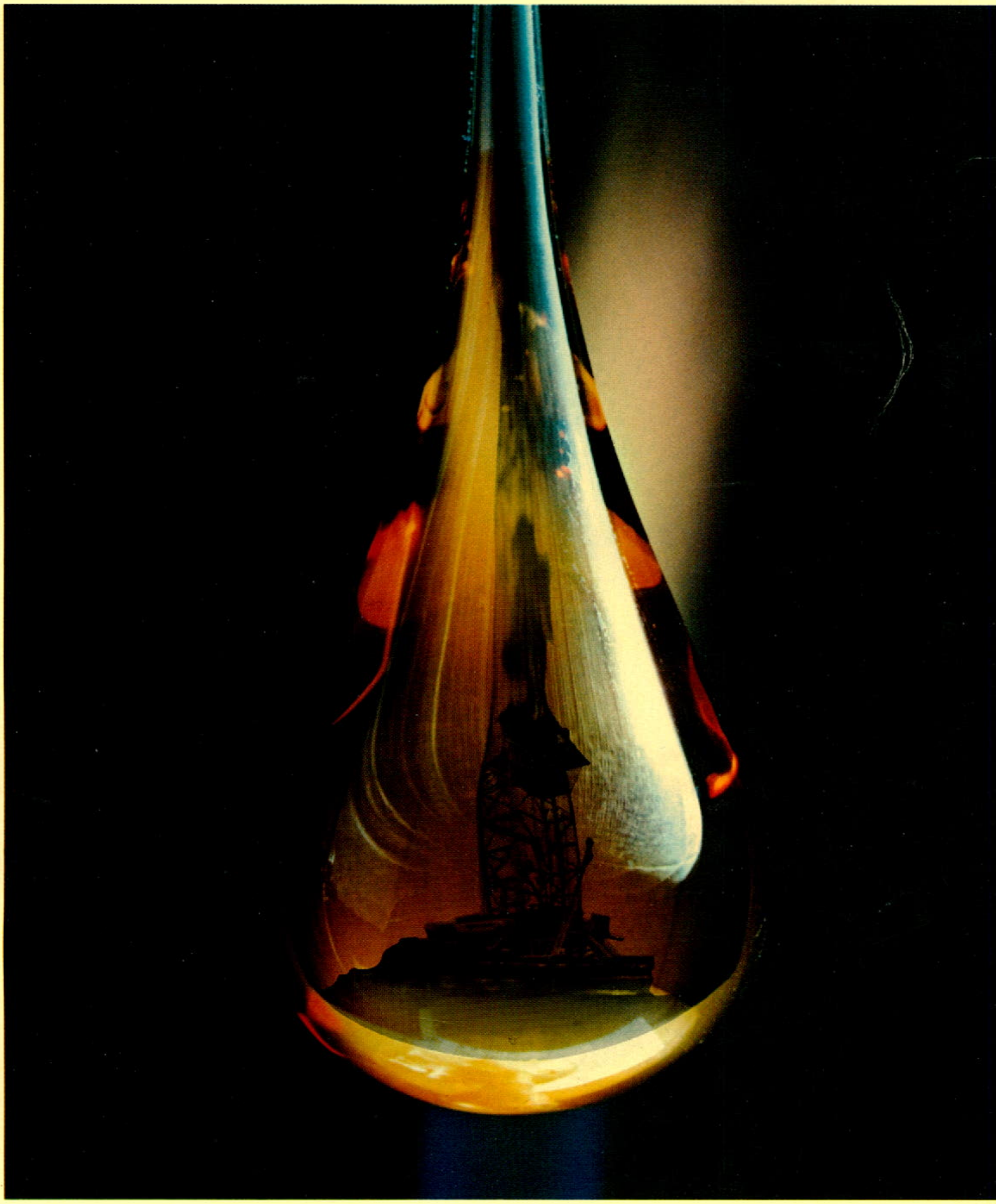
WAINOCO OIL LTD.

1973 ANNUAL REPORT



IMPORTANT NOTICE

Change in Canadian Accounting Principles

The financial statements contained herein on pages 15-24 accurately reflect the financial position and results of operations of the Company in accordance with generally accepted accounting principles in effect during 1973 and prior years.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company, as well as most petroleum companies in Canada, has not recorded in its financial statements for 1973 and prior periods deferred taxes applicable to exploration and development costs which are capitalized for financial reporting purposes but deducted currently for tax reporting purposes in Canada.

A decision handed down by the Canadian Provincial Securities Administrator on March 29, 1974 will require petroleum companies whose shares are publicly traded to provide in their financial statements for deferred Canadian taxes on all timing differences between Canadian accounting income and taxable income in financial statements for periods ending March 31, 1974 or later. Accordingly, effective in the first quarter of 1974, the Company has made a retroactive accounting change to provide for deferred Canadian taxes on oil and gas exploration and development costs. As a result of this retroactive change the financial results for 1973 and 1972 will be restated as follows:

	1973		1972	
	As Restated	As Reported	As Restated	As Reported
	(000's omitted except per share income)			
Net Income before taxes	$1,060	$1,060	$ 921	$ 921
Provision for deferred Canadian income taxes	389	—	248	—
Net Income	$ 671	$1,060	$ 673	$ 921
Per Share	$ .21	$ .33	$ .22	$ .30
Deferred Canadian tax liability	$1,077	$ —	$ 688	$ —
Retained Earnings — end of year	$2,702	$3,779	$2,031	$2,719

Although the above accounting treatment does not conform to the provisions of Opinion 20 of the Accounting Principles Board of the American Institute of Certified Public Accountants, it is in conformity with Canadian generally accepted accounting principles. Had the provisions of Opinion 20 been followed, net income as originally reported in 1973 would have been unchanged and there would have been a charge to operations for the first quarter of 1974 for the cumulative effect on prior years in the amount of $1,076,600.

The retroactive change to the financial results shown above was made after the printing of the 1973 Wainoco Oil Ltd. Annual Report had commenced. This Notice should be read with and is an integral part of this Annual Report.

May 15, 1974

Financial and Operating Highlights

Financial	1973	1972
Revenues		
As previously reported	$ 9,899,077	$ 9,496,492
Operations discontinued in 1972	——	251,326
* Reclassification	——	217,007
As restated	$ 9,899,077	$ 9,028,159
Income		
Before extraordinary item		
Continuing Operations	$ 1,060,138	$ 1,182,303
Discontinued Operations	——	(138,310)
Total	$ 1,060,138	$ 1,043,993
Extraordinary item	——	(122,846)
Net Income	$ 1,060,138	$ 921,147
Net Income Per Share		
Before extraordinary item		
Continuing Operations	$ 0.33	$ 0.38
Discontinued Operations	——	(0.04)
Total	$ 0.33	$ 0.34
Extraordinary item	——	(0.04)
Per Share	$ 0.33	$ 0.30
Average Number of Shares Outstanding	3,178,863	3,088,251

* See Footnote 8 to the Financial Statements

Production	1973	1972
Oil and condensate (bbls.)	316,115	292,100
Natural gas (Mcf)	3,268,398	2,336,600
Land		
Gross acres	9,998,144	2,920,675
Net acres	9,247,731	2,344,794

Contents

Letter to the Shareholders

In 1973, Wainoco Oil Ltd. realized its most profitable year in history and efforts set in motion during the year should further enhance the operations and profitability of the Company.

Revenues totaled $9,899,077 compared to $9,028,159 as restated for the previous year. Net income rose to $1,060,138 or $0.33 per share, up from the $921,147 or $0.30 per share for 1972, after adjustments for the losses incurred by the transportation division sold in 1972.

