ANNUAL REPORT 1981

NOWSCO

NOWSCO WELL SERVICE LTD.
An International Canadian Company

Contents

The Annual General Meeting of the Shareholders of Nowsco Well Service Ltd. will be held in the 18th, floor auditorium of Norcen Tower, 715 - Fifth Avenue, S.W., Calgary, Alberta on Thursday, April 22, 1982 at 11:00 o'clock in the forenoon (local time).

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The Year at a Glance

	1981	1980	% Change
Sales	**$140,850,000**	$135,544,000	+ 4
Net income before minority interest	**$ 19,744,000**	$ 22,764,000	− 13
Net income	**$ 16,836,000**	$ 20,341,000	− 17
Percent of sales	**11.9%**	15.0%	
Net income per share	**$1.25**	$1.51	− 17
Proceeds from issue of share capital	**$ 152,000**	$ 250,000	− 39
Cash flow from operations	**$ 32,739,000**	$ 31,941,000	+ 2
Capital expenditures	**$ 27,206,000**	$ 23,323,000	+ 17
Dividends paid	**$ 4,848,000**	$ 2,683,000	+ 81
Depreciation	**$ 7,825,000**	$ 5,270,000	+ 48
Number of shares issued and outstanding at year end	**13,478,045**	13,428,945	
Shareholders	**1,664**	1,783	
Employees at year end	**1,020**	983	

4th Quarter

	1981	1980	% Change
Sales	**$ 34,739,000**	$ 38,588,000	− 10
Net income before minority interest	**$ 5,038,000**	$ 6,511,000	− 23
Net income	**$ 4,401,000**	$ 5,703,000	− 23
Net income per share	**$ .33**	$ .42	− 21
Cash flow from operations	**$ 9,547,000**	$ 8,750,000	+ 9
Capital expenditures	**$ 6,697,000**	$ 8,349,000	− 20

To The Shareholders

1981 was a year of both frustration and satisfaction for Nowsco. In Canada, our industry was curtailed considerably as government involvement and interference dulled the investor climate. This was reflected in reduced levels of oilfield activity and increased competition during the second half of the year. However, on the international scene we achieved record sales levels in 1981 and increased confidence that our accelerated international marketing efforts will significantly benefit Nowsco in the future.

Net corporate earnings for 1981 were $16,836,000; a decrease of 17% from all-time record earnings of $20,341,000 in 1980. This represents earnings of $1.25 per share compared to 1980 earnings of $1.51 per share. Sales for 1981 were $140,850,000 compared to $135,544,000 for 1980; an increase of 4%. Of interest is the fact that 1981 sales and earnings were up 74% and 59% respectively over 1979.

To our shareholders (in excess of 1,600), our valued customers (in excess of 800) and our loyal and conscientious staff (in excess of 1,000 world wide) we express our appreciation for a challenging and productive year. With your continued support Nowsco looks forward to becoming a truly international Canadian company meeting the demands of the oil and gas industry throughout the world.

