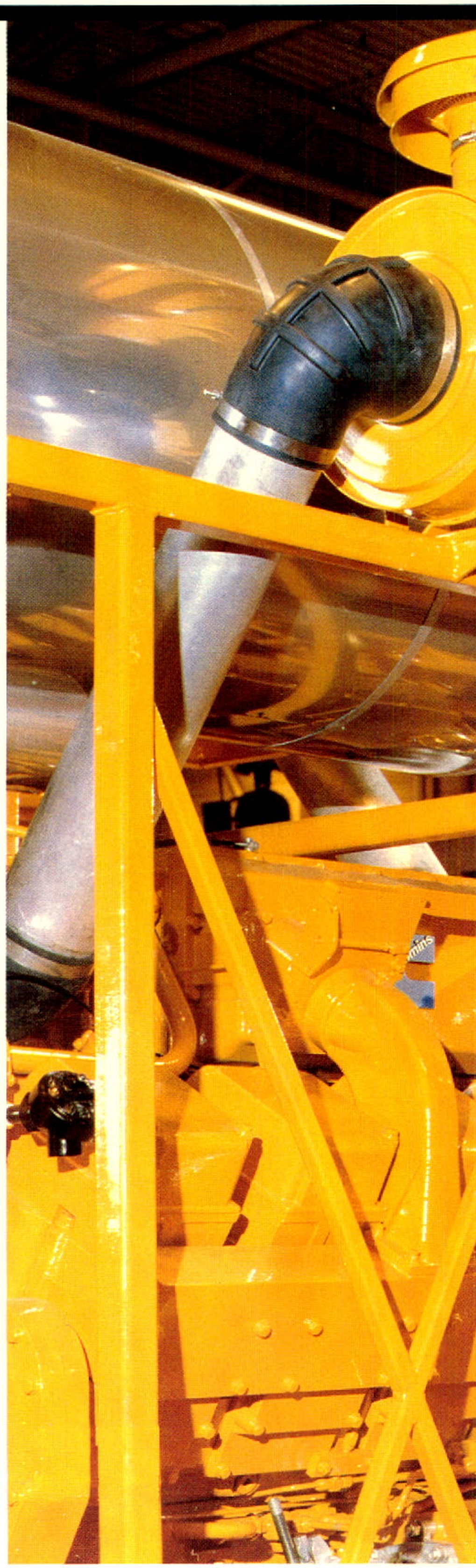
Our Research and Development staff continued to provide maximum input to the development of the Company. In response to the ever increasing demand on this group of highly qualified people and to meet the continuing challenge of developing new products, applications and chemical blends, we constructed in 1985 a new and improved Research Centre in Calgary. The 7000 square foot facility is now fully operational and will maintain the effectiveness and efficiency of the work we perform for our customers.

There has been a growing demand for the Nowsco designed PC-10 portable consistometer. During the past year, sales of this compact and sophisticated instrument have been made to several service companies, an oil company and a major cement manufacturer. Numerous additional sales of this unique instrument are anticipated in 1986.

United States

From our initial move in mid-1981 into this marketplace until the end of 1984, we had experienced a sustained sales growth. However, a significant and sudden industry downturn in 1985 yielded disappointing results for the year with sales dropping to $25.9 million, a decrease of 32.0% over 1984. American investor confidence in the industry continued to decline throughout the year with unstable energy prices and uncertainty over pending tax changes being major concerns. As the marketplace contracted during 1985, price competition intensified, resulting in an operating loss in Applachia and North Dakota.

In addressing this sudden downturn, we were compelled to severely cut-back our United States operations. As the year progressed we reduced staff by more than 50% and closed operational bases in Westhope, North Dakota; Parkersburg, West Virginia; Junction City, Ohio; and



Fabrication of off-shore stimulation equipment for sale to Brazil

Columbia, Kentucky. Where possible, resulting surplus equipment was returned to Canada where growing market demand allowed better utilization. Subsequently in early 1986 we also closed our operating base in Williston, North Dakota.

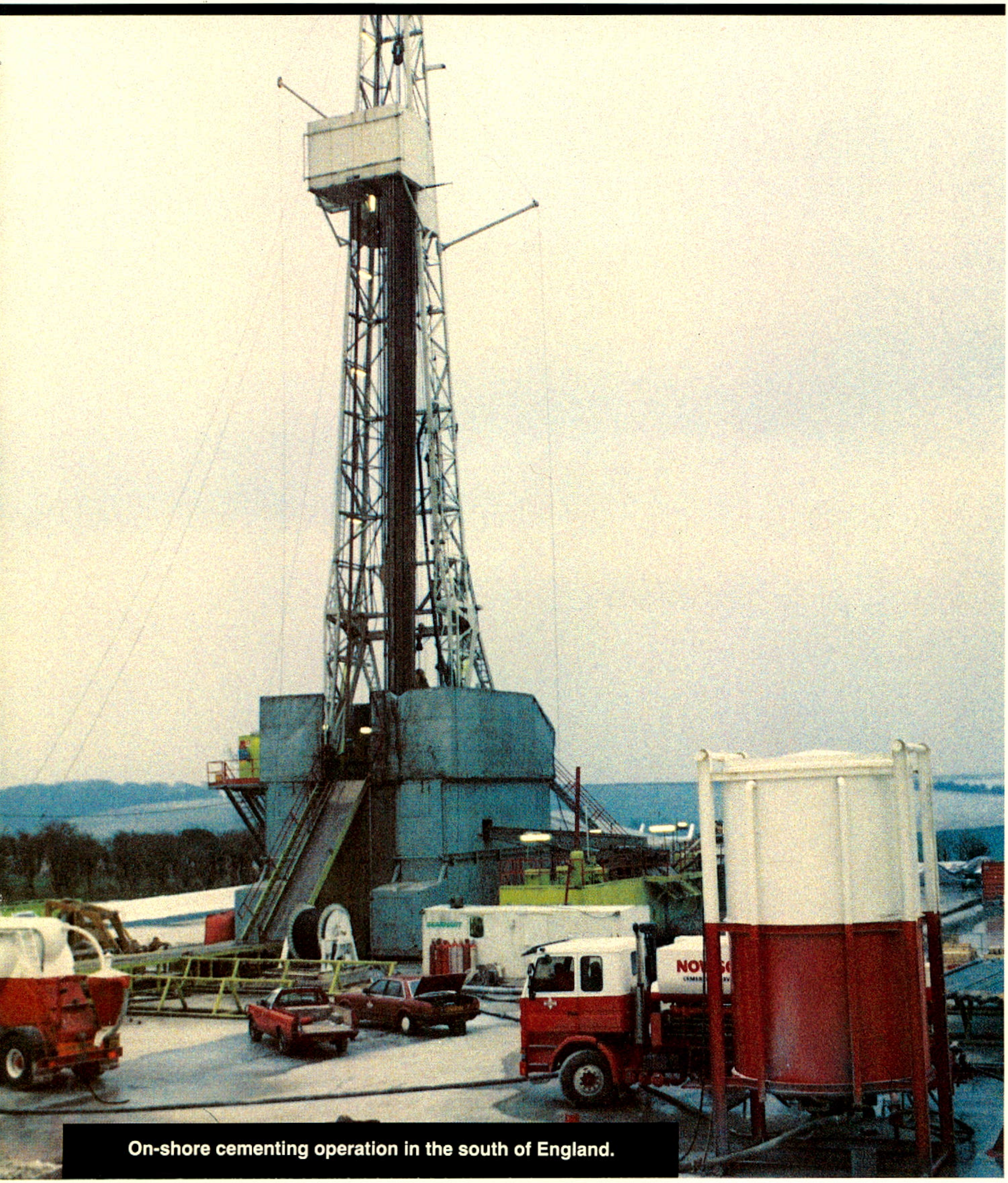
Despite the depressed marketplace, we continue to operate from three bases in Appalachia and have effected numerous operating efficiencies to minimize our financial exposure pending the ultimate recovery of United States energy activities. Further cutbacks, if necessary, will be made. We have gained good customer confidence in the United States over the past four years and will maintain our presence if at all possible.

International

Our total International sales for 1985 were $53.9 million, a 6.0% decrease over 1984. All International operations, with the exception of Southeast Asia, showed sustained sales growth during the year. Revenue declined in Southeast Asia principally due to the loss of a long-term contract at the end of 1984, which during that year generated some $18 million.

Significant investments in equipment were made during 1985 in the United Kingdom, Continental Europe, and our new venture in the Middle East. New operational bases were established in Norway, Holland, Italy, and Oman to better serve our growing customer base. The rapidly growing technical competence of our international staff, complimented by unique applications of our engineering ability and customized equipment, continues to gain customer acceptance.

On-shore cementing operations, initiated in the United Kingdom in 1984, have met with industry acceptance and an increasing customer base. A growing market for well stimulation both on-shore and off-shore also benefited Nowsco during 1985 and increased demands for gas to meet domestic market requirements in the United Kingdom and northern Europe have added to our market potential. An expanded Research and Development staff in U.K./Europe has benefited these operations by providing quicker solutions to local problems. Internationally Nowsco gains in experience and acceptance. With operations and revenue in more than 25 countries on five continents, Nowsco is now a truly International company.



On-shore cementing operation in the south of England.