The advancement of Wainoco's position in oil and gas exploration and production during the past six years under present management continued at an increased pace in 1973. During the year the Company participated in the drilling of 73 wells. Crude oil and condensate production was 316,115 barrels, while natural gas production amounted to 3.27 billion cubic feet. At year's end the Company held leases or other rights to oil and gas covering 9,247,731 net acres. Proven reserves of oil and gas, other than those to be more fully evaluated by drilling in the Gulf of Mexico, totaled 1,670,495 barrels of crude oil and other hydrocarbon liquids and 51.8 billion cubic feet of natural gas.

Wainoco's staff was enlarged and its areas of operations were broadened in an expanding search for oil and gas reserves. The addition of personnel in Houston and the opening of an exploration office in Denver marked this expansion in the United States.

Exploration rights outside North America were secured for the first time in the Company's 24 year history. In June, 1973, Wainoco was granted an agreement and a license by the government of Kenya for oil and gas exploration in the southeastern part of that country. These rights encompass an area of approximately seven million acres extending well out under coastal waters.

Wainoco's initial venture in offshore drilling also took place during the year as it participated in 15 exploratory wells drilled on four of five blocks located some ninety miles off the Louisiana coast. As a result of this work, reserves have been established on Blocks 322 and 323, East Cameron Area, and a platform will be set in the spring of 1974 for development of these reserves. Additional exploration on the balance of the blocks is expected to commence later this year. In connection with this effort, the Company entered into an agreement during 1973 for a $3.5 million interest-free loan with Natural Gas Pipeline Company of America. The terms of this agreement state that Natural Gas Pipeline, in providing the funds, will hold preferential rights to purchase all gas resulting from the Company's interest in the five offshore leases.

In support of our oil and gas operating efforts, a fourth annual limited partnership was formed for onshore exploration. Limited partnership funds secured through the sale of subscriptions to Wainoco 73 Company totaled $4.76 million. This partnership drilled wells on 28 exploratory prospects resulting in the discovery of oil on two and gas on three of the prospects in Canada. Development work on one of the oil prospects in the Swan Hills area of Alberta has resulted in the establishment of significant reserves for the partnership. Operations on the other four prospects will be done in 1974 to develop and evaluate their full potential.

In anticipation of our continuing public limited partnership drilling operations, a securities corporation was formed to handle the sales of subscriptions to future partnerships. WOL Securities, Inc., with an office in St. Louis, Missouri, is being registered in several states as a broker-dealer to handle such sales.

Wainoco 74 Company, the 1974 limited partnership, has filed a registration statement for the offering of $10 million of limited partnership interests with the Securities and Exchange Commission and is expected to commence operations early in the summer.

The chemical division realized an increase in revenues and earnings of approximately ten per cent over the previous year even though confronted with rising costs and material shortages. In early 1974, the operations of Travis Chemicals, the largest distributor of gas processing chemicals in Canada; Travchem Services, a blender and distributor of chemicals used in oil and gas production; and Tec-Chem Laboratories, a commercial analytical laboratory, were combined under the name of Travis Chemicals. A 20,000 square foot building was recently completed on a four-acre site in an industrial park in southeast Calgary to house the blending plant, laboratory, warehouse and offices for Travis. This move will bring about important operational consolidations and aid considerably in the services that the chemical division can offer its Canadian customers.

The Molsberry Division's physical plant was enlarged significantly with the completion of a new building for the construction and repair of the growing fleet of specialized vehicles and equipment used in this division's vegetation control operations. Revenues from this division dropped slightly due to restrictive tariff regulations involving the importation of a chemical resale item; however, the prospects for higher revenues appear promising for 1974.

Of importance to Wainoco's future earnings are recent actions by the federal and provincial governments of Canada regarding prices and royalties applicable to oil and gas sales in that country. Although further evaluation is necessary in order to fully define the economic impact of these actions on your Company, we believe that net receipts from oil and gas will be significantly higher than in the past. Your management looks forward to further improvement in the overall price structure of oil and gas in Canada to sustain a growing amount of new exploration. We believe that this improvement will evolve as the world-wide petroleum market becomes more stabilized and as Canadian authorities recognize the importance of incentives to continue the search for new energy resources.

We are most optimistic regarding the Company's expanded capacity to find and develop oil and gas reserves, and view the continued growth of our chemical and vegetation control business with confidence.

J B Ashmun

J. B. Ashmun
President

May 2, 1974

CORPORATE FINANCIAL STAFF is headed by Thomas B. Grootemaat (center), Secretary-Treasurer, shown with Larry Cooksey (left), Controller, and George C. Bitting, President-WOL Securities, Inc.

Financial Review 1973

Revenues

Revenues for the year increased 10% to a record high of $9,899,077, from the $9,028,159 as restated for 1972. Oil and gas revenues increased 9% from the prior period and accounted for 21% of the Company's total revenues. The chemical division's revenues increased 10% over those of 1972 and represented 64% of the Company's total revenues during 1973. Revenues from vegetation control operations declined 4% from the previous year and contributed 15% of the total revenues.

Net Income

Net income rose to $1,060,138, a 15% increase over that reported for the previous year after the operating and extraordinary losses of the transportation division sold in 1972. A recent change in United States accounting principles requires that income from continuing operations be reported separately from any discontinued operations. Accordingly, the comparative statement of the Company's income for 1972 and the six year comparative summary segregate the results of the transportation division sold during 1972, including its revenues, from those of the three continuing divisions. On this basis, the net income from these divisions declined $122,165, or approximately 10%, from that reported during 1972. The reasons for this were the increased general and administrative costs of establishing the Denver office and enlarging the Houston staff, plus a higher charge for depreciation and depletion. The latter was the result of higher lease costs and lower proven reserves.

Six Year Comparative Summary

Revenues
- As previously reported . . . .
- Operations discontinued in 1972 . . . .
- * Reclassification . . . .
- As restated . . . .

Income
- Before extraordinary item
  - Continuing Operations . . . .
  - Discontinued Operations . . . .
  - Total . . . .
- Extraordinary item . . . .
- Net Income . . . .

Net Income Per Share
- Before extraordinary item
  - Continuing Operations . . . .
  - Discontinued Operations . . . .
  - Total . . . .
- Extraordinary item . . . .
- Per Share . . . .

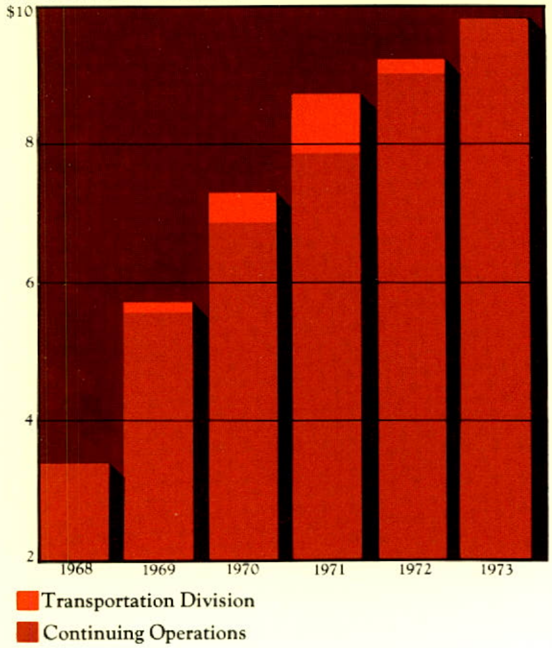
Total Assets
- As Previously Stated . . . .
- Assets of Discontinued Operations . . . .
- Assets of Continuing Operations . . . .

Net Oil & Gas Investment . . . .