S. P. Shouldice
President and General Manager

D. A. Richardson
Senior Vice-President
and Operations Manager

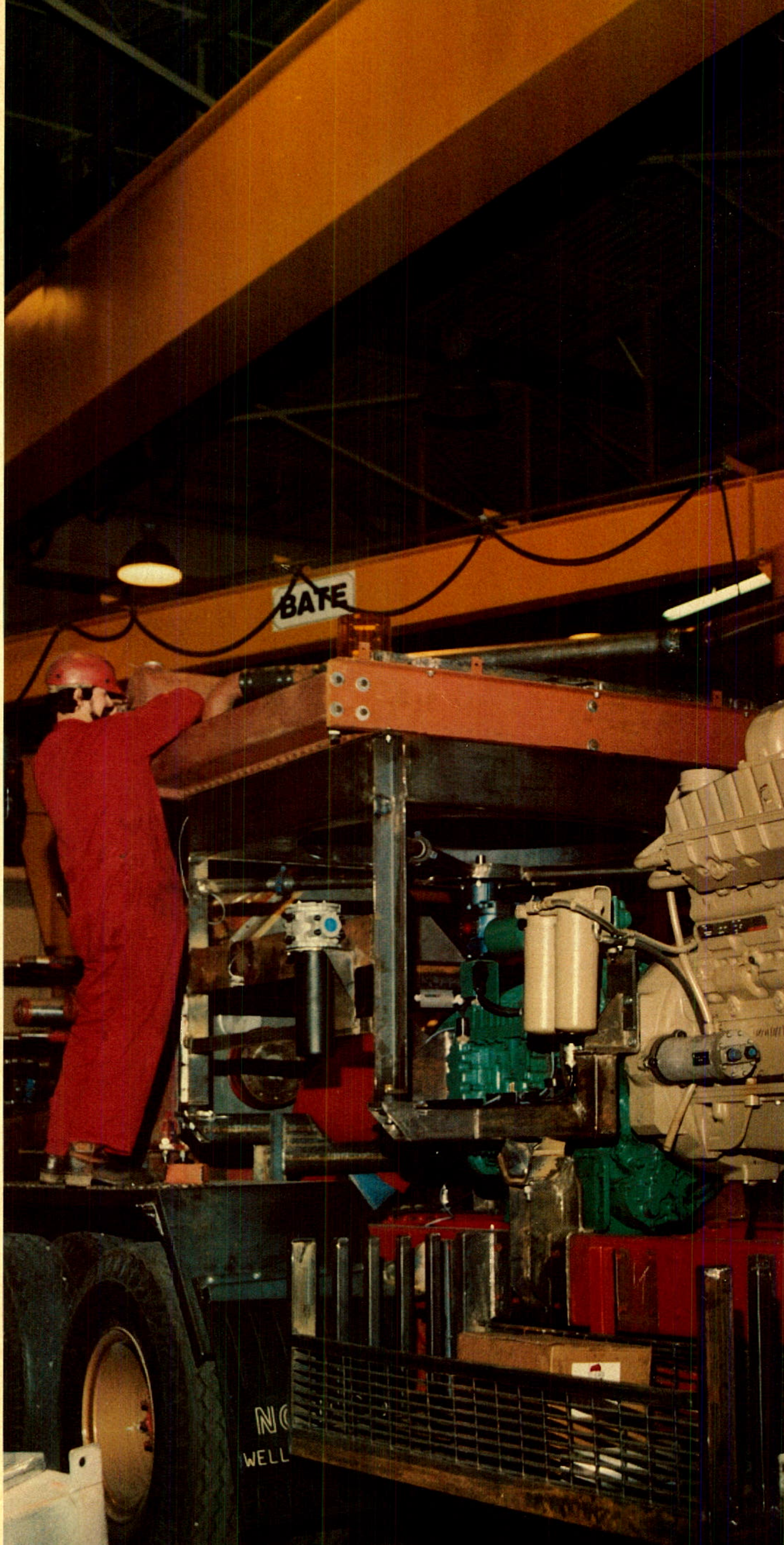
Operations Review

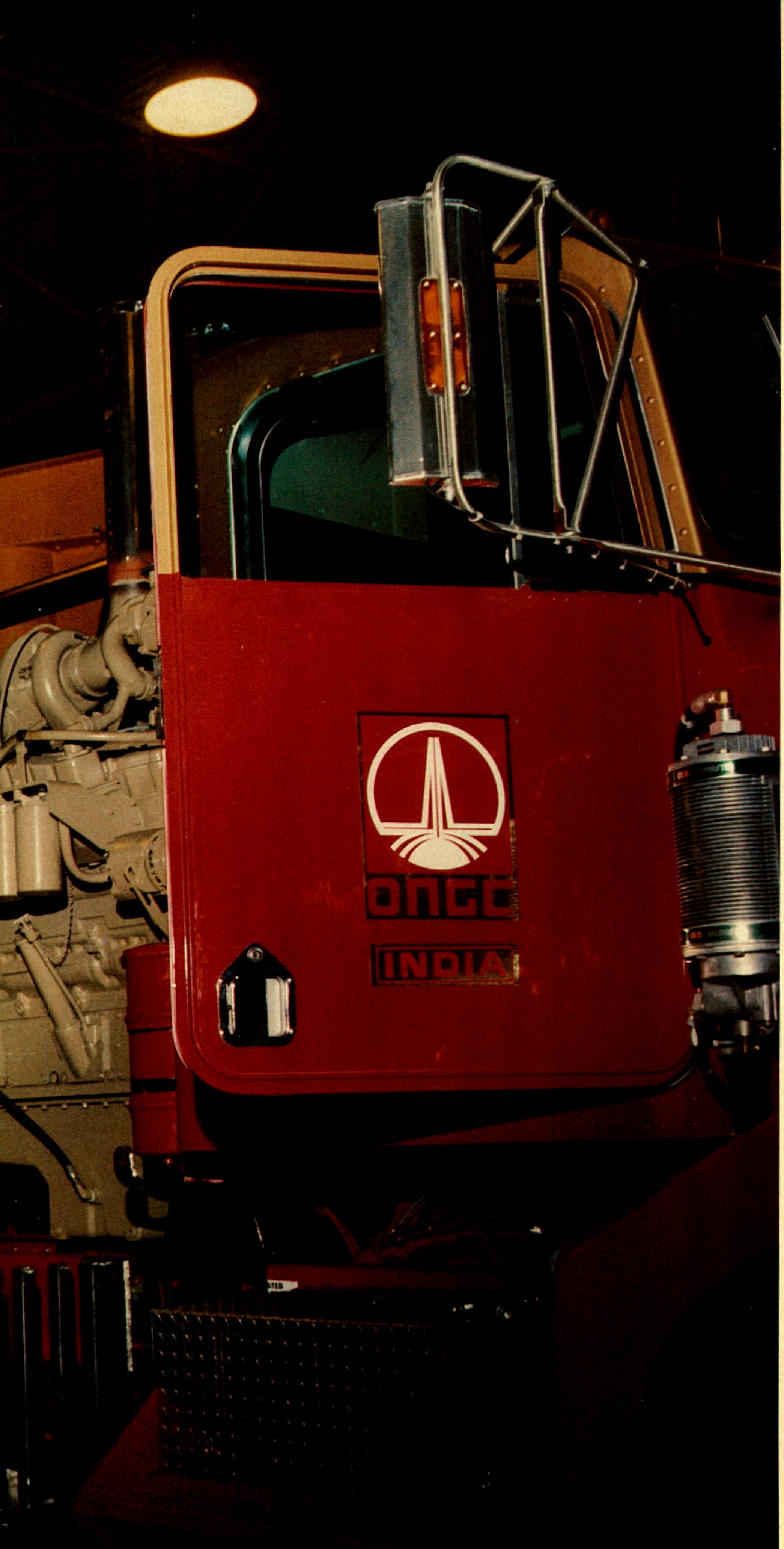
New sandblending facility at Wooster, Ohio.

East Indian technicians undergoing training at Calgary.

In The Right Places At The Right Times

Commencing in 1980, management placed greater emphasis on the potentials for Nowsco outside of Canada. We had reached the position of being the largest company in our field in Canada by that time. We were confident that our human, technical, fabrication and financial resources had the capacity to make a greater impact in the foreign market place. We now operate from 28 locations in Canada and 8 other countries.





Two new locations were opened in the Appalachian region of the U.S. during the third quarter of 1981. Here, we see a market potential, within this area of the U.S.A., that could equal Western Canada in size. A permanent location was established in Ravenna, Italy during 1981 adding to existing European locations at Great Yarmouth, Aberdeen and Leeds in the U.K., at Vechta, West Germany and Den Helder, Holland. The Company also operates from locations at Singapore and Brunei in S.E. Asia. Additional new international locations are planned for 1982.

Nowsco generated income during 1981 through its personnel, technical applications and equipment sales from eighteen countries around the world in addition to those countries where we already have a presence.

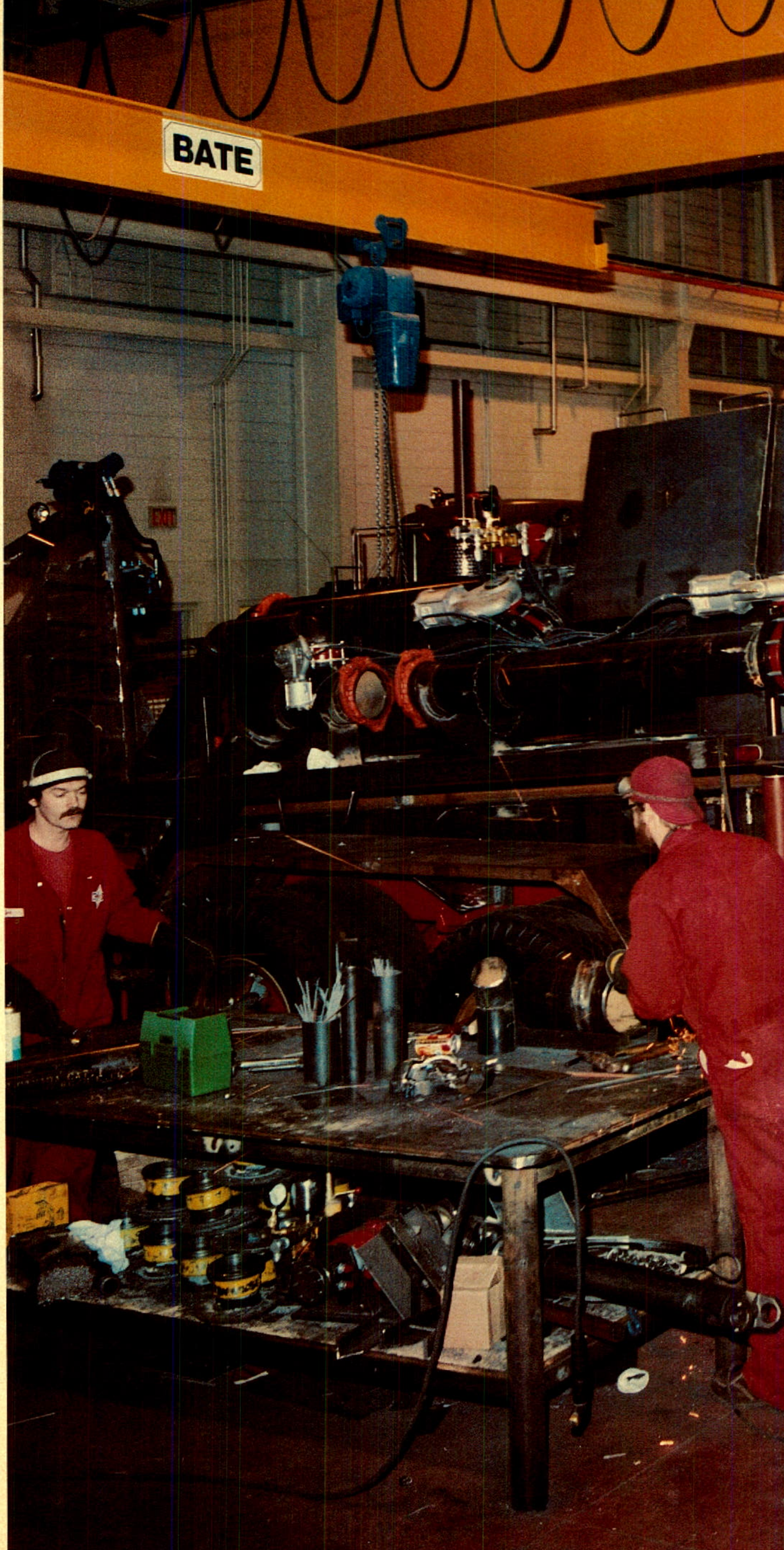
During 1981, equipment sales in excess of $10,000,000 dollars were negotiated with the governments of India and Pakistan, our largest equipment sales to date. We feel these sales pioneered customer training, technology exchange and government cooperation (on both sides) vital to the "Third World" style of energy development of the future.