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

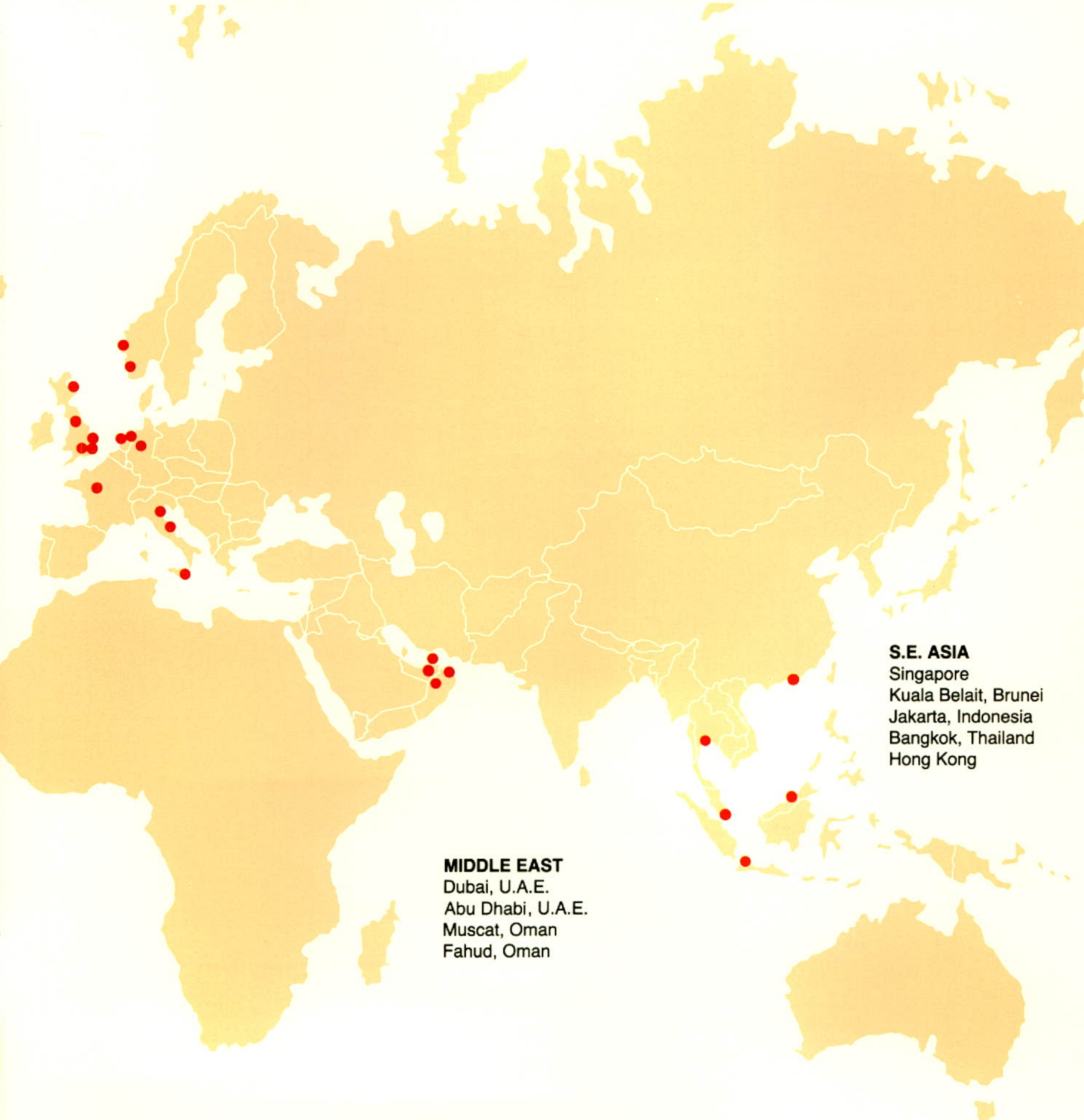
UNITED STATES

OHIO
Wooster

WEST VIRGINIA
Clarksburg
Ona

INTERNATIONAL

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



MIDDLE EAST
Dubai, U.A.E.
Abu Dhabi, U.A.E.
Muscat, Oman
Fahud, Oman
S.E. ASIA
Singapore
Kuala Belait, Brunei
Jakarta, Indonesia
Bangkok, Thailand
Hong Kong

Financial Review

Revenue for the year of $203,340,000 showed 3.3% growth over 1984 as a result of higher activity levels in Canada offset by a decline in revenues in the United States and from International operations. Net income for the year of $19,411,000 ($1.43 per share) decreased 8.3% compared to 1984 net income of $21,176,000 ($1.56 per share) due to a significant downturn in profitability in 1985 from operations in the United States and in Southeast Asia.

Revenue

Record levels of activity in Canada were coupled with increased sales of equipment overseas resulting in a 21.8% increase in revenue compared with 1984. This was achieved despite intense competition within the industry, which caused discounting to continue at a high level throughout the year.

In the United States, significantly reduced industry activity in areas where the Company operates and the resulting intensified price competition were the causes of the 32.0% decline in revenue during the year.

Revenue from International operations (U.K./Europe, Southeast Asia and the Middle East) decreased 6.0% compared to 1984. The decline was principally due to significantly reduced revenues during 1985 in Southeast Asia as a result of the loss of a long-term contract at the end of 1984; the impact of this decrease was offset somewhat by growth in U.K./Europe where the Company also benefited from the strengthening in European currencies during the year.

Costs and Expenses

Material and operating expenses of $135,526,000 increased by 7.8% compared to 1984, slightly greater than the revenue increase. Operating profit margins have shown only a marginal decline compared to last year despite severe competitive pressure on prices in Canada and the United States. This was achieved by constant review and control at each operating location of all operating expenses.

General and administrative expense increased 7.7% during the year to $16,919,000. This increase was due to increased activity levels in Canada and also by the additional administrative overhead associated with operating internationally, in particular a reflection of the Company's continued growth in U.K./Europe.

Interest expense increased by 25.7% to $4,892,000 in 1985, due to increased borrowings throughout 1985.

Depreciation and amortization expense during the year of $14,426,000 decreased by 3.1% compared to 1984 which reflected the write-down of the stimulation vessel in Southeast Asia.

The 6.9% increase in income taxes to $12,166,000 during the year was principally the result of a change in the Company's accounting policy for investment tax credits required by the Canadian Institute of Chartered Accountants, where the Company now accounts for such credits as a reduction in the cost of the relevant expenditures instead of as a reduction of income tax expense. Increased earnings from high tax jurisdictions also contributed to the overall increase in income taxes.

Net income before minority interest for the year of $19,411,000 decreased by 23.0% compared to 1984. The decrease was caused by a loss in the United States as a result of low activity levels in that area, together with the impact of reduced earnings in Southeast Asia. Growth in earnings was experienced in all other operating areas.

The benefit of the acquisition of the minority interest share in the Company's foreign operations in September, 1984 is evident by the elimination of any minority interest charge against 1985 earnings. As a result, net income after minority interest for the year of $19,411,000 showed only an 8.3% decrease compared to net income in 1984 of $21,176,000.

Financial Position

During 1985, net capital expenditures totalled $23,812,000, a 2.0% decrease compared to 1984. These expenditures, principally in U.K./Europe and Canada, were made in response to increased activity levels in both areas.

Cash flow from operations of $32,366,000 ($2.39 per share) declined 22.7% compared to $41,868,000 in 1984 ($3.09 per share), a result of the downturn during 1985 in the Company's operations in the United States and Southeast Asia. All current commitments were funded from cash flow.

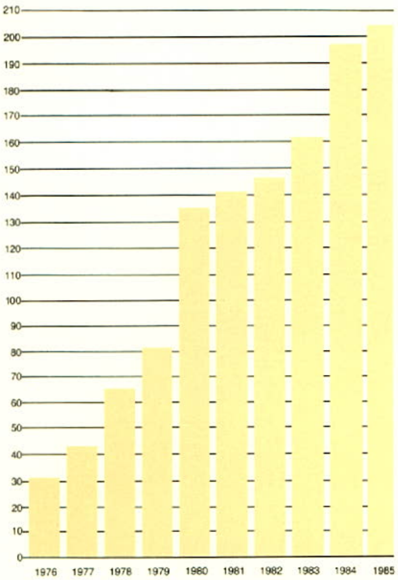
During the year the Company paid total dividends of $4,062,000 ($0.30 per share), similar to 1984.

Long-term debt at the end of 1985 was $46,342,000 compared to $42,813,000 at the end of 1984. Repayments were made during the year of funds borrowed to finance the 1984 acquisition of the minority interest in the Company's foreign subsidiaries. That portion of the capital expenditure program not funded from operations was financed by long-term debt.

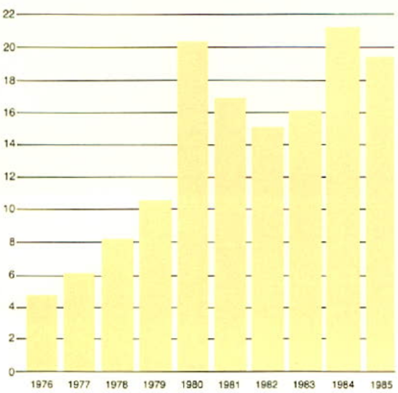
Additional funds provided are shown in the increased working capital position at year end of $45,803,000, an increase of $9,873,000 compared to 1984.

With working capital of $45,803,000 at the end of 1985, available short and long-term lines of credit, and scheduled debt repayments over the next two years of less than $5 million, the Company has the financial strength and flexibility to meet current commitments, future challenges and investment opportunities.

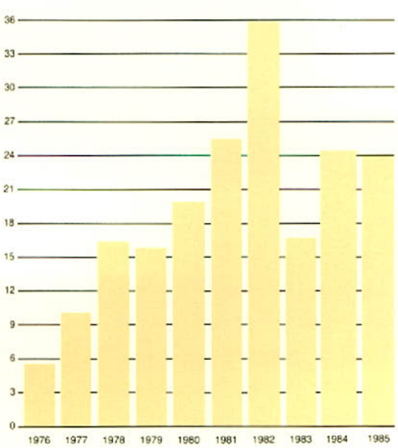
CONSOLIDATED REVENUE
MILLIONS OF DOLLARS



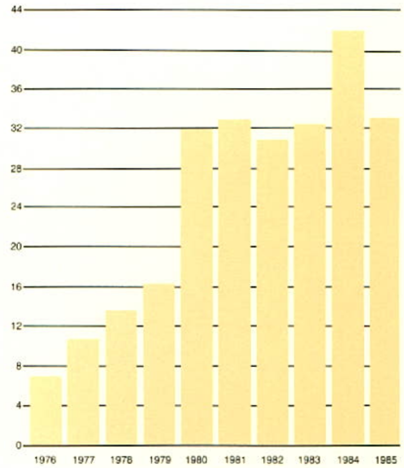
CONSOLIDATED NET INCOME
MILLIONS OF DOLLARS



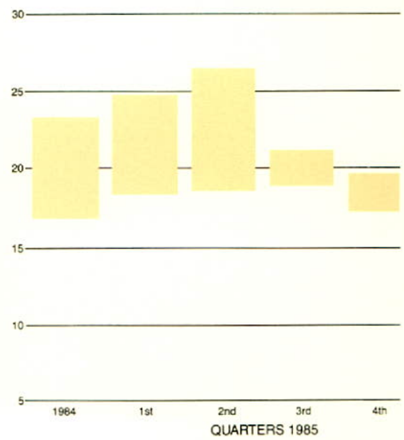
NET CAPITAL EXPENDITURES
MILLIONS OF DOLLARS



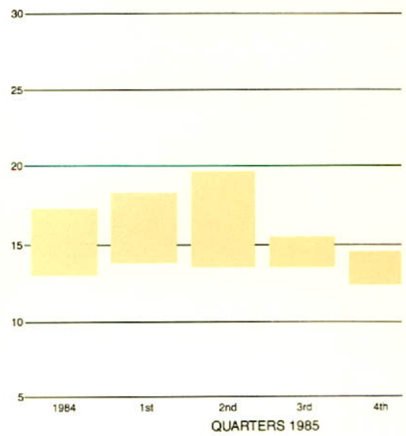
CASH FLOW FROM OPERATIONS
MILLIONS OF DOLLARS



SHARE PRICES — 1985, 1984
TSE — IN CAN. $ VOLUMES TRADED 1985 — 1,831,560
1984 — 1,202,354



SHARE PRICES — 1985, 1984
NASDAQ — IN U.S. $ VOLUMES TRADED 1985 — 440,783
1984 — 458,567



	March 31
1985	
Revenue	**$46,357**
Costs and expenses of operations	**33,964**
Interest	**1,234**
Depreciation and amortization	**3,631**
	38,829
Net income before income taxes	**7,528**
Income taxes	**3,211**
Net income	**$ 4,317**
Net income per share	**$.32**

1984	
Revenue	$51,123
Costs and expenses of operations	36,466
Interest	771
Depreciation and amortization	3,027
	40,264
Net income before income taxes	10,859
Income taxes	3,969
Minority interest	1,113
Net income	$ 5,777
Net income per share	$.43

1983	
Revenue	$40,773
Costs and expenses of operations	27,593
Interest	915
Depreciation and amortization	2,861
	31,369
Net income before income taxes	9,404
Income taxes	3,516
Minority interest	506
Net income	$ 5,382
Net income per share	$.40

*Prior-quarters' adjustments

The Company maintains listings of its stock on The Toronto Stock Exchange (Symbol NWS) and the O.T.C. market of the NASDAQ system in the U.S. (Symbol NWELF).