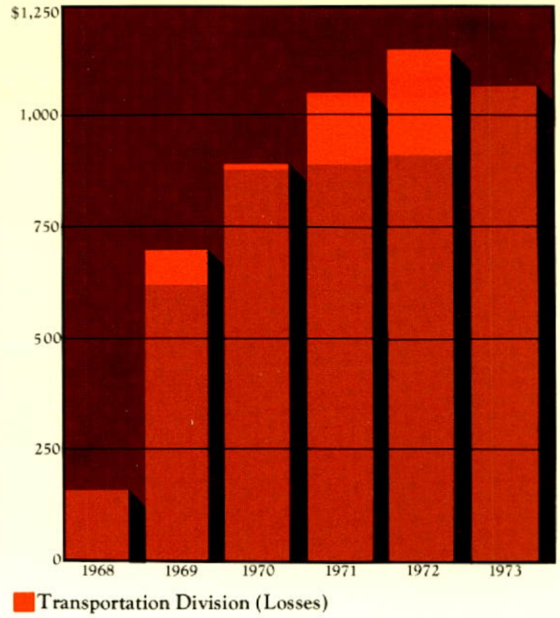
Average shares outstanding . . . .

* See Footnote 8 to the Financial Statements

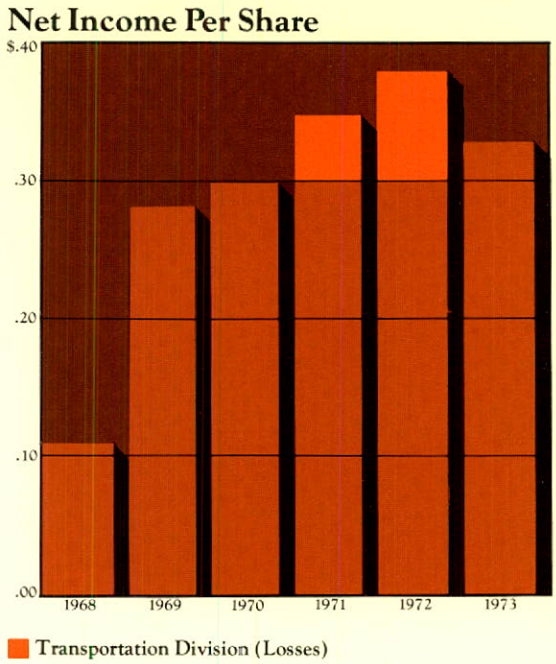
Revenues (In Millions)

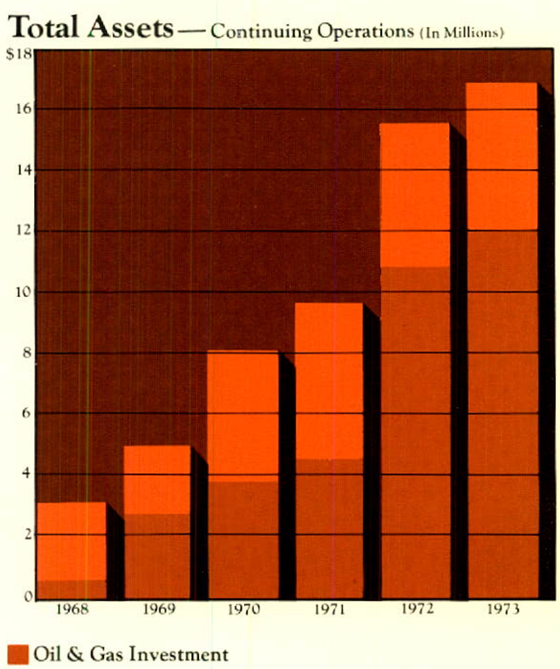


Net Income (In Thousands)



1973	1972	1971	1970	1969	1968
$ 9,899,077	$ 9,496,492	$ 8,719,319	$ 7,351,415	$ 5,643,322	$ 3,401,790
— —	251,326	849,724	483,071	108,589	— —
— —	217,007	— —	— —	— —	— —
$ 9,899,077	**$ 9,028,159**	**$ 7,869,595**	**$ 6,868,344**	**$ 5,534,733**	**$ 3,401,790**
$ 1,060,138	$ 1,182,303	$ 1,060,341	$ 884,835	$ 732,359	$ 176,218
— —	(138,310)	(154,086)	(2,020)	(17,007)	— —
$ 1,060,138	$ 1,043,993	$ 906,255	$ 882,815	$ 715,352	$ 176,218
— —	(122,846)	— —	— —	— —	— —
$ 1,060,138	**$ 921,147**	**$ 906,255**	**$ 882,815**	**$ 715,352**	**$ 176,218**
$ 0.33	$ 0.38	$ 0.35	$ 0.30	$ 0.28	$ 0.11
— —	(0.04)	(0.05)	— —	— —	— —
0.33	0.34	0.30	0.30	0.28	0.11
— —	(0.04)	— —	— —	— —	— —
$ 0.33	**$ 0.30**	**$ 0.30**	**$ 0.30**	**$ 0.28**	**$ 0.11**
$17,193,151	**$15,672,700**	**$ 9,837,850**	**$ 8,055,726**	**$ 5,391,212**	**$ 2,548,472**
— —	**39,131**	**575,592**	**238,656**	**132,358**	— —
$17,193,151	**$15,633,569**	**$ 9,262,258**	**$ 7,817,070**	**$ 5,258,854**	**$ 2,548,472**
$12,050,000	**$10,900,000**	**$ 4,590,000**	**$ 3,925,000**	**$ 2,725,000**	**$ 570,000**
3,178,863	**3,088,251**	**3,047,312**	**2,928,646**	**2,510,936**	**1,626,033**