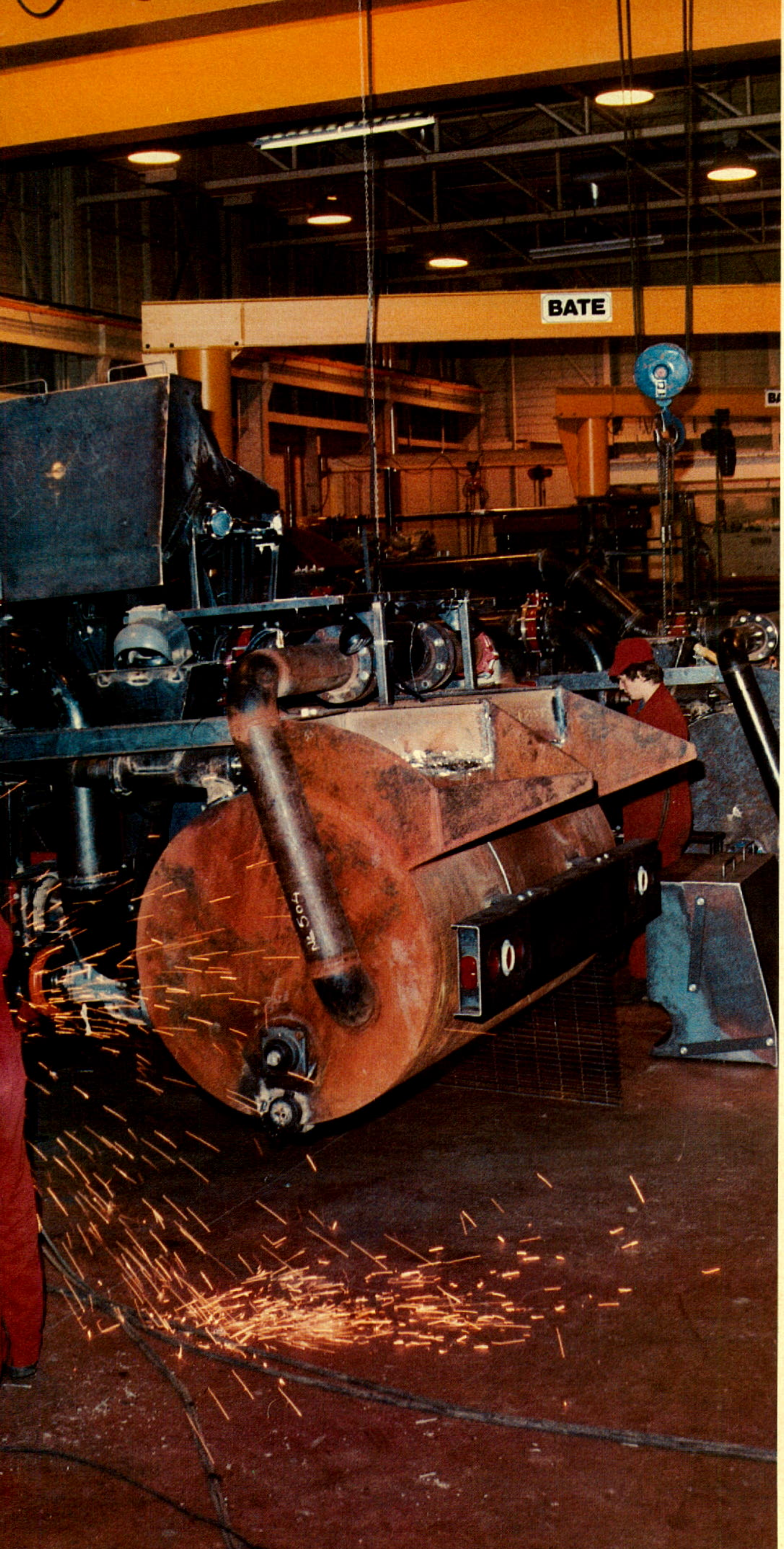
The Indian sale for example, of some eight million dollars, included 13 custom mobile units for stimulation purposes plus spare parts, chemicals and training. This involved bringing a group of Indian technicians to Calgary for extensive technology transfer and job-site training for several months. We will also be providing Canadian operational and technical staff for a one-year period to supervise on site implementation in India of this equipment and technology.

Fabrication of equipment for sale to ONGC (India).

New cement storage facility in St. John's, Newfoundland.

Our Calgary fabrication facility, opened in 1979, constructed and/or rebuilt 53 units this year with a dollar value in excess of 14 million, nearly double the 1980 figure. There was also some 4 million dollars of fabrication in process at year end. With the growing world-wide demand for the outright sale of this type of custom made equipment we intend to actively pursue this market on a basis similar to the sales accomplished to date.





Another milestone in our international operations in 1981 was securing a new long-term contract for the Super Stimulator II. Our unique, self-contained offshore stimulation vessel is now in its third year of operation in the South China Seas off the coast of Borneo. This secured contract enables us to more aggressively market our stimulation technology throughout S.E. Asia and we have now found additional customers for the type of equipment and products we offer in this part of the world.

Similar potential also exists from another 1981 inroad; the installation of our high pressure custom cementing equipment and cement handling facilities, leased and permanently installed on offshore drilling vessels. Long term installations of this type result in ongoing personnel and product requirements and have world wide market potential as the search for oil and gas increases in offshore areas. During 1981 we constructed large oilfield cement storage facilities in St. John's, Newfoundland and Dartmouth, Nova Scotia to support the growing offshore activities of Eastern Canada. New cement laboratory facilities are now an integral part of our investment in Newfoundland. A new laboratory was added at Grande Prairie, Alberta as laboratory requests of our large established Calgary facility were up 40% from the previous year.