For The Three Months Ended June 30	Sept. 30	Dec. 31	Total
(in thousands of dollars)			
$39,589	**$54,587**	**$62,807**	**$203,340**
32,740	**39,765**	**45,976**	**152,445**
1,310	**1,062**	**1,286**	**4,892**
3,511	**3,653**	**3,631**	**14,426**
37,561	**44,480**	**50,893**	**171,763**
2,028	**10,107**	**11,914**	**31,577**
452	**4,059**	**4,444**	**12,166**
$ 1,576	**$ 6,048**	**$ 7,470**	**$ 19,411**
$.12	**$.44**	**$.55**	**$1.43**

$40,236	$52,419	$53,014	$196,792
31,777	37,010	36,160	141,413
918	913	1,290	3,892
2,959	3,937	4,962	14,885
35,654	41,860	42,412	160,190
4,582	10,559	10,602	36,602
798	3,766	2,844	11,377
1,517	1,041	*378	4,049
$ 2,267	$ 5,752	$ 7,380	$ 21,176
$.16	$.43	$.54	$1.56

$30,433	$44,936	$44,945	$161,087
25,050	30,695	33,180	116,518
809	862	822	3,408
2,793	2,951	2,572	11,177
28,652	34,508	36,574	131,103
1,781	10,428	8,371	29,984
453	3,939	2,552	10,460
921	991	1,043	3,461
$ 407	$ 5,498	$ 4,776	$ 16,063
$.03	$.40	$.36	$1.19

Contents

Consolidated Balance Sheets

	December 31 1985	1984
	(in thousands of dollars)	
ASSETS		
Current assets		
Cash and short-term deposits	**$ 4,995**	$ 4,073
Accounts receivable	**55,105**	41,496
Inventories	**23,160**	20,340
Prepaid expenses	**1,880**	1,565
	85,140	67,474
Property, plant and equipment		
Buildings	**20,076**	18,034
Equipment	**169,845**	142,769
	189,921	160,803
Less accumulated depreciation and amortization	**58,265**	48,441
	131,656	112,362
Land	**3,780**	3,469
	135,436	115,831
Goodwill (less accumulated amortization of **$658,000;** 1984 — $153,000)	**19,563**	20,068
	$240,139	$203,373

Approved by the Board

Director A.P. Shouldice

Director D.A. Richardson

See notes to consolidated financial statements.

	December 31 1985	1984
	(in thousands of dollars)	
LIABILITIES		
Current liabilities		
Bank indebtedness	**$ 4,938**	$ 5,750
Accounts payable and accrued liabilities	**26,249**	21,201
Due to affiliates	**859**	250
Income taxes payable	**5,494**	2,634
Current maturities of long-term debt	**1,797**	1,709
	39,337	31,544
Long-term debt	**46,342**	42,813
Deferred income taxes	**23,092**	22,417
SHAREHOLDERS' EQUITY		
Share capital	**3,154**	2,981
Retained earnings	**120,487**	105,138
Equity translation adjustment	**7,727**	(1,520)
	131,368	106,599
	$240,139	$203,373

Consolidated Statements of Income

	Year Ended December 31		
	1985	1984	1983
	(in thousands of dollars)		
Revenue			
Operations	**$202,406**	$194,732	$160,003
Interest and other income	**934**	2,060	1,084
	203,340	196,792	161,087
Costs and expenses			
Material and operating	**135,526**	125,705	101,683
General and administrative	**16,919**	15,708	14,835
Interest	**4,892**	3,892	3,408
Depreciation and amortization	**14,426**	14,885	11,177
	171,763	160,190	131,103
Net income before income taxes and minority interest	**31,577**	36,602	29,984
Income taxes			
Current	**13,637**	9,619	9,100
Deferred	**(1,471)**	1,758	1,360
	12,166	11,377	10,460
Net income before minority interest	**19,411**	25,225	19,524
Minority interest in net income of consolidated subsidiaries	**—**	4,049	3,461
Net income for the year	**$ 19,411**	$ 21,176	$ 16,063
Net income per common share	**$1.43**	$1.56	$1.19

Consolidated Statements of Retained Earnings

	Year Ended December 31		
	1985	1984	1983
	(in thousands of dollars)		
Retained earnings at beginning of year	**$105,138**	$ 88,022	$ 75,746
Net income for the year	**19,411**	21,176	16,063
	124,549	109,198	91,809
Dividends paid	**4,062**	4,060	3,787
Retained earnings at end of year	**$120,487**	$105,138	$ 88,022

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year Ended December 31		
	1985	1984	1983
	(in thousands of dollars)		
Source of working capital			
Net income for the year	**$ 19,411**	$ 21,176	$ 16,063
Add (deduct) charges not requiring current outlay of working capital:			
Depreciation and amortization	**14,426**	14,885	11,177
Deferred income taxes	**(1,471)**	1,758	1,360
Minority interest in net income of consolidated subsidiaries	**—**	4,049	3,461
Total from operations	**32,366**	41,868	32,061
Long-term debt	**16,621**	26,563	4,151
Proceeds from issue of share capital	**173**	46	27
Foreign exchange translation effects	**3,123**	926	1,559
Total provided	**52,283**	69,403	37,798
Use of working capital			
Purchase of property, plant and equipment — net	**23,812**	24,296	16,570
Dividends paid	**4,062**	4,060	3,787
Repayment and change in current maturities of long-term debt	**14,536**	1,038	1,092
Acquisition of minority interest	**—**	32,500	—
Minority dividends	**—**	—	2,035
Total used	**42,410**	61,894	23,484
Increase in working capital	**9,873**	7,509	14,314
Working capital at beginning of year	**35,930**	28,421	14,107
Working capital at end of year	**$ 45,803**	$ 35,930	$ 28,421
Represented by			
Current assets	**85,140**	67,474	73,495
Less current liabilities	**39,337**	31,544	45,074
	$ 45,803	$ 35,930	$ 28,421

See notes to consolidated financial statements.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

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

Translation of foreign currency financial statements and balances: Effective, January 1, 1984, the Company changed, on a prospective basis, it's method of translating foreign currency financial statements to adopt the following policy — 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. An appropriate proportion of exchange gains and losses resulting from both the translation of foreign currency monetary items and reductions in the Company's net investment in subsidiaries is included in income. Previously such gains and losses were included in shareholders' equity. The effect of this change of accounting policy on 1985 and 1984 net income is not material.

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 40 years.

Property, plant and equipment: Property, plant and equipment are stated at cost, normal repairs and maintenance costs are charged to income as incurred. Betterments and major renewals are capitalized. The cost of assets retired or otherwise disposed of and the related allowances 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 straightline method over the estimated useful lives of the assets (buildings and improvements — 5 to 40 years; equipment — 3 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 the term of the lease.

Capitalization of interest: Interest is capitalized on all costs incurred in construction of equipment and buildings.

Income taxes: The Company follows the tax allocation method of accounting under which the income tax provision is based on reported net income. Full provision is made for income taxes deferred to future years as a result of claiming allowances for income tax purposes in excess of related depreciation and amortization provisions recorded in the accounts.

Net income per common share: Net income per common share is based on the average number of shares outstanding during the year. Fully diluted earnings per share are 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, 1984 and 1983, has been reclassified to conform with the current year's presentation.

NOTE B — CHANGE IN ACCOUNTING POLICY

Effective January 1, 1985, the Company was required to change it's method of accounting for investment tax credits to adopt, on a prospective basis, the cost reduction method, whereby investment tax credits are accounted for as a reduction of the costs to which they relate. Previously, investment tax credits were accounted for by the flow-through method as a reduction in income tax expense in the year realized. The effect of this change in accounting policy in 1985 is to reduce net income by $753,000.

NOTE C — ACQUISITION OF MINORITY INTEREST

During 1984, the Company acquired the remaining 49% of the issued shares of certain subsidiaries not previously owned. Details of the acquisition, which was accounted for by the purchase method, are as follows:

	(in thousands of dollars)
Cash consideration	**$32,500**
Book value of minority interest as at acquisition date	**12,279**
Goodwill resulting from acquisition	**$20,221**

NOTE D — EQUIPMENT UNDER CAPITAL LEASES

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

	1985	1984
	(in thousands of dollars)	
Equipment	**$11,408**	$10,773
Less: Accumulated amortization	**2,023**	977
	$ 9,385	$ 9,796

NOTE E — SHARE CAPITAL

Authorized — 48,000,000 Common Shares without nominal or par value.
Issued and outstanding — 13,550,245 Shares (1984 — 13,533,245)

Details of changes in issued share capital, for the two years ended December 31, 1985 are:

	Number of Shares	**Amount** (in thousands of dollars)
Balance January 1, 1984	13,526,345	$2,935
Issued upon exercise of employee stock options	6,900	46
Balance December 31, 1984	13,533,245	2,981
Issued upon exercise of employee stock options	17,000	173
Balance December 31, 1985	**13,550,245**	**$3,154**

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, employees and directors of the Company at an option price equal to the market price of the Company's shares on the date of grant. 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.

The purchase price of Common Shares of the Company under options granted to certain directors, officers and key employees and outstanding as at December 31, 1985 ranged from $2.375 to $22.00. The Company has reserved **51,300** shares (1984 — 24,300) for possible future allocations.

Changes in the number of Common Shares under option during the two years ended December 31, 1985 are summarized as follows:

	1985	1984
Outstanding, beginning of year	**129,055**	133,455
Granted	**23,000**	26,000
Cancelled	**(1,000)**	(23,500)
Exercised	**(17,000)**	(6,900)
Outstanding, end of year	**134,055**	129,055

NOTE F — LONG-TERM DEBT

	Maturity	**1985**	1984
		(in thousands of dollars)	
Revolving term bank loans[1]	1991	**$35,872**	$19,594
Term bank loan		—	11,562
Industrial Revenue Bond[2]	1992	**981**	1,058
Capital lease obligations[3]	1987-1994	**11,286**	12,308
		48,139	44,522
Less current maturities		**1,797**	1,709
		$46,342	$42,813

The aggregate principal repayments required in each of the four years after 1986 are as follows: 1987 — $2,799,000; 1988 — $10,194,000; 1989 — $10,356,000; and 1990 — $10,331,000. In addition, the Company is entitled to make prepayments of any portion of the term bank loans. Interest on long-term debt was **$4,252,000** in 1985 (1984 — $2,208,000; 1983 — $1,411,000).