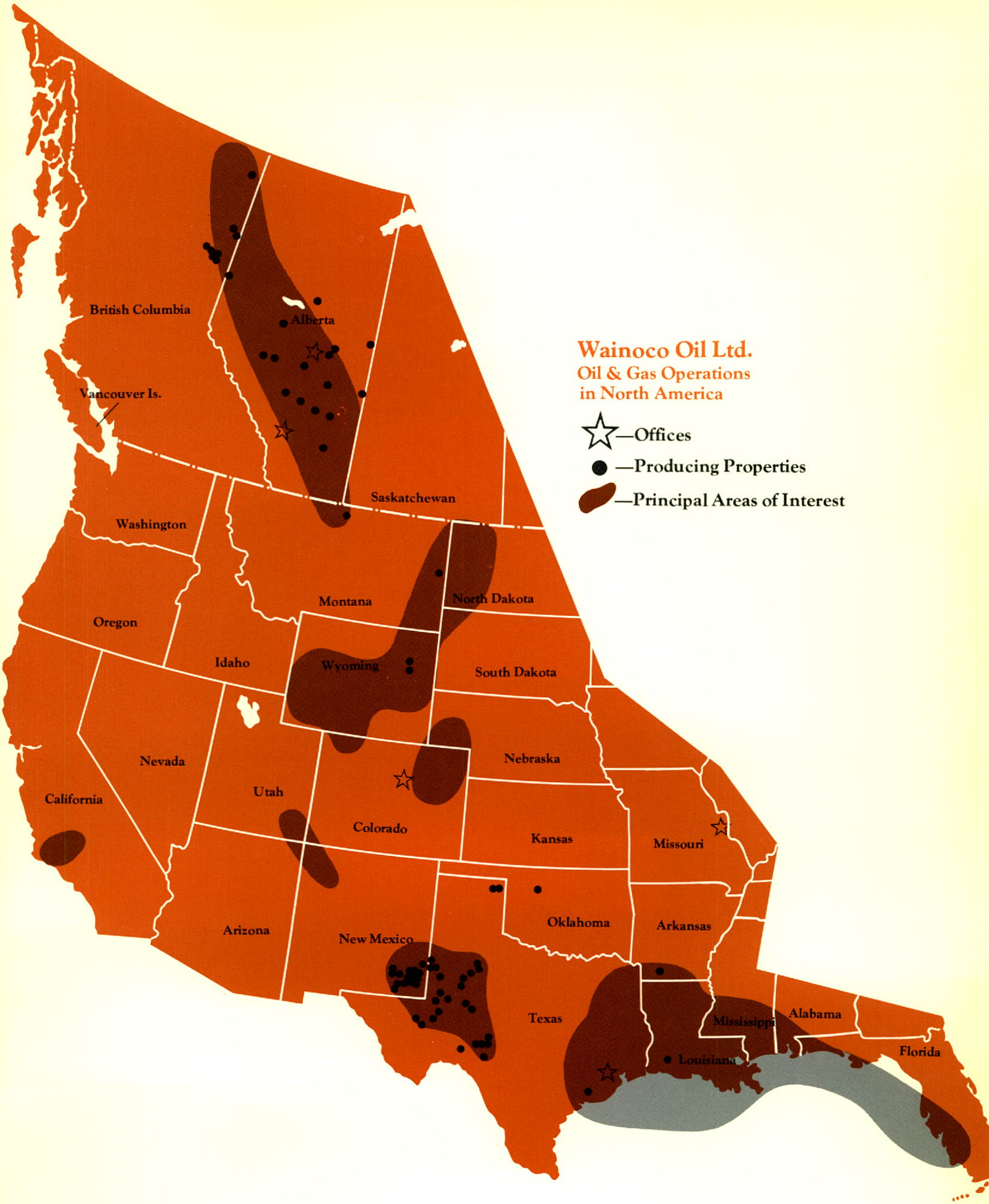




Capital Expenditures
Capital expenditures by the Company for the year 1973 totaled $2,876,604. This was substantially less than the prior year's expenditures of $7,157,940. However, in 1972 the Company spent $4,887,878 in acquiring its interests in five federal leases offshore Louisiana. Excluding this transaction, expenditures for oil, gas and mining properties (including $692,904 for exploration of the offshore tracts) increased 6% from the prior period. Additions to buildings and equipment increased significantly during 1973, due primarily to the construction of a combination blending plant, warehouse, laboratory and office building in Calgary by the chemical division and a maintenance shop and garage in Edmonton by the Molsberry division.

Debt Structure
Significant changes were made to the Company's debt structure during 1973. The short term operating loans and overdrafts were reduced to $677,725, or approximately half the amount at year end 1972. Short term indebtedness related to the acquisition of the interests in five federal offshore leases was reduced by $2,737,564 at December 31, 1973, and subsequently has been further reduced to slightly less than $2,000,000. This indebtedness accounts for substantially all of the Company's working capital deficiency at year end. Negotiations are underway with a bank to convert this loan to long term debt.

In August, the Company obtained an interest-free loan of $3,500,000 from a natural gas transmission company for the exploration and development of its interests in five federal offshore leases. In return for this loan, the Company granted a right of first call on any gas produced from these tracts to the lender.


Wainoco Oil Ltd.
Oil & Gas Operations
in North America
—Offices
—Producing Properties
—Principal Areas of Interest
British Columbia
Alberta
Vancouver Is.
Saskatchewan
Washington
Montana
North Dakota
Oregon
Idaho
Wyoming
South Dakota
Nevada
Utah
Nebraska
California
Colorado
Kansas
Missouri
Arizona
New Mexico
Oklahoma
Arkansas
Texas
Mississippi
Alabama
Louisiana
Florida

CALGARY'S OIL & GAS TEAM *(left to right)*: *Wayne Tait, Land Manager; Uldis Upitis, Exploration Manager; Dennis Nikiforuk, Production Manager, and Dr. Robert Leslie, Manager-Oil & Gas Operations-Canada.*

Operations Review 1973

Oil & Gas

Drilling and Exploration

Total capital expended for oil and gas operations on behalf of the Company and its limited partnership operations was $7,381,949 for 1973. Exploration and development activities during the year included the drilling of 73 gross wells, or 15 net wells. This is an increase over the 50 gross, or 12.8 net wells, drilled in 1972. Thirty-three wells were drilled in Canada and 40 were drilled in the United States, of which 25 were onshore and 15 were offshore. The Company also retained interests in, or contributed acreage or money to, 19 wells drilled by others. Management has been increasing Wainoco's participation in oil and gas exploration activity in the United States and, following this policy, opened a Rocky Mountain exploration office in Denver in August, 1973. Additions were made to the Gulf Coast staff during the year to expand our exploration efforts in that area.

Canada

Wainoco drilled a total of 33 wells in Alberta and British Columbia in 1973 in association with the Company's limited partnerships. A significant oil find was made in central Alberta just south of the Swan Hills Beaverhill Lake C pool. Three wells have been completed in the Devonian reef reservoir and an additional three wells are planned in the summer of 1974 to fully develop 2,720 acres controlled by the Company. Other exploratory work in Alberta resulted in two gas discoveries at Marten Hills and Valhalla and an extension of the Willesden Green oil field. In British Columbia, a gas well, which tested 10.9 million cubic feet per day from the Triassic Halfway formation, was drilled southwest of the Peejay field. In addition, continued development of our 1972 Oak discovery has resulted in a six well field extending over a distance of seven miles.