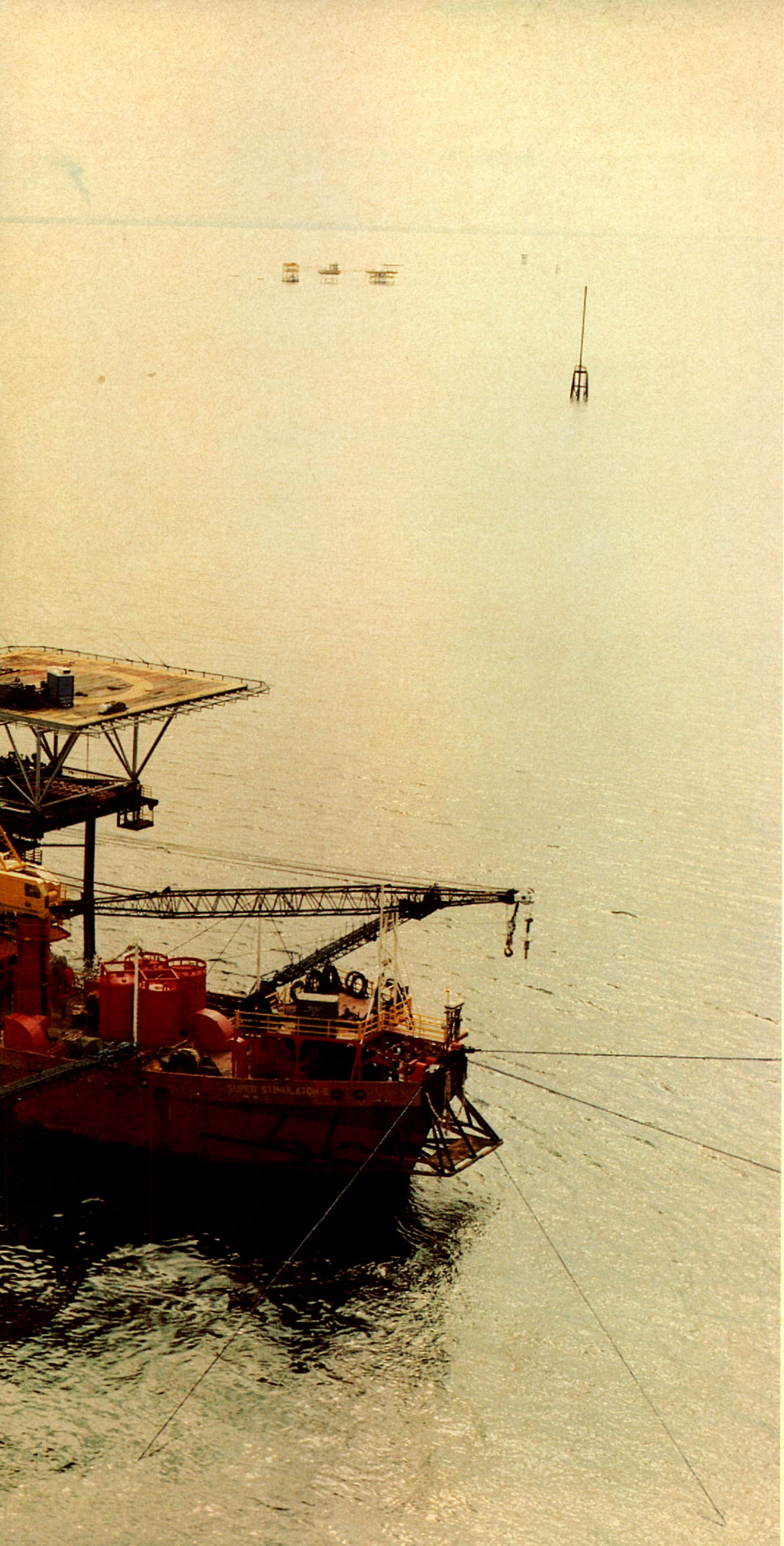
Fabricating equipment for domestic use.

Nowsco equipment operating on offshore rig — East Coast Canada.

Other improvements were made by Nowsco during the past year in fluid filtration, nitrogen purging (including applications for coal mines), and high expansion foam for the purging of storage vessels. A new endless tubing material was developed to withstand the hydrogen sulphide found in "sour" gas and oil wells. A method was also perfected for operating endless tubing units in the dynamic conditions of semi-submersible offshore drilling rigs.

We are in the process of completing our own chemical blending plant in Calgary. This plant will enable Nowsco to maintain quality control of the many special chemical blends (both liquid and powder) used in stimulation and cementing operations. Cost efficiencies and inventory controls will also be a benefit.

Nowsco has an impressive record of industry "firsts" in its nineteen year history. This leadership continued in 1981.



Growing Demand In A Shrinking World — Nowsco's Opportunity

It is believed that the majority of the high volume — high quality petroleum reservoirs have already been found and that the industry must now turn to low rate — low quality reservoirs. Enhanced recovery from existing reservoirs will also become an important facet of energy supplies. Conventional procedures often recover only 10 to 15% of the oil-in-place. Once a hole is drilled, the cheapest oil is often at the bottom of *that* hole, not a new one.

Nowsco-type technology will play an important roll in maximizing the production and profitability of low rate — low quality reservoirs. The same can be said about secondary and tertiary recovery schemes that will meet much of the future petroleum requirements of this world.

We see great opportunities for Nowsco as an important supplier of people, equipment, products and technology in meeting these future energy demands. Military and political conflict have jeopardized many oil and gas supplies around the world resulting in an international scramble for self-sufficiency. This scramble will continue and these demands fall right into Nowsco's area of specialization. The potential is vast.

Super Stimulator II working on offshore platform in the South China Sea.

Lab testing.

Pre-job safety meeting.

New Applications Of Technology And Equipment

Late in 1981 we commenced a joint venture involving the application of the latest in computer simulation of hydraulic fracturing. The most sophisticated laboratory tests previously focused on specific reservoir problems only. Now, with the aid of computer simulation, we are able to construct the whole picture, revealing the optimum fluid, chemical and propping agent requirements with much greater accuracy.

Our laboratory and research staff made important advancements in fluid rheology, enabling more reliable and predictable downhole operations over a wider range of temperatures and pressures. These developments are aimed at both low and high quality reservoirs where advanced stimulation technology is in demand.

Noteworthy advancements were developed in new cementing blends to meet the ongoing challenges in maintaining our technical competence in this facet of our business.

Reliable test data and comprehensive guidelines are now important aids supplied to our customers for cementing decisions and applications.

Helium Leak Detection was developed by Nowsco in Europe in 1980, and 1981 brought many new applications. The technique is unique . . . a leak in a closed pressured system (i.e. gas plant, tubular goods) losing only one cubic foot of gas in 100 years can be detected and quantified. During 1981 the technique gained widespread industry acceptance on offshore production platforms in the North Sea. The customized equipment for Leak Detection is now being produced "in house" for marketing on a broader geographic basis. We are most enthused about the future potential of Leak Detection.

Typical stimulation operation in Western Canada.

Welding on equipment, Calgary.

Training on Nowsco test well, Calgary.

Nowsco — More Than You May Think

We are proud of our growth record and our current position as the largest company of its kind in Canada. We now are penetrating the international market place where our current efforts have just scratched the surface.

We are more than a company just providing standard resource industry support. We now have in place:

— a unique industry training program, geared for both Nowsco and customer personnel, that is becoming increasingly international in scope. In 1981, over 500 of our own staff went through the program, plus some 200 customer personnel who attended our Calgary Training Centre for courses, or received them in their own offices. Our technical training school includes mock-ups of equipment for demonstration with a 1,000-foot test well on the site of our Training Centre to demonstrate a wide range of field and equipment operations.

— a Fabrication Centre that supplies Nowsco and its customers with the most up-to-date technology, built into extensively tested equipment, all on a custom basis. Equipment for on-shore or off-shore is now designed and fabricated "in house" to our own specifications or those of our customers, on a demand basis.

— our own growing staff of trained people now gaining worldwide experience who have round-the-clock communication with management, engineering and technical experts, laboratory and research facilities, repairs, maintenance and equipment.

1982 will mark the 20th Anniversary of our company. We look ahead with the confidence that our "track record" gives us every incentive to meet the challenges of the future, both domestically and internationally.

Typical hook-up at well site.

Financial Review

The 1981 results were principally a reflection of the economic downturn experienced in Western Canada as a result of uncertainties generated by the National Energy Policy and the recent federal budget. Sales increased 4% to $140,850,000 and net income decreased 17% to $16,836,000.

Overseas revenue continued to show strong growth contributing $33,072,000, an increase of 35% with net income before minority interest of $5,976,000 up $1,609,000 over last year. The record performance of the foreign operations is reflective of the continued high levels of activity in Europe and the North Sea area. In addition, we had a full year of operation under our major contract in S.E. Asia compared with nine months in the previous year.

Interest expense in 1981 remained high increasing 65% over 1980 to $2,204,000, however, this was partially offset by capitalizing interest of $600,000 which pertained to the fixed asset expenditure program. The continued high cost of borrowed money (with lending rates rising as high as 22.75% during the year) and Nowsco's ongoing policy of capital expansion, is reflected in this figure.