(1) Secured by a demand debenture and a general assignment of accounts receivable. These loans are repayable in pounds sterling, deutschemarks, guilders and U.S. dollars. The rates of interest under these facilities are variable based on LIBOR and/or minimum bank rates prevailing in Canada.

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

(3) Payable in U.S. dollars with fixed interest rates ranging from 2.5% to 9.5%.

NOTE G — CONTINGENCIES AND COMMITMENTS

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.

Taxation authorities have carried out a review of the Company's business activities to determine whether, in their opinion, they qualify as manufacturing and processing activities. As a result of the review, 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, taxation authorities issued Notices of Reassessment in respect of the Company's 1977, 1978 and 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.

The Company filed Notices of Objection in respect of the Notices of Reassessment claiming continued entitlement to utilize the income tax incentives available to corporations carrying on manufacturing and processing activities. In 1984, the taxation authorities confirmed the reassessments for 1977, 1978 and 1979 and the Company has appealed therefrom in the Federal Court of Canada.

The Notices of Reassessment claim additional income taxes and interest of approximately $6,100,000 for the years reassessed. If the Company had computed its income tax provisions for the years subsequent to 1976 on the basis of the Notices of Reassessment, retained earnings at December 31, 1985 would be reduced by $19,659,000.

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.

The Company has been named as defendant in various legal actions arising in the normal course of business with claims totalling approximately $4,600,000. Although it is too early in the proceedings for legal counsel to give an opinion with respect to the merits of these actions, management of the Company believes these claims are without merit and as such, no provision has been made in the consolidated financial statements.

The Company has letters of credit outstanding totalling $1,025,000 for performance under contracts.

NOTE H — RETIREMENT PLANS

The Company has defined benefit pension plans covering most employees. Current costs are provided for, and funded, based upon actuarial estimates. There are no unfunded liabilities for past service pension benefits.

NOTE I — RELATED PARTY TRANSACTIONS

Purchases were made from affiliated companies as follows:

	1985	1984	1983
	(in thousands of dollars)		
Equipment	**$3,450**	$379	$ 91
Inventory	**$ 399**	$498	$1,205

The amount owing on these transactions as at December 31, 1985 was **$859,000** (1984 — $250,000). These transactions arose in the normal course of operations.

NOTE J — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

During 1985 aggregate direct remuneration of senior officers and directors amounted to **$1,313,000** (1984 — $1,080,000; 1983 — $968,000).

NOTE K — SEGMENTED INFORMATION

The Company provides specialized products and equipment 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:

	1985	1984	1983
	(in thousands of dollars)		
Revenue			
Canada	**$123,602**	$101,452	$ 84,951
United States	**25,853**	38,043	28,458
International	**53,885**	57,297	47,678
	$203,340	$196,792	$161,087
Income before income taxes and minority interest			
Canada	**$ 24,229**	$ 18,196	$ 16,380
United States	**(5,206)**	2,343	3,058
International	**12,554**	16,063	10,546
	$ 31,577	$ 36,602	$ 29,984
Identifiable assets			
Canada	**$ 98,454**	$ 86,200	$ 93,641
United States	**29,336**	34,215	29,172
International	**92,786**	62,890	58,010
Corporate	**19,563**	20,068	—
	$240,139	$203,373	$180,823

NOTE L — INCOME TAXES

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 net income before income taxes for the following reasons:

	1985	1984	1983
	%	%	%
Combined federal and provincial tax rate	**48.4**	47.3	47.3
Manufacturing and processing rate reduction	**(3.9)**	(3.1)	(3.7)
Differences in foreign statutory tax rates	**(6.0)**	(9.9)	(3.4)
Government assistance in the form of tax credits (See Note B — Change in accounting policy)	**—**	(3.2)	(5.3)
Effective consolidated tax rate	**38.5%**	31.1%	34.9%

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, 1985 and December 31, 1984 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years ended December 31, 1985. 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, 1985 and December 31, 1984 and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1985, in accordance with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney
Chartered Accountants

Calgary, Alberta
February 3, 1986

Ten Year Review

(in thousands of dollars)

	1985	1984	1983
Revenue	**$203,340**	$196,792	$161,087
Costs and Expenses			
Material and operating	**135,526**	125,705	101,683
General and administrative	**16.919**	15,708	14,835
Interest	**4,892**	3,892	3,408
Depreciation and amortization	**14,426**	14,885	11,177
	171,763	160,190	131,103
Net income before income taxes	**31,577**	36,602	29,984
Income taxes	**12,166**	11,377	10,460
Minority interest	**—**	4,049	3,461
Net income for the year	**$ 19,411**	$ 21,176	$ 16,063
Net income per share	**$1.43**	$1.56	$1.19
Cash flow from operations	**$ 32,366**	$ 41,868	$ 32,061
Working capital	**$ 45,803**	$ 35,930	$ 28,421
Capital expenditures — net	**$ 23,812**	$ 24,296	$ 16,570
Dividends	**$ 4,062**	$ 4,060	$ 3,787
Shares outstanding	**13,550,245**	13,533,245	13,526,345
Number of employees	**1,348**	1,352	1,208

1982	1981	1980	1979	1978	1977	1976
$146,217	$140,850	$135,544	$81,144	$65,184	$42,237	$30,310
90,501	90,189	84,733	52,608	42,457	26,226	18,351
12,284	10,429	7,169	5,339	4,873	3,047	2,590
3,899	1,604	1,338	1,228	712	211	8
10,100	7,825	5,270	3,812	3,094	1,844	1,176
116,784	110,047	98,510	62,987	51,136	31,328	22,125
29,433	30,803	37,034	18,157	14,048	10,909	8,185
11,025	11,059	14,270	7,538	5,455	4,416	3,323
3,329	2,908	2,423	33	407	364	49
$ 15,079	$ 16,836	$ 20,341	$10,586	$ 8,186	$ 6,129	$ 4,813
$1.12	$1.25	$1.51	$.79	$.62	$.47	$.37
$ 30,692	$ 32,740	$ 31,941	$16,107	$13,483	$10,669	$ 6,896
$ 14,518	$ 16,480	$ 13,709	$ 5,094	$ 5,349	$ 4,201	$ 4,142
$ 35,770	$ 25,397	$ 19,823	$15,654	$16,220	$ 9,917	$ 5,590
$ 3,649	$ 4,848	$ 2,683	$ 1,596	$ 1,215	$ 769	$ 437
13,522,045	13,478,045	13,428,945	13,328,250	13,284,300	13,217,700	13,106,400
1,048	1,020	983	783	638	470	312

Corporate Information

Board of Directors

ALAN J. DAY Calgary, Alberta	Vice President of Finance of the Company
CLIFFORD F. DOW Wooster, Ohio	Vice President and General Manager of the U.S. Operation of the Company
ROY J. DUNLOP Clarksburg, W.V.	Operations Manager of the U.S. Operation of the Company
WILLIAM A. ELSER Calgary, Alberta	President and Chief Executive Officer, ATCOR Resources Limited
MACLEAN E. JONES Calgary, Alberta	Senior Partner, Bennett Jones, Barristers and Solicitors
DOUGLAS A. RICHARDSON London, England	Senior Vice President and Chief Operating Officer of the Company
THOMAS E. SANDS Houston, Texas	President and Chief Financial Officer, Big Three Industries, Inc.
S. PATRICK SHOULDICE Calgary, Alberta	President and Chief Executive Officer of the Company
HARRY K. SMITH Houston, Texas	Chairman of the Board, Big Three Industries, Inc.
ROBERT G. WELLS Calgary, Alberta	Vice President and Manager of Canadian Operations of the Company

Officers

HARRY K. SMITH	Chairman of the Board
S. PATRICK SHOULDICE	President and Chief Executive Officer
DOUGLAS A. RICHARDSON	Senior Vice President and Chief Operating Officer
ALAN J. DAY	Vice President and Chief Financial Officer
CLIFFORD F. DOW	Vice President
ROBERT G. WELLS	Vice President
GRANT TREVATHAN	Assistant Secretary

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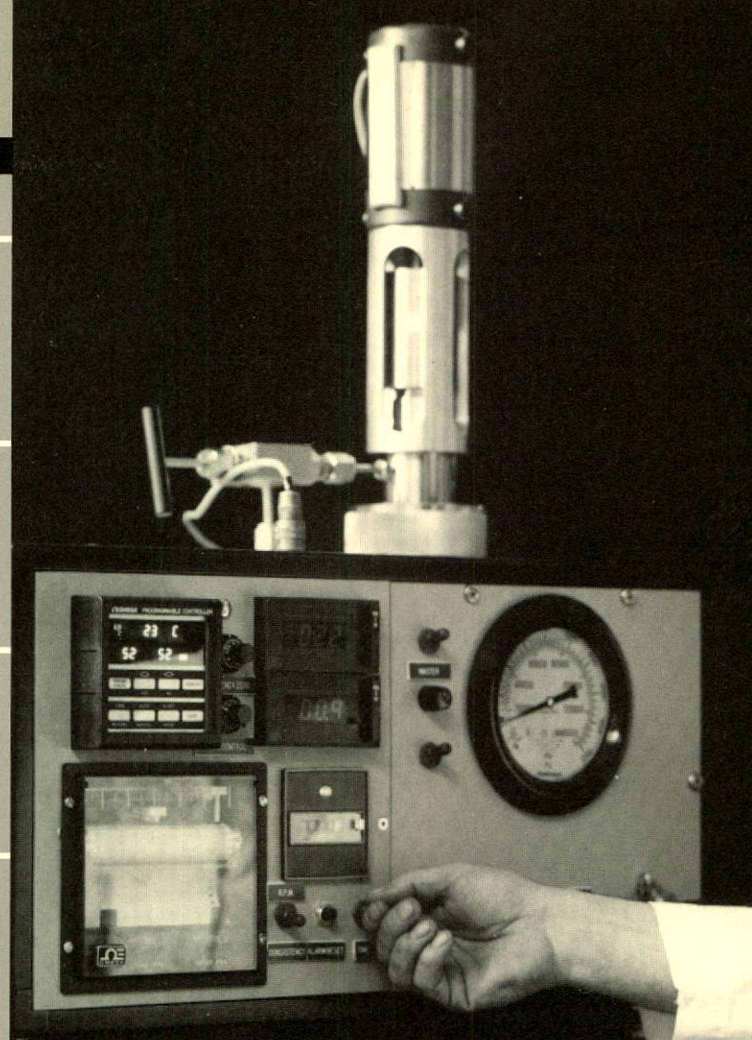


NOWSCO WELL SERVICE LTD.