United States

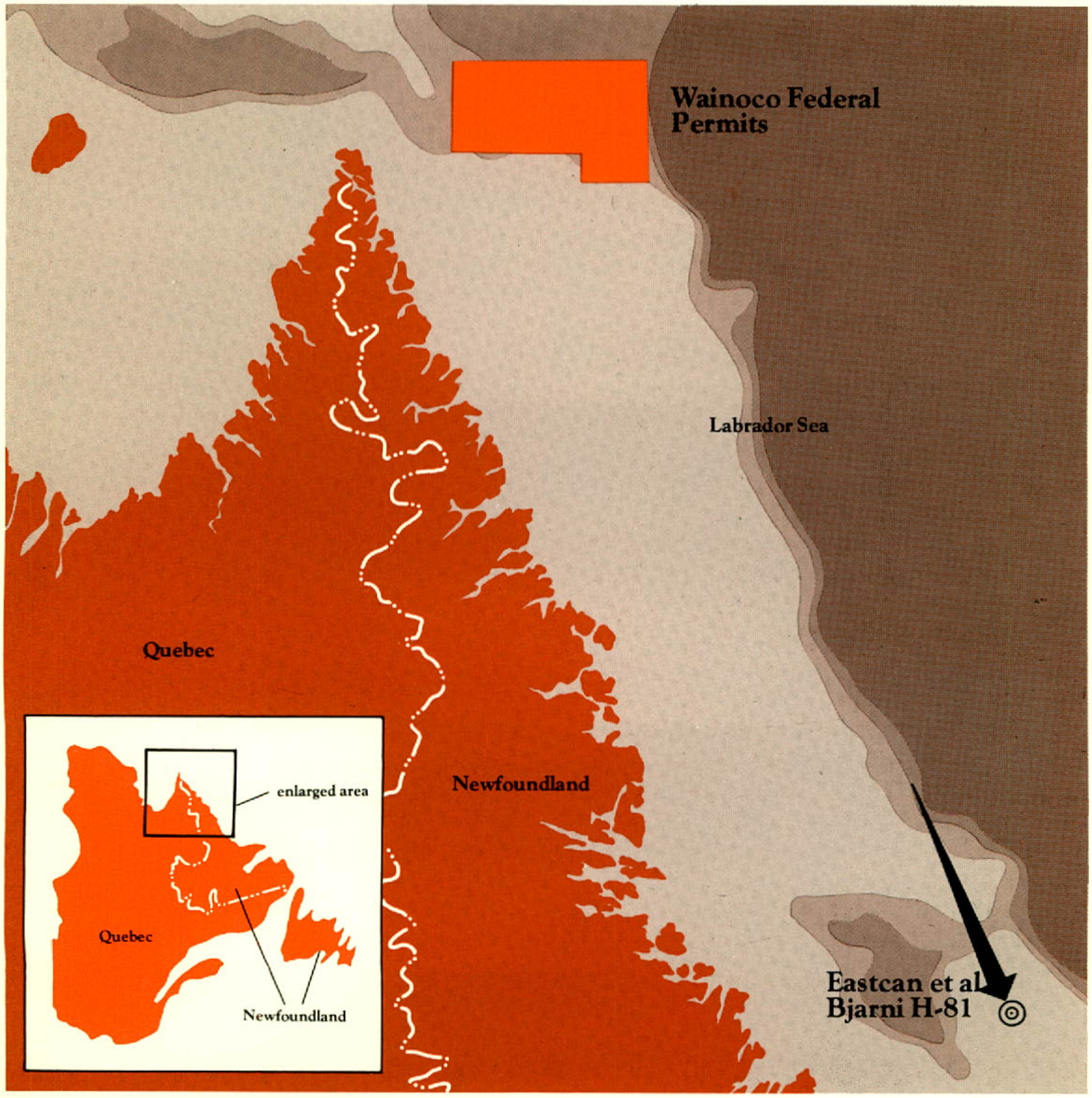
Activity in the continental United States during 1973 was greatly increased over that in previous years with the Company drilling 25 wells. This increase resulted from more exploratory tests drilled in association with our limited partnership and from development operations by other companies on leases in which Wainoco had acquired relatively small interests. The exploratory tests were in the Gulf Coast, the Rocky Mountains and California, while most of the development wells were drilled in west Texas and southeast New Mexico. At the end of the year, Wainoco owned varied interests in 513 producing wells in the United States.

Limited Partnership Operations

A large percentage of the Company's exploration activity during 1973 was funded, as in previous years, through a limited partnership. This association yields Wainoco an increased exposure to exploratory drilling while reducing its expenditure of risk capital. Through these partnerships, initial subscriptions in the amount of $1,080,000 in 1970,

DENVER'S NEW OIL & GAS OPERATIONS STAFF (left to right) includes: John Buckley, Land Manager; J. Maurice Cox, Exploration Manager; and William Faubion, Vice President.

Eastern Canada Offshore



HOUSTON'S OIL & GAS OPERATIONS Land Manager, Gary Diamond (left) and Geologist, Gordon Cox.

$3,050,000 in 1971, and $4,080,000 in 1972 were raised. Wainoco 73 Company subscriptions totaled $4,760,000 and, as a result, 32 wells were drilled on 22 prospects in Canada and six prospects in the United States. Successful wells were drilled on five of the Canadian prospects and reserves found should assure the program's success.

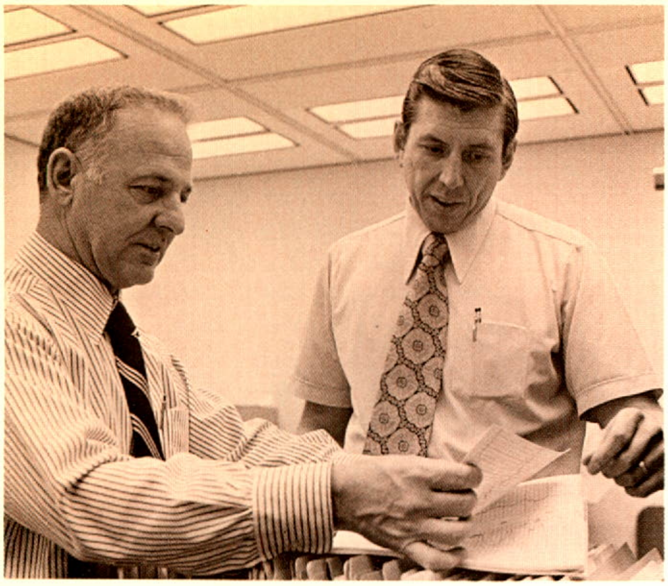
Wainoco 74 Company has filed a registration statement for the offering of $10 million of limited partnership interests with the Securities and Exchange Commission. Plans call for approximately three-quarters of these funds to be expended on United States prospects and the balance on prospects in Canada.

Offshore and Foreign

In the Louisiana offshore area of the Gulf of Mexico, 15 test wells were drilled on 23,434 acres of leases acquired in December, 1972. Nine of these wells were drilled on or adjacent to Blocks 322 and 323 of the East Cameron Area, where production was established. A platform with the capacity for 18 well completions is currently being set for the development of reserves at this location. The Company owns a four per cent interest in these two blocks. In the Vermilion Area only three evaluation tests were made on Blocks 345 and 363 and none on Block 364. These tracts remain prospective for future exploration to commence in the last half of 1974.

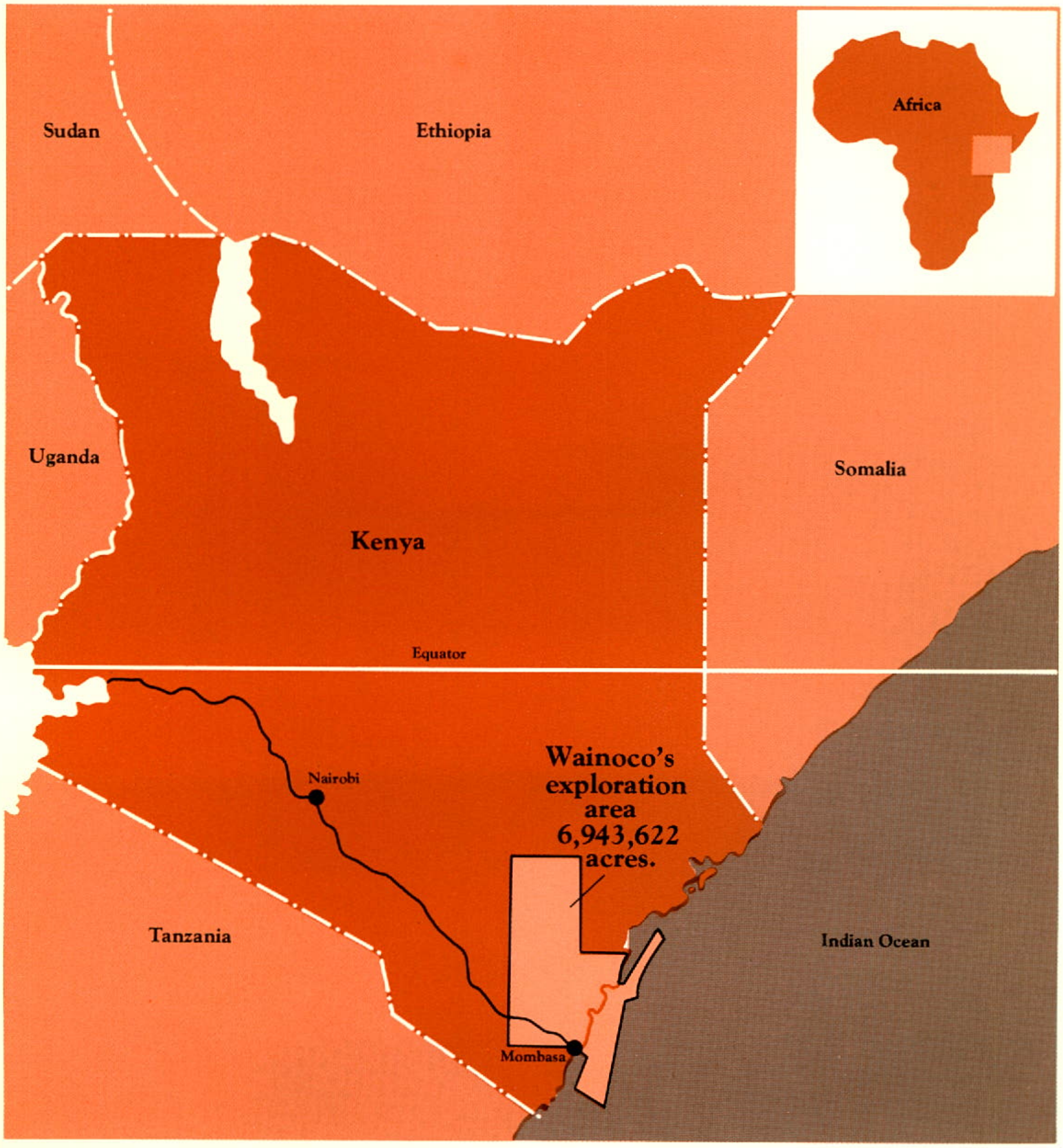
Interest in our 1,878,954 acres of federal permits off the northern Labrador coast on the Canadian Atlantic seaboard was heightened due to reports from the Eastcan et al Bjarni H-81 well drilled late last summer. This well, located approximately 300 miles southeast of the Wainoco acreage on the continental shelf off central Labrador, encountered hydrocarbon shows throughout a relatively thick sand section. As it was late in the drilling season these shows were not tested, but the operator plans to reenter the well this summer to deepen it and to conduct an extensive testing program. Results of these tests could indicate the hydrocarbon potential of certain portions of the Labrador Shelf.