Cost of material and operating expense increased by 6% or $5,456,000 over last year as a result of both inflation and increased fleet size.

General and administrative costs increased by 45% or $3,260,000 over last year reflecting the associated costs of expansion both in Europe and the U.S.

Depreciation expense in 1981 was $7,825,000 a $2,555,000 or 48% increase over 1980 and is also a reflection of Nowsco's continuing commitment to capital expansion.

Cash flow from operations (net income before deducting non cash items) increased 2% to $32,739,000 and of this 83% was used for capital expenditures. Since 1971, 91% of cash flow has been used for capital expenditures thus explaining the company's policy of minimal dividend payment.

Dividends in 1981 of $4,848,000 represented an increase of 81% over dividends in 1980. Per share dividends of $.36 in 1981 approximated 25% of trailing year's earnings.

Long term debt increased $546,000 due principally to the company's expansion into the North Eastern United States.

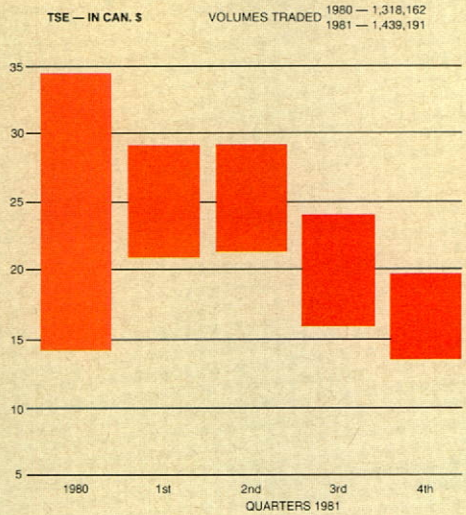
The change in the effective tax rate from 38.5% to 35.9% is a result of Investment Tax Credits and other tax incentives, including Research and Development, which are available to the Company.

Quarterly Financial Results

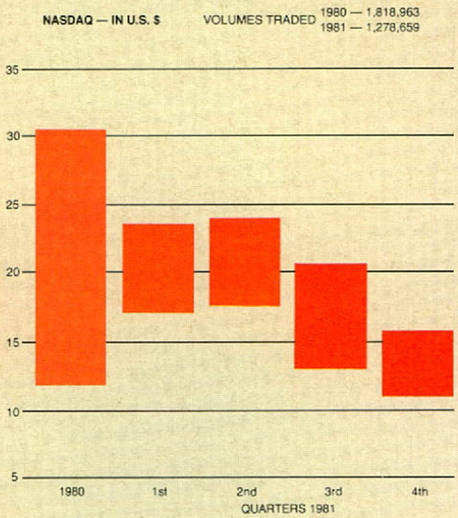
	For The Three Months Ended				
	March 31	**June 30**	**September 30**	**December 31**	**Total**
1981					
Sales	$45,686,000	$27,290,000	$33,135,000	$34,739,000	$140,850,000
Cost of Sales/Operations	30,320,000	21,717,000	24,308,000	25,877,000	102,222,000
Depreciation	1,526,000	1,816,000	2,160,000	2,323,000	7,825,000
Net Income Before Income Tax and Minority Interest	13,840,000	3,757,000	6,667,000	6,539,000	30,803,000
Income Taxes	5,532,000	1,233,000	2,793,000	1,501,000	11,059,000
Minority Interest	702,000	931,000	638,000	637,000	2,908,000
Net Income	$ 7,606,000	$ 1,593,000	$ 3,236,000	$ 4,401,000	$ 16,836,000
Net Income Per Share	$. 57	$ .11	$ .24	$ .33	$ 1.25
1980					
Sales	$35,489,000	$26,063,000	$35,404,000	$38,588,000	$135,544,000
Cost of Sales/Operations	22,269,000	20,189,000	24,227,000	26,555,000	93,240,000
Depreciation	1,390,000	1,179,000	1,270,000	1,431,000	5,270,000
Net Income Before Income Tax and Minority Interest	11,830,000	4,695,000	9,907,000	10,602,000	37,034,000
Income Taxes	4,777,000	1,730,000	3,672,000	4,091,000	14,270,000
Minority Interest	318,000	764,000	533,000	808,000	2,423,000
Net Income	$ 6,735,000	$ 2,201,000	$ 5,702,000	$ 5,703,000	$ 20,341,000
Net Income Per Share	$ .51	$ .16	$ .42	$ .42	$ 1.51

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).

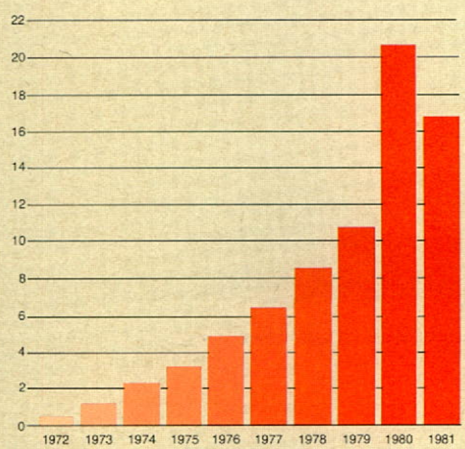
SHARE PRICES — 1981, 1980



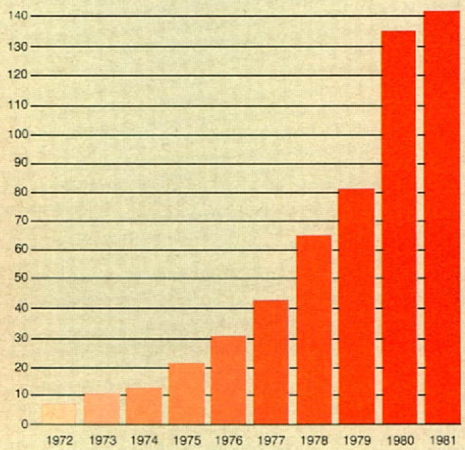
SHARE PRICES — 1981, 1980



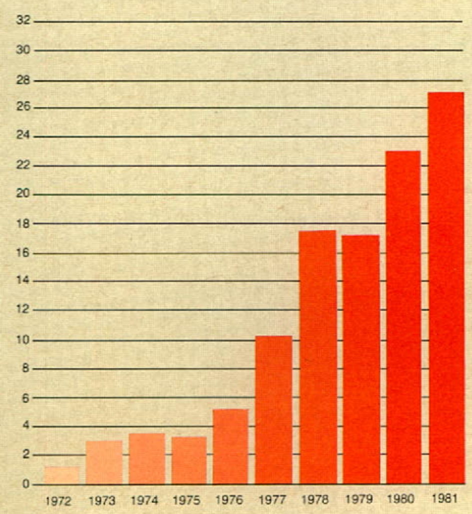
CONSOLIDATED NET INCOME
MILLIONS OF DOLLARS



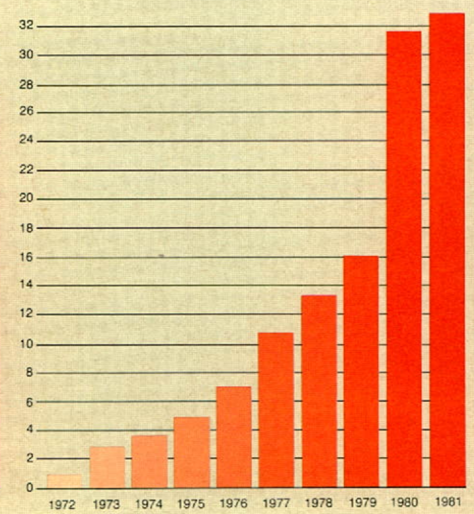
CONSOLIDATED SALES
MILLIONS OF DOLLARS



CAPITAL EXPENDITURES
MILLIONS OF DOLLARS



CASH FLOW FROM OPERATIONS
MILLIONS OF DOLLARS



Financial Section

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Consolidated Balance Sheets

	December 31 1981	1980
ASSETS		
Current Assets		
Cash and short-term deposits	**$ 6,216,000**	$ 1,682,000
Accounts receivable	**25,780,000**	29,889,000
Inventories	**21,433,000**	13,336,000
Prepaid expenses	**1,994,000**	801,000
	55,423,000	45,708,000
Property, Plant and Equipment		
Buildings	**12,061,000**	10,825,000
Equipment	**83,439,000**	63,128,000
	95,500,000	73,953,000
Less accumulated depreciation	**17,119,000**	12,023,000
	78,381,000	61,930,000
Land	**2,629,000**	1,508,000
	81,010,000	63,438,000
	$136,433,000	**$109,146,000**

Approved by the Board:

Director A.P. Bhouldiil

Director D.A. Richardson

See notes to consolidated financial statements.