INFORMATION FOR THE ANALYST - 1985

NOWSCO

History of the Company

Nowsco Well Service Ltd. commenced operations in 1962 under the name Nowsco of Canada Ltd. The Company was formed by Big Three Industries, Inc. of Houston, Texas, and a group of Canadian residents to introduce liquid nitrogen oilfield techniques to the Canadian Oil and Gas Industry. The Company commenced with one nitrogen unit and did its first job on October 17, 1962. The original two employees of the Company, S. P. Shouldice and J. H. Bristow are still employed by the Company as President and Senior Sales Representative, respectively.

In 1963, three additional nitrogen units were added to the fleet and S. P. Shouldice was appointed President of the Company.

In 1965, the currently named operating company was incorporated to expand into the acidizing market and subsequently in 1966 into cementing operations.

In 1967 sales revenue exceeded $1.0 Million and in 1968 NOWSCO performed its first work outside of Canada. This was a series of nitrogen work performed off-shore Alaska.

A reorganization of the operating companies took place in 1970 to continue as Nowsco Well Service Ltd. 1970 also saw NOWSCO introduce Endless Tubing Units to the Canadian Oil and Gas Industry and enter into the Fracturing Stimulation market. T. E. Sands, Financial Vice President of Big Three Industries, Inc. was appointed a director of the Company.

In 1971, sales revenue increased by 70% to $3.3 Million and D. A. Richardson was appointed a director of the Company.

In 1972 NOWSCO made its first offering of shares to the public, all in Canada, raising $1,585,000 on an issue of 250,000 shares. Big Three Industries, Inc. retained 64%. H. K. Smith and M. E. Jones were appointed directors. D. A. Richardson was appointed Vice President and A. J. Day was appointed Secretary-Treasurer of the Company.

NOWSCO entered the foreign market in 1973 with the formation of operations in the U.K. The Company retained a 51% interest in this operation with The BOC Group plc representing the remaining 49%. Consolidated sales revenue exceeded $10 Million and net income reached $1.6 Million. Capital expenditures exceeded $3 Million.

In 1974 the first off-shore operation in the North Sea was performed.

In 1975 the Company's foreign operations were expanded into Europe with the formation of operations based in Vechta, West Germany. 1975 also saw the Company declare its first dividend — a modest 10 cents per share — and complete a 2-for-1 stock split. Significant research and development resulted in the introduction of Foam Fracturing to the Canadian market as well as the development of the Tree Saver to allow high-pressure by-pass of the wellhead. Nowsco also completed its first sale of equipment with the delivery of four pumping units to the Government of India.

In 1976 the Company refined foam fracturing applications and developed foamed acid treatments as well as completing a substantial expansion of lab facilities and equipment due to extensive exploratory drilling in the deep foothills areas. C. F. Dow was appointed a director and Vice-President of the Company.

1977 saw the commencement of operations in S.E. Asia based in Singapore. An extraordinary dividend of five cents per share was declared and the Company's shares commenced trading on the O.T.C. market of the NASDAQ system.

The year 1978 was a financially significant year. Record capital expenditures, in excess of $16 Million, were made and for the first time the Company used a portion of its available long-term debt. During the third quarter of this year the Company completed a 2-for-1 stock split. 1978 also saw the start of construction of a second stimulation barge unit for S.E. Asia and the development of both the Sand Intensifier, which has substantially enhanced present fracturing techniques, and the first Hydrocarbon Foam Frac Fluid.

1979 was another year of record sales of $81.1 Million and net earnings of $10.6 Million. There was good sales growth both domestically and foreign for all services offered. To meet the challenge of the growth pattern a $4 Million investment was made in a new Fabrication, Research and Training Centre in Calgary. The Board of Directors was expanded with the appointment of W. M. Boren, A. J. Day and D. J. Magus.

1980 was highlighted by record growth. Sales totalled $135.5 Million and net earnings $20.3 Million. Earnings per share for this reporting period were $1.51 compared to $0.79 a year ago. Earnings per share reflect the 3-for-1 stock split completed by the Company during the second quarter. The fabrication facility produced equipment for sale to several foreign countries as well as producing $7.5 Million worth of equipment for the Company's own use. 1980 also saw capital expenditures reach nearly $20 Million, the development of the Helium Leak Detection System, a geographical expansion to the East Coast of Canada, and establishment of a base in Italy.

1981 saw sales of $140.8 Million and net earnings of $16.8 Million. Equipment and technology sales of over $10 Million were made to the Governments of India and Pakistan, and a new long-term contract was negotiated for our S.E. Asia operation. Capital expenditures exceeded $25 Million and a new subsidiary was formed in Italy. 1981 also saw the Company's first expansion into the United States with the establishment of operating bases in Ohio and West

Virginia. There was also increased investment on the East Coast of Canada to meet the off-shore demands of the industry.

1982 marked the twentieth anniversary of NOWSCO and despite the economic slow-down of the industry in Canada and the general world-wide depressed economies, the Company again reached record sales with a total of $146.2 Million. Net earnings decreased however, by 10% to $15.1 Million. The foreign subsidiaries showed good growth and the U.S. operation was further expanded with operations in Kentucky and Tennessee as well as Ohio and West Virginia. In Calgary, a Chemical Blending Plant was opened and on the Canadian East Coast operational bases to serve the off-shore oil and gas industry from both St. John's, Newfoundland and Dartmouth, Nova Scotia were opened.

1983 again produced record sales levels with an increase of 10.2% to $161.1 Million and an increase in net income of 6.5% to $16.1 Million. Foreign sales showed an encouraging increase as a result of further geographic expansion and market penetration and now represent 47.3% of consolidated revenues. W. M. Boren and D. J. Magus both resigned their positions on the Board and were replaced by W. A. Elser and R. G. Wells.

1984 was another record year with revenue up 22% to $196.8 Million and net income up 32% to $21.2 Million. In September, the Company finalized the acquisition of The BOC Group plc's 49% minority interest in its international operations for $32.5 Million. Internationally record sales were achieved and the Company completed its first job offshore China. R. J. Dunlop replaced R. A. Plummer on the Board of Directors.

Corporate Information

One of our greatest assets is the strength and experience of Management. Average age is 45 and average service with the Company is 14 years. Together, the Management group represents in excess of 280 years of experience in the oil and gas industry.

Directors, Officers and Management

A. J. Day Calgary, Alberta	Vice President of Finance of the Company
C. F. Dow Wooster, Ohio	Vice President and General Manager of the U.S. Operation of the Company
R. J. Dunlop Wooster, Ohio	Manager of Operations of the U.S. Operation of the Company
W. A. Elser Calgary, Alberta	President and Chief Executive Officer, ATCOR Resources Limited
M. E. Jones Calgary, Alberta	Senior Partner, Bennett Jones, Barristers and Solicitors
D. A. Richardson London, England	Senior Vice President and Chief Operating Officer of the Company
T. E. Sands Houston, Texas	Financial Vice President and Treasurer, Big Three Industries, Inc.
S. P. Shouldice Calgary, Alberta	President and Chief Executive Officer of the Company
H. K. Smith Houston, Texas	Chairman of the Board, Big Three Industries, Inc.
R. G. Wells Calgary, Alberta	Vice President and Manager of Canadian Operations of the Company
G. Trevathan Calgary, Alberta	Assistant Secretary and Controller of the Company
H. A. Anderson	Manager of Engineering
K. M. Bagan	Manager of Training
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 Sales — Equipment
T. R. Sutherland	Assistant Manager of Canadian Operations
F. W. Brown	General Manager of Middle East Operations
M. L. Cobbe	General Manager of UK/Europe Operations
G. L. Wand	General Manager of S.E. Asia Operations

Operating Locations

Canada

Alberta
Brooks
Calgary
Drayton Valley
Edmonton
Grande Prairie
High Level
Lac La Biche
Lloydminster
Medicine Hat
Peace River
Red Deer
Slave lake

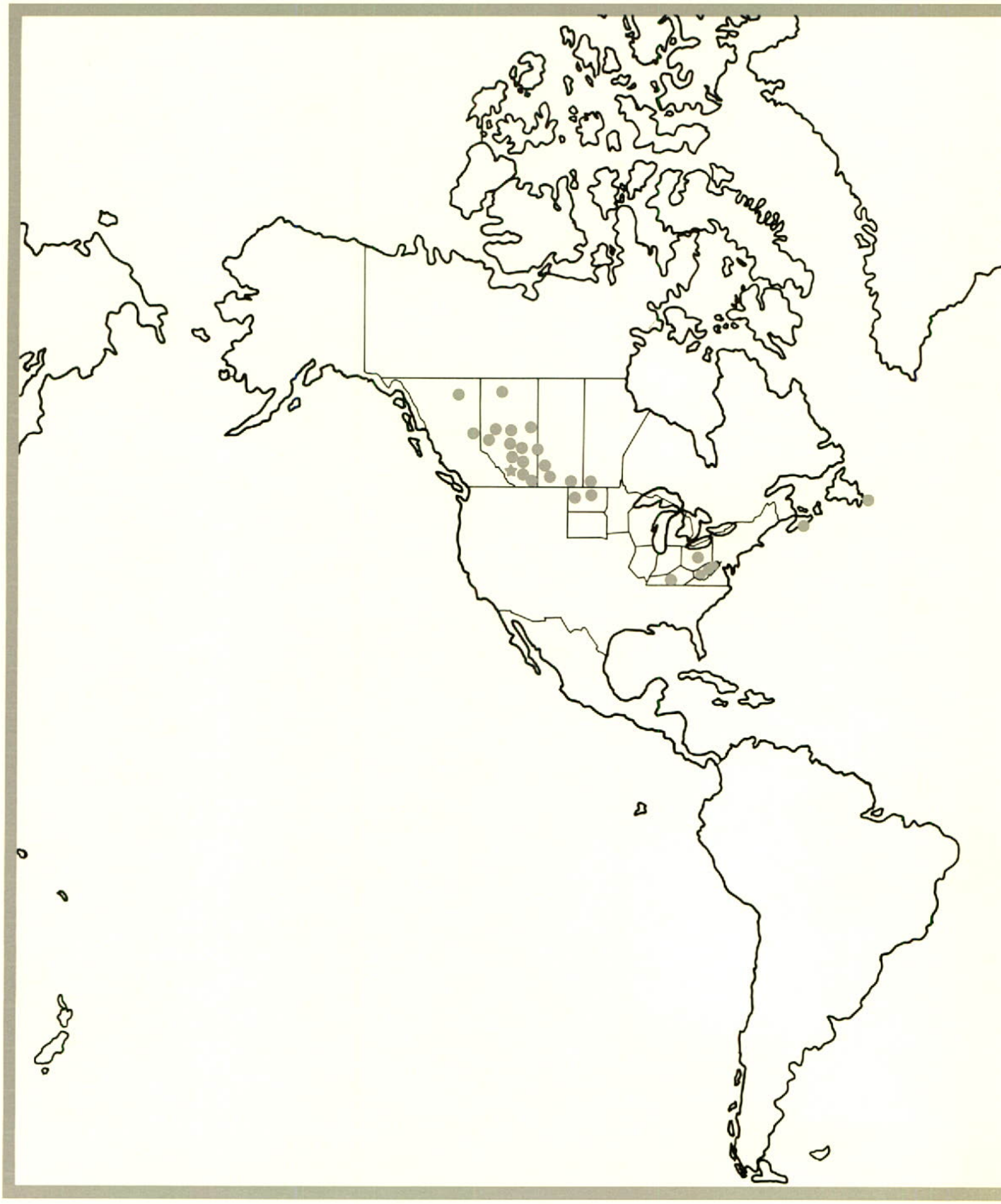
British Columbia
Fort St. John
Ft. Nelson