In June, 1973, the Company was granted Oil Exploration License No. 10 from the government of Kenya covering 6,078,758 acres in the southeastern part of that country. A subsequent agreement was made conveying to Wainoco the right to explore an additional 864,864 acres in coastal waters adjoining the eastern limits of the license. Exploration for oil and gas has been conducted along Africa's east coast for several years, and although no production has been established in Kenya, studies reveal that conditions favorable to the presence of hydrocarbons exist. In view of this potential and the reasonable terms offered by the Kenyan government for the exploration and production of oil and gas, your management believes this sizeable holding provides an unusual opportunity for Wainoco's initial venture overseas. Plans are being made for marine and onshore geophysical surveys in the summer of 1974.



VICE PRESIDENT William Faubion (left) and Sherwin Artus, Production Manager-Denver Oil & Gas operations.

East Africa–Kenya



Production

Production of crude oil and other liquid hydrocarbons during 1973 was 316,115 barrels as compared to 292,100 barrels in the previous year. Gas produced was 3,268 million cubic feet as against 2,337 million cubic feet in 1972. Of the year's total production, 255,228 barrels of crude and 1,878 million cubic feet of gas came from wells in the United States, and 60,887 barrels of crude and 1,390 million cubic feet came from Canadian wells.

Total proven reserves at the end of 1973, excluding offshore Louisiana, were estimated to be 1,670,495 barrels of crude oil and other hydrocarbon liquids and 51,831 million cubic feet of gas. This is a decrease of 497,505 barrels of oil and 5,469 million cubic feet of gas from the reserves reported by the Company at the end of 1972. Factors other than production which contributed to this decrease were the sale of a producing property in Canada and the reclassifying of some proven reserves to the probable category. Reserves attributable to Wainoco's interest in the 1973 Limited Partnership which have been developed since January 1, 1974, plus those in the offshore Louisiana blocks are expected to add to the Company's reserve.

Land

At the end of 1973, Wainoco owned leasehold and other interests in a total of 9,998,144 gross acres and 9,247,731 net acres as compared to the 1972 total of 2,920,675 gross and 2,344,794 net acres.

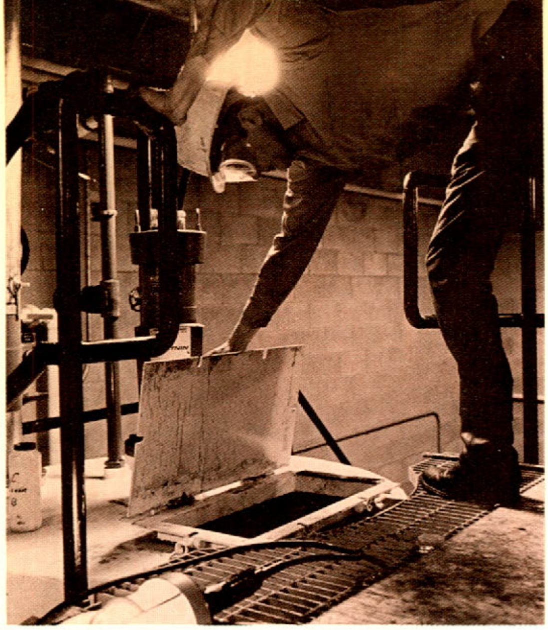
Wainoco Acreage

	Gross	Net
Canada		
Alberta	492,607	127,051
British Columbia	142,414	43,532
Northwest Territories	59,310	1,780
Saskatchewan	1,026	546
Beaufort Sea	245,677	182,021
Labrador	1,878,954	1,878,954
	2,820,888	2,233,884
United States		
Arkansas	556	70
California	1,681	504
Louisiana Onshore	700	188
Louisiana Offshore	23,434	1,337
Montana	80,336	32,514
Nebraska	2,334	385
New Mexico	50,379	12,733
Oklahoma	4,795	252
Texas	34,482	13,668
Wyoming	34,937	8,574
	233,634	70,225
Kenya	6,943,622	6,943,622
Total	9,998,144	9,247,731

Mining

Exploration on 2600 acres of placer gold claims northwest of Anchorage, Alaska, was conducted in the summer. The Company and a partner have an option, expiring at the end of 1974, to acquire these claims. Further evaluation is planned during the year. The recent dramatic increase in the price of gold has greatly enhanced the value of this property.

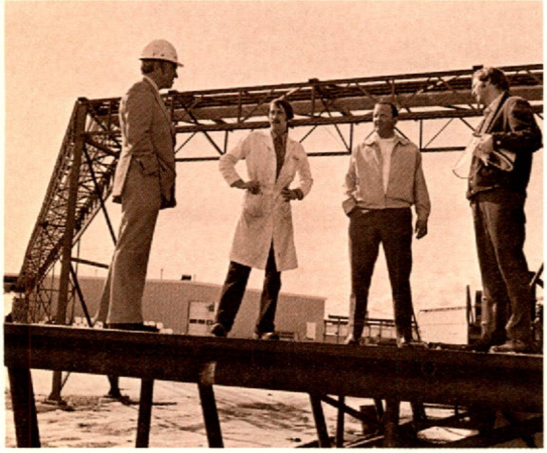
A potentially valuable copper deposit is being worked adjacent to 24 claims acquired by your Company three years ago near Minto in the Yukon Territory.



Chemical Division

The Company's chemical division compiled another record year of revenues and earnings, while positive steps were taken to consolidate all of its operations.