	December 31 1981	1980
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 17,178,000**	$ 8,796,000
Accounts payable and accrued liabilities	**15,313,000**	14,232,000
Due to affiliates	**1,114,000**	1,253,000
Income taxes payable	**1,954,000**	7,134,000
Current maturity of long-term debt	**3,384,000**	584,000
	38,943,000	31,999,000
Long-Term Debt	**6,044,000**	5,498,000
Deferred Income Taxes	**19,014,000**	13,844,000
Minority Interest In Consolidated Subsidiaries	**5,300,000**	2,813,000
SHAREHOLDERS' EQUITY		
Share Capital		
Common shares without nominal or par value Authorized 48,000,000 shares — issued and outstanding **13,478,045** shares (1980 — 13,428,945)	**2,816,000**	2,664,000
Retained Earnings	**64,316,000**	52,328,000
	67,132,000	54,992,000
	$136,433,000	$109,146,000

Consolidated Statements of Income

	Year Ended December 31	
	1981	1980
Sales	**$140,850,000**	$135,544,000
Material and operating expense	**90,189,000**	84,733,000
General and administrative	**10,429,000**	7,169,000
Interest	**1,604,000**	1,338,000
Depreciation	**7,825,000**	5,270,000
	110,047,000	98,510,000
Net Income Before Income Taxes And Minority Interest	**30,803,000**	37,034,000
Income Taxes		
Current	**5,889,000**	10,363,000
Deferred	**5,170,000**	3,907,000
	11,059,000	14,270,000
Net Income Before Minority Interest	**19,744,000**	22,764,000
Minority interest in net income of consolidated subsidiaries	**2,908,000**	2,423,000
Net Income For The Year	**$ 16,836,000**	$ 20,341,000
Net income per common share	**$1.25**	$1.51

Consolidated Statements of Retained Earnings

	Year Ended December 31	
	1981	1980
Retained Earnings At Beginning Of Year	**$52,328,000**	$34,670,000
Net income for the year	**16,836,000**	20,341,000
	69,164,000	55,011,000
Dividends paid	**4,848,000**	2,683,000
Retained Earnings At End Of Year	**$64,316,000**	$52,328,000

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year Ended December 31	
	1981	1980
Source Of Working Capital		
Net income for the year	**$16,836,000**	$20,341,000
Add charges not requiring current outlay of working capital:		
Depreciation	**7,825,000**	5,270,000
Deferred income taxes	**5,170,000**	3,907,000
Minority interest	**2,908,000**	2,423,000
Total From Operations	**32,739,000**	31,941,000
Increase in long-term debt	**5,212,000**	1,000,000
Proceeds from disposal of property, plant and equipment	**1,809,000**	3,500,000
Proceeds from issue of minority shares of a subsidiary	**12,000**	—
Proceeds from issue of share capital	**152,000**	250,000
Total Provided	**39,924,000**	36,691,000
Use Of Working Capital		
Purchase of property, plant and equipment	**27,206,000**	23,323,000
Dividends paid	**4,848,000**	2,683,000
Minority dividends	**433,000**	200,000
Repayment of long-term debt	**4,666,000**	1,870,000
Total Used	**37,153,000**	28,076,000
Increase In Working Capital	**2,771,000**	8,615,000
Working Capital at Beginning of Year	**13,709,000**	5,094,000
Working Capital at End of Year	**$16,480,000**	$13,709,000
Represented by		
Current assets	**$55,423,000**	$45,708,000
Less current liabilities	**38,943,000**	31,999,000
	$16,480,000	$13,709,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981 and December 31, 1980

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements of the Company include the accounts of its wholly-owned subsidiary, Nowsco of Canada Ltd. and its 51% owned foreign subsidiaries, BOC-NOWSCO Limited, BOC-NOWSCO Oilfield Services GmbH, BOC-NOWSCO (S.E. ASIA) Pte. Ltd., BOC-NOWSCO International Limited and BOC-NOWSCO SRL. Significant inter-company accounts and transactions have been eliminated on consolidation.

Translation of Foreign Currencies: Foreign current assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-current assets are translated at rates prevailing at the time the assets were acquired. Income and expense accounts are translated generally at the average rates in effect during the year. Translation gains (**1981 — $100,000;** 1980 — $605,000) are included in income in the year in which they occur.

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

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.

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 (building and improvements — 10 to 40 years; equipment — 2 to 25 years).

Capitalization of Interest: Interest is capitalized on all costs incurred in construction of equipment and buildings. This policy was adopted prospectively on January 1, 1981 and the effect on income is not material.

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 capital cost allowance for income tax purposes in excess of related depreciation provisions recorded in the accounts.

Investment tax credits are accounted for as a reduction in income tax expense in the year realized.

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.

NOTE B — BANK LOANS

Certain bank loans, included in bank indebtedness, are secured by an assignment of accounts receivable.

NOTE C — LONG-TERM DEBT

	1981	1980
Term bank loan due March, 1988, repayable in monthly instalments of $49,000 plus interest at ½% over the bank minimum lending rate, secured by a floating charge demand debenture on certain land and other property and undertakings of the Company	**$3,600,000**	$4,232,000
Term bank loan due December, 1991, repayable over five years in monthly instalments of $72,000 U.S. commencing 1987 plus interest at ½% over the U.S. bank prime rate secured by certain equipment of the Company; Repayable in U.S. funds of **$4,344,000**	**5,147,000**	—
Non interest bearing loan from a minority shareholder of a subsidiary, with no fixed terms of repayment; repayable in U.S. funds of **$490,000** (1980 — $1,470,000)	**581,000**	1,749,000
Other	**100,000**	101,000
	9,428,000	6,082,000
Less current maturities, including estimated prepayments	**3,384,000**	584,000
	$6,044,000	$5,498,000

The aggregate principal repayments required in each of the four years ending December 31, 1983 through 1986 is $588,000. In addition, the Company is entitled to make prepayments of any portion of the term bank loans. Interest on long-term debt was **$787,000** in 1981 (1980 — $522,000).

NOTE D — SHARE CAPITAL

Effective April 29, 1980 the Company increased its authorized share capital to 48,000,000 common shares under a three-for-one subdivision of shares.

Details of changes in issued share capital for the two years ended December 31, 1981 are:

	Number of Shares	Amount
Balance January 1, 1980	13,328,250	$2,414,000
Issued upon exercise of employee stock options	100,695	250,000
Balance December 31, 1980	13,428,945	$2,664,000
Issued upon exercise of employee stock options	49,100	152,000
Balance December 31, 1981	**13,478,045**	**$2,816,000**

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, 1981 ranged from $.5625 to $22.00 per share. The Company has reserved **27,800** shares (1980 — 38,500) for possible future allocations.