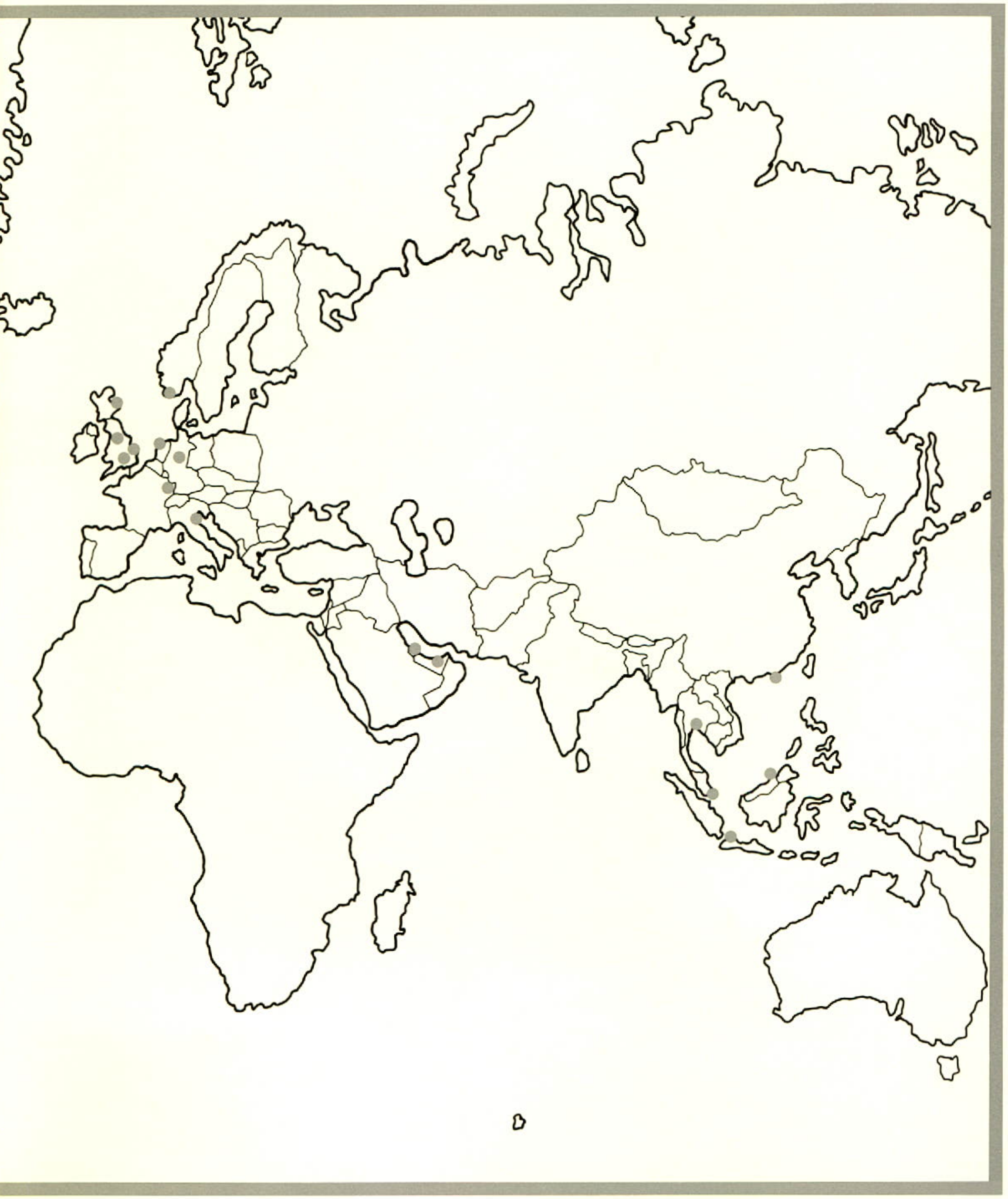
Saskatchewan
Estevan
Kindersley
Swift Current

Manitoba
Waskada

Newfoundland
St. John's

Nova Scotia
Dartmouth





United States

Ohio
Wooster

West Virginia
Clarksburg
Parkersburg
Ona

Kentucky
Columbia

North Dakota
Westhope
Williston

U.K./Europe

Great Yarmouth, U.K.
Aberdeen, U.K.
Leeds, U.K.
Long Parish, U.K.
Vechta, West Germany
Strasbourg, France
Ravenna, Italy
Stavanger, Norway
Den Helder, Netherlands

S.E. Asia

Singapore
Kuala Belait, Brunei
Jakarta, Indonesia
Bangkok, Thailand
Hong Kong

Middle East

Doha, Qatar
Dubai, U.A.E.

Financial Information

Condensed Comparative Balance Sheets

(Thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
ASSETS										
Current										
Cash	**$ 4,073**	$ 14,721	$ 5,709	$ 6,216	$ 1,682	$ 136	$ 55	$ 645	$ 2,103	$ 46
Receivables	**41,496**	36,430	29,343	25,780	29,889	20,619	18,600	10,764	6,903	6,566
Inventories	**20,340**	20,649	18,541	21,433	13,336	7,629	5,160	3,367	1,982	1,558
Prepaids	**1,565**	1,695	1,329	1,994	801	301	535	452	77	97
	67,474	73,495	54,922	55,423	45,708	28,685	24,350	15,228	11,065	8,267
Property, Plant and Equipment										
Equipment	**142,769**	121,293	110,971	83,439	63,128	48,834	37,643	25,375	16,494	11,781
Buildings and Land	**21,503**	21,456	19,685	14,690	12,333	9,162	5,933	2,881	2,277	1,701
Accumulated depreciation and amortization	**(48,441)**	(35,421)	(25,714)	(17,119)	(12,023)	(9,112)	(6,534)	(4,340)	(2,906)	(2,077)
	115,831	107,328	104,942	81,010	63,438	48,884	37,042	23,916	15,865	11,405
Goodwill — net	**20,068**	—	—	—	—	—	—	—	—	—
	$203,373	$180,823	$159,864	$136,433	$109,146	$77,569	$61,392	$39,144	$26,930	$19,672
LIABILITIES										
Current										
Bank debt	**$ 7,459**	$ 23,194	$ 20,026	$ 20,562	$ 8,796	$10,009	$ 8,987	$ 3,078	$ 2,387	$ 1,505
Payables	**21,451**	18,889	15,597	16,427	16,069	11,239	9,336	7,506	3,833	2,495
Income taxes	**2,634**	2,991	5,192	1,954	7,134	2,343	678	443	702	1,020
	31,544	45,074	40,815	38,943	31,999	23,591	19,001	11,027	6,922	5,020
Long-term debt	**42,813**	16,149	12,951	6,044	5,498	6,368	5,269	—	—	—
Deferred taxes	**22,417**	21,595	20,889	19,014	13,844	9,936	8,260	6,464	4,132	3,242
Minority interest	—	8,494	7,522	5,300	2,813	590	860	725	411	342
SHAREHOLDERS' EQUITY										
Share capital	**2,981**	2,935	2,908	2,816	2,664	2,414	2,322	2,219	2,116	2,095
Retained earnings	**105,138**	88,022	75,746	64,316	52,328	34,670	25,680	18,709	13,349	8,973
Equity translation adjustment	**(1,520)**	(1,446)	(967)	—	—	—	—	—	—	—
	106,599	89,511	77,687	67,132	54,992	37,084	28,002	20,928	15,465	11,068
	$203,373	$180,823	$159,864	$136,433	$109,146	$77,569	$61,392	$39,144	$26,930	$19,672

Comparative Income Statements

(Thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
REVENUE	**$196,792**	$161,087	$146,217	$140,850	$135,544	$81,144	$65,184	$42,237	$30,310	$21,066
COSTS AND EXPENSES										
Material and operating	**125,705**	101,683	90,501	90,189	84,733	52,608	42,457	26,226	18,351	12,615
General and administrative	**15,708**	14,835	12,284	10,429	7,169	5,339	4,873	3,047	2,590	1,429
Interest	**3,892**	3,408	3,899	1,604	1,338	1,228	712	211	8	117
Depreciation and amortization	**14,885**	11,177	10,100	7,825	5,270	3,812	3,094	1,844	1,176	986
	160,190	131,103	116,784	110,047	98,510	62,987	51,136	31,328	22,125	15,147
Net income before income taxes and minority interest	**36,602**	29,984	29,433	30,803	37,034	18,157	14,048	10,909	8,185	5,919
Income taxes	**11,377**	10,460	11,025	11,059	14,270	7,538	5,455	4,416	3,323	2,546
Minority interest	**4,049**	3,461	3,329	2,908	2,423	33	407	364	49	64
NET INCOME	**$ 21,176**	$ 16,063	$ 15,079	$ 16,836	$ 20,341	$10,586	$ 8,186	$ 6,129	$ 4,813	$ 3,309