Effective January 1, 1974, the three operating sections—Travis Chemicals, engaged in the sale, service and distribution of chemicals to the gas processing industry; Travchem Services, engaged in the sale, servicing, formulation and distribution of chemicals to the oil and gas production industry; and Tec-Chem Laboratories, engaged in commercial analytical work and technical services, consolidated operations into the Travis Chemicals division and moved into newly constructed facilities in Calgary.



WAINOCO'S CHEMICAL DIVISION OPERATIONS – headquartered in Calgary, Alberta, are managed by (left) Robert F. Smith, Vice President. Also shown (left to right): John Delorey, Chemist; George Rau, Manager-Oil & Gas Production Chemicals, and Lyle Wright, Manager-Laboratory.

Prior to and including 1973, these operating sections leased warehouse and laboratory space and contracted for product formulating and blending. During the year, a four-acre site was purchased and construction commenced on a 20,000 square foot combined warehouse, blending plant, laboratory and tank farm in Calgary. Although the new facility represents a considerable expenditure, the division should realize reduced rental and operational costs and be able to provide improved customer services.

During the past year, the Travis Chemicals section realized its best year in history and maintained its position as leader in the distribution of chemicals to Canada's gas processing industry. Engineering consulting services provided by this section to gas plants in western Canada utilizing ethylene glycols, ethanolamines, desiccants, sulphur conversion catalysts and other products in the removal of impurities associated with natural gas contributed significantly to Travis' success. Although shortages of certain chemical materials distributed by the section appeared in 1973, excellent long term supplier relations made it possible for Travis to meet all sales commitments.

Similarly, strengthened relations between Travchem Services and its suppliers should hold to a minimum any effect which supply shortages might have on future sales. This section was faced with severe price competition during the year, but sales volume of such products as corrosion inhibitors, demulsifiers and water treating compounds remained constant with 1972.

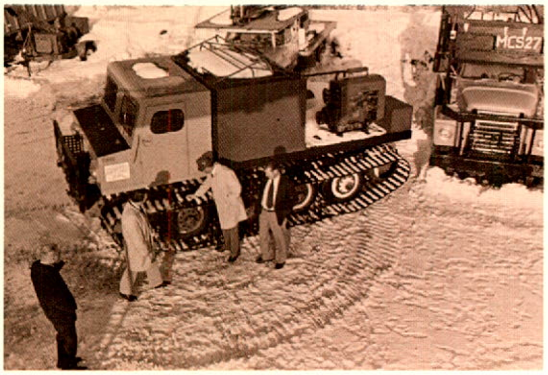
The steadily increasing emphasis on environmental protection and pollution control generated new business opportunities for the services afforded by Tec-Chem Laboratories. In addition to commercial analyses performed for general industry, expanded utilization of Tec-Chem's services by Travis and Travchem aided in its 1973 growth.

In combining the three operations under the Travis Chemicals banner, the strength exhibited by the division as a total supplier of chemical services to the oil and gas industry will enhance the Company's industry-wide recognition and market position.

WAINOCO'S VEGETATION CONTROL MOLSBERRY DIVISION, with operations in Edmonton, Alberta, has an experienced management team (left to right) comprised of Tony Malkewich, Manager-Operations; Ron King, Manager-Rail Operations; Margaret Schultz, Division Accountant; William Grierson, Sales Manager, and (kneeling) Fred McComb–Division Manager.

Vegetation Control

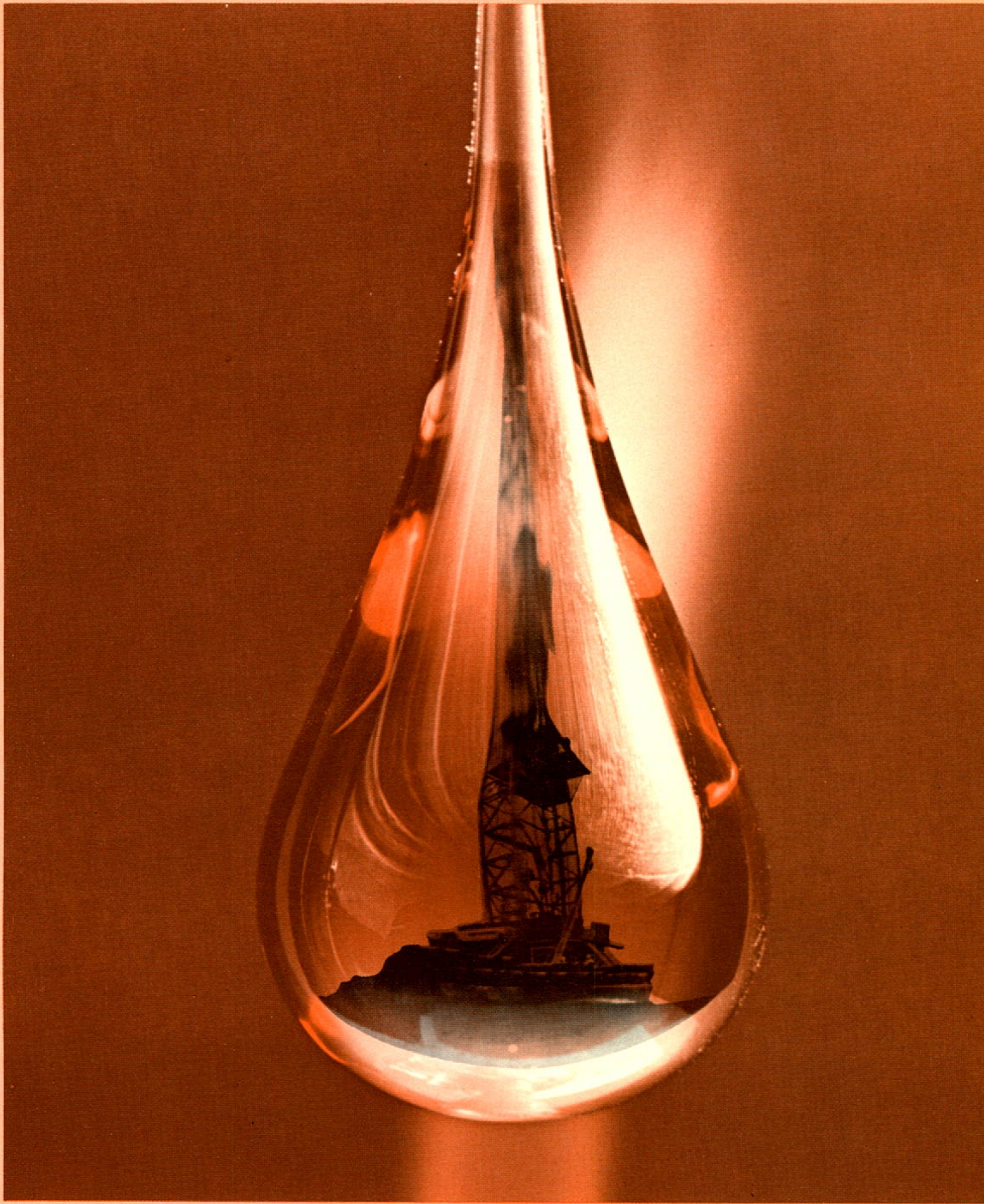
The Molsberry Division continues to operate in Canada as an important factor in the chemical and mechanical control of the growth of vegetation. This work is done for the maintenance and protection of installations, as well as for aesthetic reasons. Using highly specialized equipment, most of which it has built, Molsberry services power line rights-of-way, highways, pipelines, gas plants, oil and gas well sites, railways, communication towers, industrial plants and other facilities. During the year major additions were made to the truck and tracked-vehicle fleet, and the rail and power line maintenance sections were expanded. A new building was completed for the construction, assembly and repair of equipment.