Changes in the number of common shares under option during the two years ended December 31, 1981 are summarized as follows:

	1981	1980
Outstanding, beginning of year	**189,155**	241,050
Granted	**11,500**	80,000
Cancelled	**(800)**	(31,200)
Exercised	**(49,100)**	(100,695)
Outstanding, end of year	**150,755**	189,155

NOTE E — CONTINGENCY 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 has 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.

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, 1981 would be reduced by $9,900,000.

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 outstanding letters of credit totalling $11,100,000 for performance under construction contracts and the income tax reassessments referred to above.

NOTE F — RETIREMENT PLANS

The Company has retirement plans which cover substantially all employees. The contributions by employees, together with those made by the Company, are deposited with trustees according to terms of the plan. Pensions at retirement are related to remuneration and years of service.

The plans were amended in 1979 to provide for increases in retirement benefits. The unfunded past service pension liability at December 31, 1981, after giving effect to the 1979 amendments, is approximately **$1,136,000** (1980 — $1,228,000). The liability will be funded and charged to income over the next 13 years.

NOTE G — RELATED PARTY TRANSACTIONS

During 1981 purchases of inventory totalling **$1,917,000** (1980 — $1,916,000) and property and equipment of **$956,000** (1980 — $1,737,000) were made from affiliated companies. The amount owing on these transactions as at December 31, 1981 was **$1,114,000** (1980 — $1,253,000). All of these transactions arose in the normal course of operations.

NOTE H — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

Aggregate direct remuneration to senior officers and directors amounted to **$628,000** in 1981 and $617,000 in 1980.

NOTE I — SEGMENTED INFORMATION

The Company provides specialized products and equipment to the oil and gas industry for use during the drilling and completing of oil and gas wells and throughout their producing lives.

Geographic Segments: The Company has identified two geographic segments; Canada, which includes the operations of the Company and its wholly owned subsidiary and Foreign, which includes the activities of its foreign subsidiaries in the United Kingdom, Europe, and South East Asia.

The following information relates to the geographic segments:

	Canada	Foreign	Total
1981			
Sales	$107,778,000	$33,072,000	$140,850,000
Net income before income taxes and minority interest	$ 21,158,000	$ 9,645,000	$ 30,803,000
Net income for the year			$ 16,836,000
Identifiable assets	$102,060,000	$34,373,000	$136,433,000
1980			
Sales	$111,009,000	$24,535,000	$135,544,000
Net income before income taxes and minority interest	$ 31,025,000	$ 6,009,000	$ 37,034,000
Net income for the year			$ 20,341,000
Identifiable assets	$ 86,011,000	$23,135,000	$109,146,000

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, 1981 and December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and December 31, 1980 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

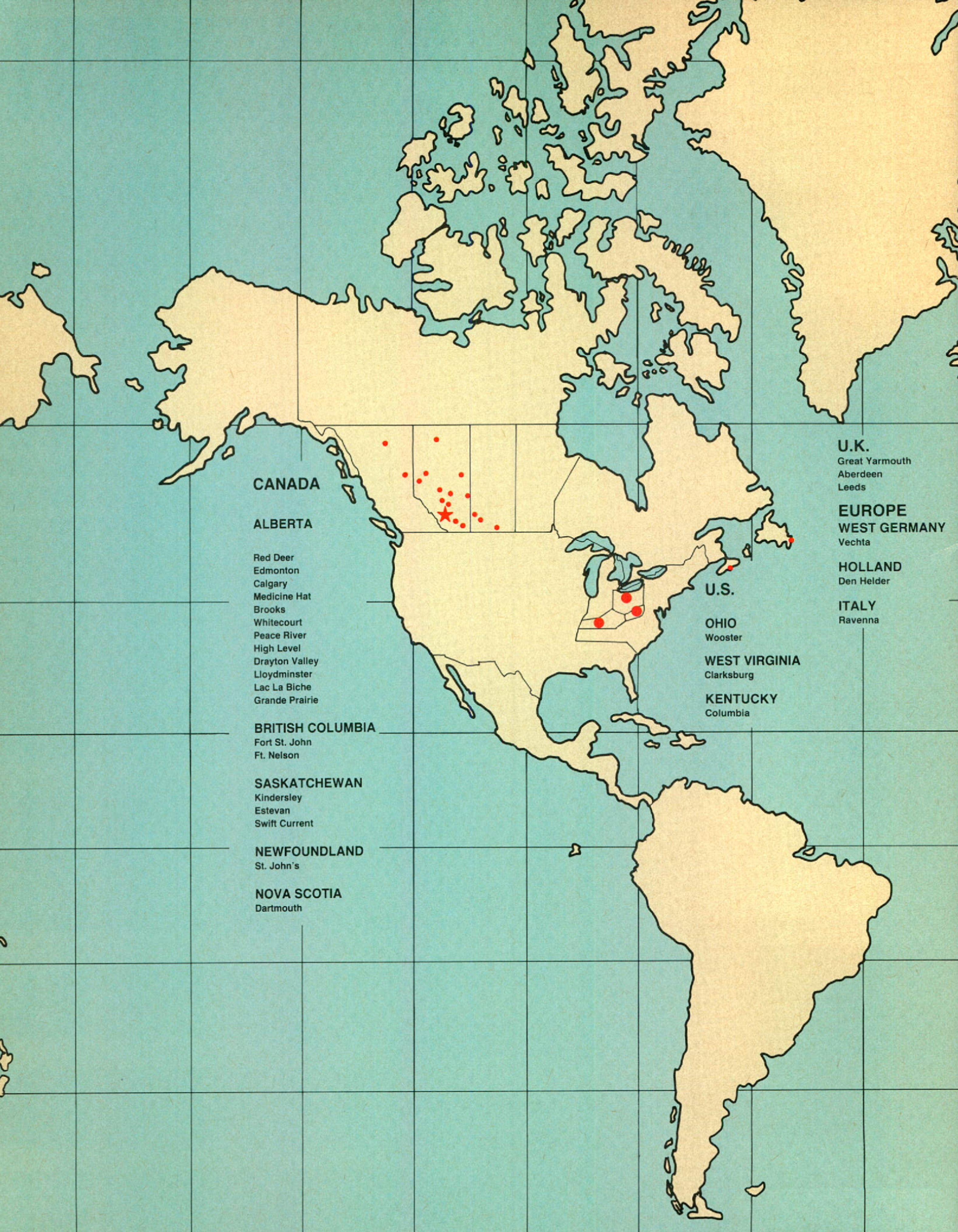
Ernst & Whinney
Chartered Accountants

Calgary, Alberta
February 18, 1982

Ten Year Review

	1981	1980	1979	1978
INCOME				
Sales	**$140,850,000**	$135,544,000	$81,144,000	$65,184,000
EXPENSES				
Material and operating expense	**90,189,000**	84,733,000	52,608,000	42,457,000
General and administrative	**12,033,000**	8,507,000	6,567,000	5,585,000
Depreciation	**7,825,000**	5,270,000	3,812,000	3,094,000
	110,047,000	98,510,000	62,987,000	51,136,000
Net income before income taxes and minority interest	**30,803,000**	37,034,000	18,157,000	14,048,000
Income taxes	**11,059,000**	14,270,000	7,538,000	5,455,000
Minority interest	**2,908,000**	2,423,000	33,000	407,000
NET INCOME	**$ 16,836,000**	$ 20,341,000	$10,586,000	$ 8,186,000
Net income per share	**$1.25**	$1.51	$.79	$.62
Cash flow from operations	**32,739,000**	$ 31,941,000	$16,107,000	$13,483,000
Working capital	**16,480,000**	$ 13,709,000	$ 5,094,000	$ 5,349,000
Capital expenditures	**$ 27,206,000**	$ 23,323,000	$17,447,000	$17,804,000
Dividends	**4,848,000**	$ 2,683,000	$ 1,596,000	$ 1,215,000
Shares outstanding	**13,478,000**	13,429,000	13,328,000	13,284,000
Number of employees	**1,020**	983	783	638