Changes in Financial Position

(Thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
FUNDS PROVIDED										
Net income	**$21,176**	$16,063	$15,079	$16,836	$20,341	$10,586	$ 8,186	$ 6,129	$ 4,813	$ 3,309
Depreciation and amortization	**14,885**	11,177	10,100	7,825	5,270	3,812	3,094	1,844	1,176	986
Deferred taxes	**1,758**	1,360	2,184	5,170	3,907	1,675	1,796	2,332	890	817
Minority interest and other	**4,049**	3,461	3,329	2,908	2,423	33	407	364	17	66
Total from operations	**41,868**	32,061	30,692	32,739	31,941	16,106	13,483	10,669	6,896	5,178
Long-term debt	**26,563**	4,151	7,382	5,212	1,000	1,099	5,269	—	—	—
Other	**46**	72	92	164	250	93	103	136	40	114
Total provided	**68,477**	36,284	38,166	38,115	33,191	17,298	18,855	10,805	6,936	5,292
FUNDS USED										
Purchase of equipment and property — net	**23,370**	15,056	35,770	25,397	19,823	15,654	16,220	9,917	5,590	3,374
Dividends paid	**4,060**	3,787	3,649	4,848	2,683	1,596	1,215	769	437	433
Acquisition of minority interest	**32,500**	—	—	—	—	—	—	—	—	—
Other	**1,038**	3,127	1,120	5,099	2,070	303	272	61	13	—
Total used	**60,968**	21,970	40,539	35,344	24,576	17,553	17,707	10,747	6,040	3,807
Change in working capital	**7,509**	14,314	(2,373)	2,771	8,615	(255)	1,148	58	896	1,485
Working capital at beginning of year	**28,421**	14,107	16,480	13,709	5,094	5,349	4,201	4,143	3,247	1,762
Working capital at end of year	**$35,930**	$28,421	$14,107	$16,480	$13,709	$ 5,094	$ 5,349	$ 4,201	$ 4,143	$ 3,247
Represented by										
Current assets	**$67,474**	$73,495	$54,922	$55,423	$45,708	$28,685	$24,350	$15,228	$11,065	$ 8,267
Less current liabilities	**31,544**	45,074	40,815	38,943	31,999	23,591	19,001	11,027	6,922	5,020
	$35,930	$28,421	$14,107	$16,480	$13,709	$ 5,094	$ 5,349	$ 4,201	$ 4,143	$ 3,247

Employee Productivity

Based on number of employees at end of year

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Revenue	**$145,556**	$133,350	$139,520	$138,088	$137,888	$103,632	$102,169	$ 89,866	$ 96,570	$ 81,336
Net income before minority interest	**$ 18,658**	$ 16,162	$ 17,565	$ 19,357	$ 23,158	$ 13,562	$ 13,469	$ 13,815	$ 15,583	$ 13,023
Number of employees at end of year	**1,352**	1,208	1,048	1,020	983	783	638	470	312	259

Selected Analyses and Ratios

See glossary of terms

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
*Number of shares outstanding at year end	**13,533,245**	13,526,345	13,522,045	13,478,045	13,428,945	13,328,250	13,284,300	13,217,700	13,106,400	13,070,400
*Stock range (T.S.E.)										
High	**$ 23¼**	$ 23½	$ 19	$ 29	$ 35	$ 15½	$ 9⅜	$ 6⅛	$ 3¼	$ 2¼
Low	**$ 17**	$ 14	$ 9¼	$ 13¼	$ 14¼	$ 6⅞	$ 4¾	$ 2¾	$ 1½	$ ½
Year-end	**$ 19**	$ 17½	$ 18¼	$ 15¾	$ 26⅜	$ 15⅜	$ 6⅞	$ 5⅞	$ 3⅛	$ 1½
***Per share:**										
Earnings	**$ 1.56**	$ 1.19	$ 1.12	$ 1.25	$ 1.51	$ 0.79	$ 0.62	$ 0.47	$ 0.37	$ 0.26
Cash flow	**$ 3.09**	$ 2.37	$ 2.27	$ 2.43	$ 2.38	$ 1.21	$ 1.01	$ 0.81	$ 0.53	$ 0.40
Dividends	**$ 0.30**	$ 0.28	$ 0.27	$ 0.36	$ 0.20	$ 0.12	$ 0.09	$ 0.06	$ 0.03	$ 0.03
Book value	**$ 7.88**	$ 6.62	$ 5.75	$ 4.98	$ 4.10	$ 2.78	$ 2.11	$ 1.58	$ 1.18	$ 0.85
Profitability:										
Pre-tax margin	**18.6 %**	18.6 %	20.1 %	21.9 %	27.3 %	22.4 %	21.6 %	25.8 %	27.0 %	28.1 %
Net income margin	**10.8 %**	10.0 %	10.3 %	12.0 %	15.0 %	13.1 %	12.6 %	14.5 %	15.9 %	15.7 %
Effective tax rate	**31.1 %**	34.9 %	37.5 %	35.9 %	38.5 %	41.5 %	38.8 %	40.5 %	40.6 %	43.0 %
Return on equity	**21.6 %**	19.2 %	20.8 %	27.6 %	44.1 %	32.5 %	33.5 %	33.7 %	36.3 %	34.5 %
Return on capital employed	**13.8 %**	11.8 %	13.2 %	19.4 %	30.5 %	20.8 %	22.8 %	26.1 %	29.9 %	27.7 %
P/E ratio	**12.2**	14.7	16.3	12.6	17.5	19.4	11.1	12.5	8.4	5.8
P/CF ratio	**6.1**	7.4	8.0	6.5	11.1	12.7	6.8	7.3	5.9	3.8
Coverage:										
Current ratio	**2.1**	1.6	1.3	1.4	1.4	1.2	1.3	1.4	1.6	1.6
Debt/funds provided ratio	**1.2**	1.2	1.1	0.8	0.4	1.0	1.1	0.3	0.3	0.3
Debt/equity ratio	**0.5**	0.4	0.4	0.4	0.3	0.4	0.5	0.1	0.2	0.1
Current debt coverage ratio	**0.1**	0.1	0.2	0.2	0.1	0.1	0.1	—	—	—
Year to year increases:										
Revenue	**22.2 %**	10.2 %	3.8 %	3.9 %	67.0 %	24.5 %	54.3 %	39.3 %	43.9 %	51.8 %
Pre-tax income	**22.1 %**	1.9 %	(4.4) %	(16.8) %	104.0 %	29.3 %	28.8 %	33.3 %	38.3 %	54.9 %
Net income	**31.8 %**	6.5 %	(10.4) %	(17.2) %	92.2 %	29.3 %	33.6 %	27.3 %	45.4 %	49.7 %

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

International Operations

Includes all non-Canadian operations.

(Thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Revenue	**$95,340**	$76,136	$57,172	$35,890	$24,535	$11,121	$11,223	$5,353	$2,352	$1,233
Income before income taxes and minority interest	**$18,406**	$13,604	$11,522	$ 8,648	$ 6,009	$ 68	$ 831	$ 743	$ 101	$ 130
Pre-tax margin	**19.3%**	17.9%	20.2%	24.1%	24.5%	0.1%	7.4%	13.9%	4.3%	10.5%
Minority interest in income of consolidated subsidiaries	**$ 4,049**	$ 3,461	$ 3,329	$ 2,908	$ 2,423	$ 33	$ 407	$ 364	$ 49	$ 64
Identifiable assets	**$97,105**	$87,182	$74,406	$48,203	$23,135	$13,806	$12,773	$6,756	$3,142	$2,532

Quarterly Analysis

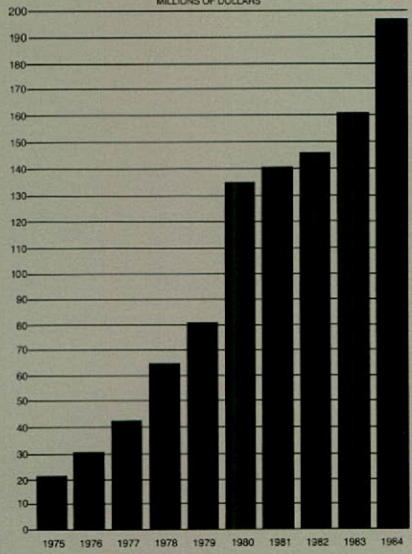
(Thousands of dollars)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
1st Quarter										
Revenue	**$51,123**	$40,773	$41,331	$45,686	$35,489	$20,035	$15,974	$11,406	$7,620	$4,514
Cost of sales/operating	**37,237**	28,508	29,677	30,320	22,269	13,776	10,821	7,233	4,975	2,848
Depreciation and amortization	**3,027**	2,861	2,189	1,526	1,390	919	670	385	309	199
Net income before taxes and minority interest	**10,859**	9,404	9,465	13,840	11,830	5,340	4,483	3,788	2,336	1,467
Income taxes	**3,969**	3,516	4,113	5,532	4,777	2,136	1,840	1,580	956	613
Minority interest	**1,113**	506	546	702	318	208	19	99	(37)	29
Net income	**$ 5,777**	$ 5,382	$ 4,806	$ 7,606	$ 6,735	$ 2,996	$ 2,624	$ 2,109	$1,417	$ 825
* Earnings per share	**$ 0.43**	$ 0.40	$ 0.36	$ 0.57	$ 0.51	$ 0.20	$ 0.20	$ 0.16	$ 0.11	$ 0.06
2nd Quarter										
Revenue	**$40,236**	$30,433	$27,272	$27,290	$26,063	$13,142	$11,234	$ 6,822	$5,250	$3,363
Cost of sales/operating	**32,695**	25,859	22,226	21,717	20,189	11,448	9,602	5,714	4,128	2,805
Depreciation and amortization	**2,959**	2,793	2,442	1,816	1,179	932	687	424	238	232
Net income before taxes and minority interest	**4,582**	1,781	2,604	3,757	4,695	762	945	684	884	326
Income taxes	**798**	453	619	1,233	1,730	74	390	305	382	138
Minority interest	**1,517**	921	869	931	764	221	206	75	69	15
Net income	**$ 2,267**	$ 407	$ 1,116	$ 1,593	$ 2,201	$ 467	$ 349	$ 304	$ 433	$ 173
* Earnings per share	**$ 0.16**	$ 0.03	$ 0.08	$ 0.11	$ 0.16	$ 0.04	$ 0.03	$ 0.03	$ 0.03	$ 0.02
3rd Quarter										
Revenue	**$52,419**	$44,936	$33,586	$33,135	$35,404	$23,149	$17,552	$11,031	$8,458	$6,182
Cost of sales/operating	**37,923**	31,557	24,608	24,308	24,227	16,887	12,731	6,755	5,583	3,910
Depreciation and amortization	**3,937**	2,951	2,518	2,160	1,270	1,025	897	446	341	281
Net income before taxes and minority interest	**10,559**	10,428	6,460	6,667	9,907	5,237	3,924	3,830	2,534	1,991
Income taxes	**3,766**	3,939	2,350	2,793	3,672	2,413	1,708	1,730	1,085	832
Minority interest	**1,041**	991	990	638	533	(225)	136	176	8	20
Net income	**$ 5,752**	$ 5,498	$ 3,120	$ 3,236	$ 5,702	$ 3,049	$ 2,080	$ 1,924	$1,441	$1,139
* Earnings per share	**$ 0.43**	$ 0.40	$ 0.23	$ 0.24	$ 0.42	$ 0.24	$ 0.15	$ 0.15	$ 0.11	$ 0.09
4th Quarter										
Revenue	**$53,014**	$44,945	$ 44,028	$34,739	$38,588	$24,818	$20,424	$12,978	$8,982	$7,007
Cost of sales/operating	**37,450**	34,002	30,173	25,877	26,555	17,064	14,888	9,782	6,263	4,598
Depreciation and amortization	**4,962**	2,572	2,951	2,323	1,431	936	840	589	288	274
Net income before taxes and minority interest	**10,602**	8,371	10,904	6,539	10,602	6,818	4,696	2,607	2,431	2,135
Income taxes	**2,844**	2,552	3,943	1,501	4,091	2,915	1,517	801	900	963
Minority interest	****378**	1,043	924	637	808	(171)	46	14	9	—
Net income	**$ 7,380**	$ 4,776	$ 6,037	$ 4,401	$ 5,703	$ 4,074	$ 3,133	$ 1,792	$1,522	$1,172
* Earnings per share	**$ 0.54**	$ 0.36	$ 0.45	$ 0.33	$ 0.42	$ 0.31	$ 0.24	$ 0.13	$ 0.12	$ 0.09

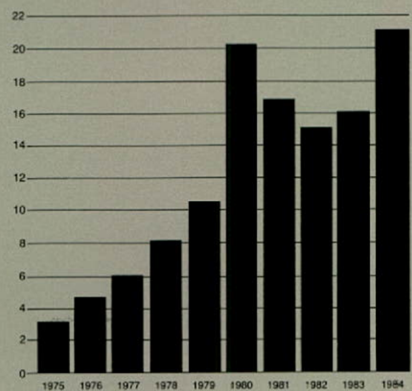
* Adjusted for stock splits in April 1975, September 1978 and April 1980.

** Prior quarters' adjustments.

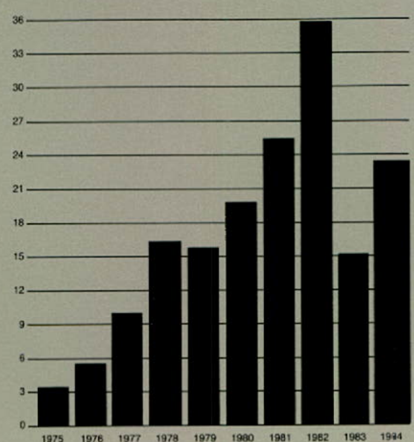
CONSOLIDATED REVENUE
MILLIONS OF DOLLARS



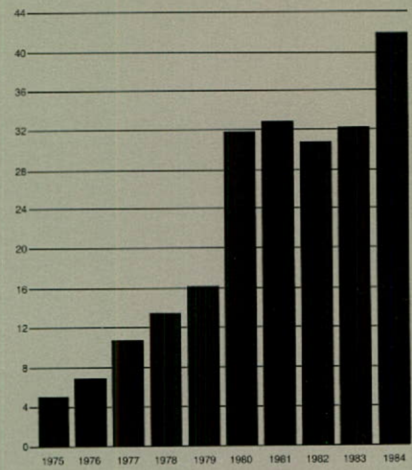
CONSOLIDATED NET INCOME
MILLIONS OF DOLLARS



NET CAPITAL EXPENDITURES
MILLIONS OF DOLLARS

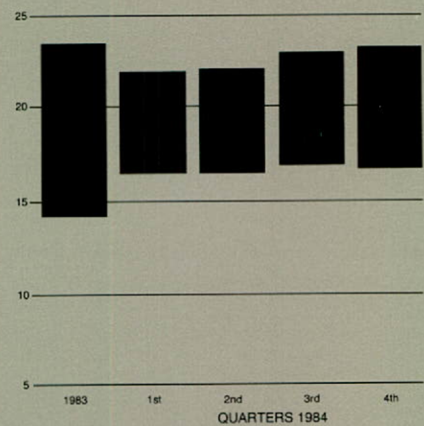


CASH FLOW FROM OPERATIONS
MILLIONS OF DOLLARS



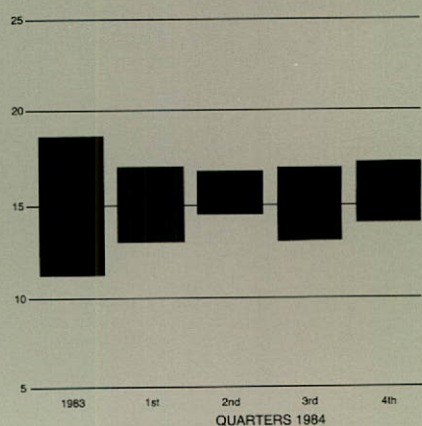
SHARE PRICES — 1984, 1983

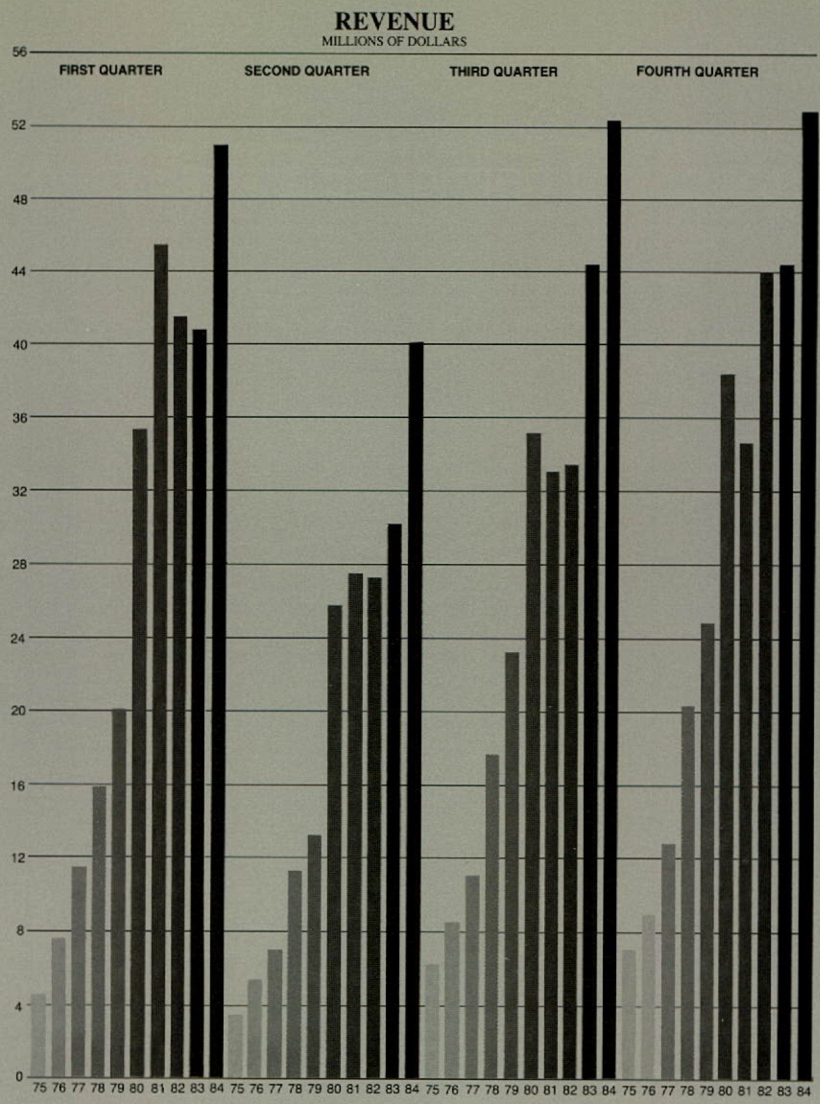
TSE — IN CAN. $ VOLUMES TRADED 1984 — 1,202,354 1983 — 1,088,031

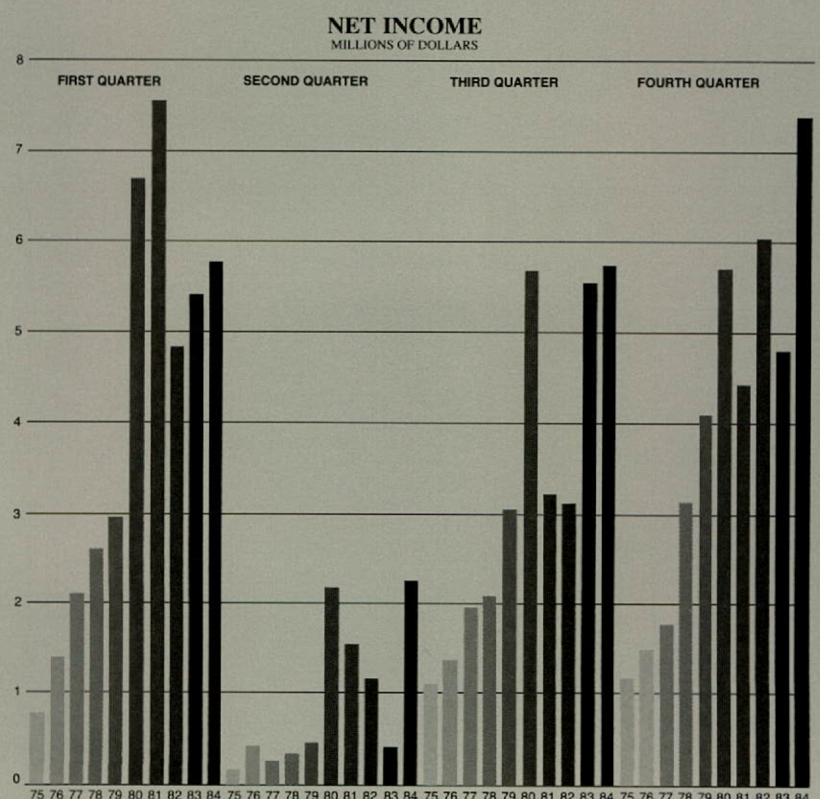


SHARE PRICES — 1984, 1983

NASDAQ — IN U.S. $ VOLUMES TRADED 1984 — 458,567 1983 — 539,613




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
75 76 77 78 79 80 81 82 83 84


NET INCOME
MILLIONS OF DOLLARS
FIRST QUARTER
SECOND QUARTER
THIRD QUARTER
FOURTH QUARTER
0 1 2 3 4 5 6 7 8
75 76 77 78 79 80 81 82 83 84

Glossary of Terms

Earnings per share	Net income 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.
Dividends per share	Dividends paid 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 and minority interest as a percentage of revenue.
Net income margin	Net income for the year as a percentage of revenue.
Effective tax rate	Total income taxes as a percentage of pre-tax income.
Average equity	Average of shareholders' equity at beginning and end of year.
Return on equity	Net income 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 for the year as a percentage of average capital employed.
P/E ratio	Ratio of T.S.E. market price at end of year to earnings per share for the year.
P/CF ratio	Ratio of T.S.E. market price at end of year to cash flow from operations.
Current ratio	Current assets divided by current liabilities.
Debt to funds provided ratio	Total bank debt divided by funds provided from operations.
Debt to equity ratio	Total bank debt divided by shareholders' equity at end of year.
Current debt coverage	Bank interest plus principal repayments divided by funds provided from operations.

Notes

Notes

Notes

NOWSCO WELL SERVICE LTD.

1300, 801 - 6 Avenue S.W.
Calgary, Alberta, Canada T2P 3W2
Tel. (403) 261-2990 Telex 03-825617

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

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