1977	1976	1975	1974	1973	1972
$42,237,000	$30,310,000	$21,066,000	$13,881,000	$10,084,000	$ 6,137,000
26,226,000	18,351,000	12,615,000	8,274,000	6,153,000	3,787,000
3,258,000	2,598,000	1,546,000	1,075,000	688,000	523,000
1,844,000	1,176,000	986,000	711,000	428,000	237,000
31,328,000	22,125,000	15,147,000	10,060,000	7,269,000	4,547,000
10,909,000	8,185,000	5,919,000	3,821,000	2,815,000	1,590,000
4,416,000	3,323,000	2,546,000	1,573,000	1,187,000	758,000
364,000	49,000	64,000	37,000	(23,000)	
$ 6,129,000	$ 4,813,000	$ 3,309,000	$ 2,211,000	$ 1,651,000	$ 832,000
$.47	$.37	$.26	$.17	$.13	$.07
$10,669,000	$ 6,896,000	$ 5,178,000	$ 3,847,000	$ 2,785,000	$ 1,304,000
$ 4,201,000	$ 4,142,000	$ 3,247,000	$ 1,762,000	$ 1,447,000	$ 1,442,000
$10,093,000	$ 5,590,000	$ 3,374,000	$ 3,541,000	$ 3,035,000	$ 1,459,000
$ 769,000	$ 437,000	$ 433,000	—	—	—
13,218,000	13,104,000	13,068,000	12,924,000	12,924,000	12,924,000
470	312	259	192	161	104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ALBERTA
Red Deer
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High Level
Drayton Valley
Lloydminster
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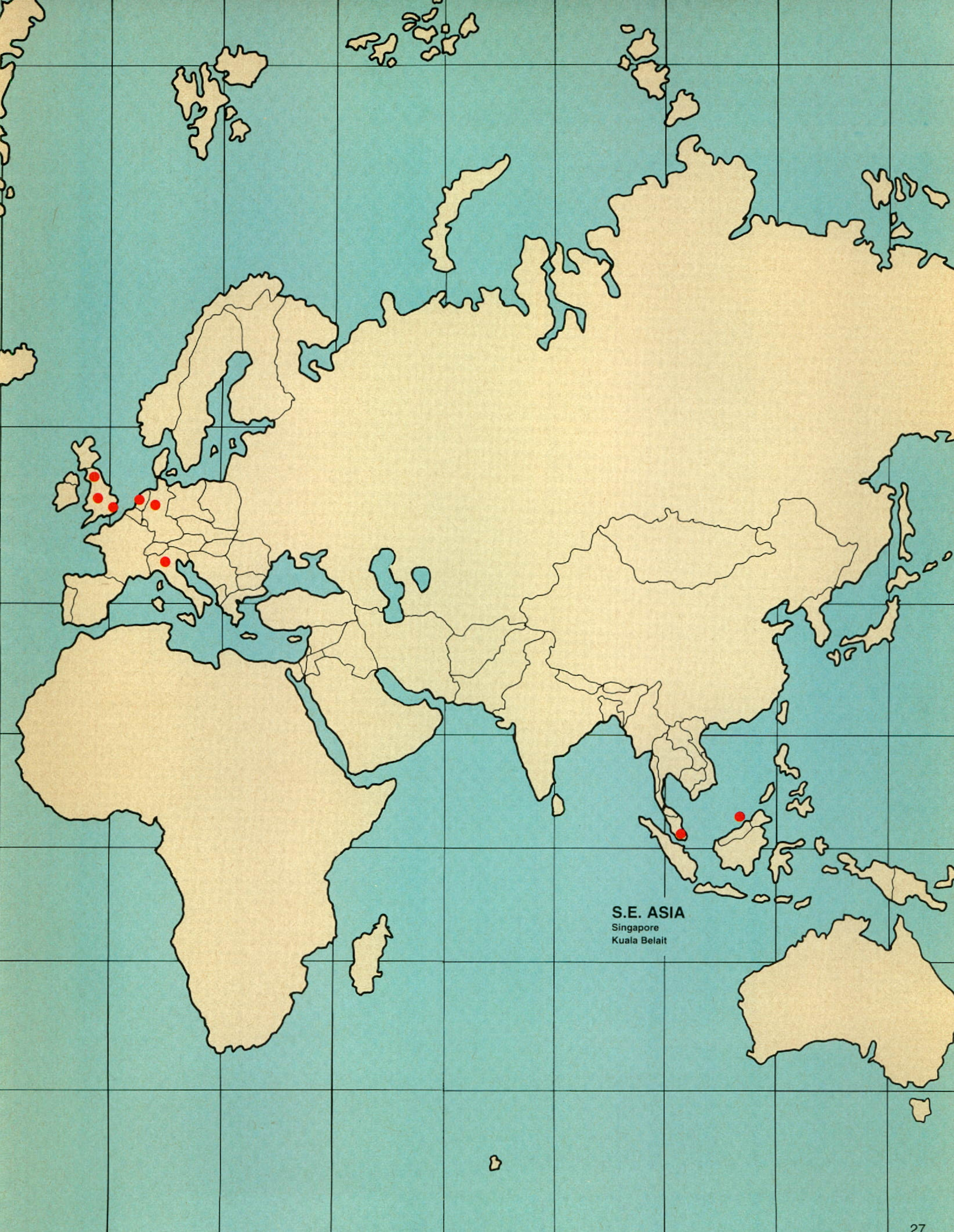
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Board of Directors

WILLIAM M. BOREN	Houston, Texas	Vice Chairman of the Board Big Three Industries, Inc.
ALAN J. DAY	Calgary, Alberta	Vice President of Finance of the Company
CLIFFORD F. DOW	Wooster, Ohio	Vice President and General Manager of U.S. Operations of the Company
MACLEAN E. JONES	Calgary, Alberta	Senior Partner, Bennett Jones Barristers and Solicitors
DAVID J. MAGUS	Calgary, Alberta	Vice President of Engineering and Assistant Operations Manager of the Company
RAYMOND A. PLUMMER	Houston, Texas	President, Nowsco Services Division of Big Three Industries, Inc.
DOUGLAS A. RICHARDSON	Calgary, Alberta	Senior Vice President and Operations Manager of the Company
THOMAS E. SANDS	Houston, Texas	Financial Vice President and Treasurer 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.

Officers

HARRY K. SMITH	Chairman of the Board
S. PATRICK SHOULDICE	President and Chief Executive Officer
DOUGLAS A. RICHARDSON	Senior Vice President
CLIFFORD F. DOW	Vice President
DAVID J. MAGUS	Vice President
ALAN J. DAY	Vice President

Subsidiary Companies

Nowsco of Canada Ltd., BOC-NOWSCO Limited, BOC-NOWSCO Oilfield GmbH, BOC-NOWSCO (S.E. Asia) Pte. Ltd., BOC-NOWSCO International Limited, BOC-NOWSCO SRL.

Registrar and Transfer Agent

The Canada Trust Company Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal

Solicitors

Bennett Jones 3200 Shell Centre, 400 - Fourth Avenue, S.W., Calgary, Alberta

Banker

Canadian Imperial Bank of Commerce 715 - Fifth Avenue, S.W., Calgary, Alberta

Auditors

Ernst & Whinney Chartered Accountants 1400, 639 - Fifth Avenue, S.W., Calgary, Alberta

Stock Listed

Toronto Stock Exchange
NASDAQ

Head Office

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715 - 5th AVENUE S.W.
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