MODERN EQUIPMENT, much of it built and maintained by Molsberry personnel, serves the steadily increasing vegetation control demands of Canadian industries.

Wainoco Oil Ltd.
and Subsidiaries

Financial Statements



Wainoco Oil Ltd. and Subsidiaries

Consolidated Balance Sheets

December 31, 1973 and 1972

Assets	1973	1972
Current Assets		
Cash and temporary cash investments	$ 130,883	$ 93,039
Accounts receivable		
Trade	1,444,436	1,377,058
Joint venture affiliates	296,174	1,178,094
Others	258,461	227,171
Inventory at lower of cost and net realizable value	647,378	525,139
Prepaid expenses and other	58,682	83,966
Total current assets	$ 2,836,014	$ 3,484,467
Property and Equipment, at Cost (Notes 1 and 2)		
Land	$ 61,991	$ 11,561
Oil and gas properties and equipment	9,051,590	7,843,493
Offshore oil and gas properties, not yet evaluated	5,580,782	4,887,878
Non-producing mining properties	202,024	79,178
Buildings and equipment	1,576,798	874,235
	$16,473,185	$13,696,345
Less: Accumulated depreciation	$ 1,272,919	$ 884,489
Accumulated depletion	1,823,388	1,336,189
	$ 3,096,307	$ 2,220,678
	$13,376,878	$11,475,667
Other Assets		
Investments at cost, mortgages and notes receivable, Including amounts from officers and directors of $159,900 and $152,500 respectively (Note 5)	$ 740,909	$ 473,216
Goodwill, at cost	239,350	239,350
	$ 980,259	$ 712,566
	$17,193,151	$15,672,700

The accompanying notes are an integral part of the financial statements.

Liabilities and Shareholders' Equity

	1973	1972
Current Liabilities		
Bank indebtedness		
Operating loans and overdrafts secured by accounts receivable	$ 677,725	$ 1,297,339
Current maturities of long-term debt (Note 3)	255,078	311,667
Trade accounts payable and accrued liabilities	1,944,557	1,406,414
Current liabilities, excluding demand note payable secured by offshore oil and gas properties	$ 2,877,360	$ 3,015,420
Demand note payable secured by offshore oil and gas properties (Note 2)	2,150,314	4,887,878
Total current liabilities	$ 5,027,674	$ 7,903,298
Long-term debt (Note 3)	$ 3,659,357	$ 488,856
Commitments and Contingencies (Note 7)		
Shareholders' Equity		
Capital stock (Note 5)		
Authorized		
5,000,000 common shares without par value		
Issued		
3,189,747 and 3,164,547 shares, respectively	$ 1,851,214	$ 1,685,778
Additional paid-in capital	2,875,781	2,875,781
Retained earnings	3,779,125	2,718,987
	$ 8,506,120	$ 7,280,546
	$17,193,151	$15,672,700

On behalf of the Board:
John B. Ashmun, Director
Robert F. Smith, Director

Wainoco Oil Ltd. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 1973 and 1972

	1973	1972 (Note 8)
Revenues		
Oil and gas	$2,068,563	$1,689,231
Chemical	6,325,155	5,767,255
Vegetation control	1,505,359	1,571,673
	$9,899,077	$9,028,159
Expenses		
Cost of sales and operating expenses	$6,543,265	$6,156,167
Selling and administration	1,340,944	1,056,378
Interest on long-term debt	42,483	32,507
Depreciation	426,176	247,039
Depletion	486,071	353,765
	$8,838,939	$7,845,856
Income from continuing operations	$1,060,138	$1,182,303
Discontinued operations — loss from operations of discontinued transportation division (Note 8)		(138,310)
Income before extraordinary item	$1,060,138	$1,043,993
Extraordinary item — loss on disposal of transportation division (Note 8)		(122,846)
Net income	$1,060,138	$ 921,147
Earnings per common share		
Income from continuing operations	$ .33	$ .38
Loss from operations of discontinued transportation division (Note 8)		(.04)
Income before extraordinary item	$ .33	$ .34
Extraordinary item (Note 8)		(.04)
Net income	$ .33	$ .30

The accompanying notes are an integral part of the financial statements.

Wainoco Oil Ltd. and Subsidiaries

Consolidated Statements of Changes in Financial Position

Years Ended December 31, 1973 and 1972

	1973	1972 (Note 8)
Source of funds		
Income from continuing operations	$ 1,060,138	$ 1,182,303
Add depreciation and depletion which did not require an outlay of funds	912,247	600,804
Funds provided from continuing operations	$ 1,972,385	$ 1,783,107
Loss from operations of discontinued transportation division		$ (138,310)
Add depreciation which did not require an outlay of funds		29,402
Funds applied to operations of transportation division sold		$ (108,908)
Funds provided from operations before extraordinary item	$ 1,972,385	$ 1,674,199
Extraordinary item - loss on disposal of transportation division		(122,846)
Total funds provided from current operations	$ 1,972,385	$ 1,551,353
Disposal of buildings and equipment	63,146	44,362
Disposal of transportation division buildings and equipment		403,658
Common stock issued		
For cash and notes	165,436	64,259
For properties		499,791
Long-term borrowing	3,500,000	418,032
	$ 5,700,967	$ 2,981,455
Application of funds		
Additions to offshore oil and gas properties	$ 692,904	$ 4,887,878
Additions to other oil, gas and mining properties	1,381,373	1,965,929
Additions to buildings and equipment	802,327	304,133
American Stock Exchange listing expense		49,382
Reduction of long-term debt and changes in current maturities	329,499	484,176
Other	267,693	89,455
	$ 3,473,796	$ 7,780,953
Increase (decrease) in working capital	$ 2,227,171	$ (4,799,498)
Changes in components of working capital		
Cash and temporary cash investments	$ 37,844	$ (129,457)
Accounts receivable	(783,252)	(266,844)
Inventory	122,239	51,038
Prepaid expenses and other current assets	(25,284)	10,944
Current maturities of long-term debt	56,589	(51,667)
Notes payable	3,357,178	(4,239,476)
Accounts payable and accrued liabilities	(538,143)	(174,036)
	$ 2,227,171	$ (4,799,498)

The accompanying notes are an integral part of the financial statements.

Wainoco Oil Ltd. and Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 1973 and 1972

	Capital Stock		Additional	Retained
	Shares	Amount	Paid-in Capital	Earnings
Balance at January 1, 1972	3,052,835	$1,121,728	$2,925,163	$1,797,840
Shares issued during 1972:				
Acquisition of Laird Oil and Gas, Incorporated	32,312	164,791		
Acquisition of properties	67,000	335,000		
To officers and employees on exercise of options	12,400	64,259		
American Stock Exchange listing expenses			(49,382)	
Net income				921,147
Balance at December 31, 1972	3,164,547	$1,685,778	$2,875,781	$2,718,987
Shares issued during 1973:				
To officers and employees on exercise of options	25,200	165,436		
Net income				1,060,138
Balance at December 31, 1973	3,189,747	$1,851,214	$2,875,781	$3,779,125

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

December 31, 1973 and 1972

1. Summary of significant accounting policies

Principles of consolidation and foreign currency transactions—
The consolidated financial statements include the accounts of Wainoco Oil Ltd. and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions have been eliminated in consolidation.

The accounts of United States subsidiaries have been translated to Canadian dollars on the basis that $1 U.S. equals $1 Canadian.

Property and Equipment—

Oil and gas properties and equipment—
All direct costs incurred in the acquisition, exploration and development of oil and gas reserves, including nonproductive costs, are capitalized for financial reporting purposes and amortized on a composite unit-of-production method over the estimated proven reserves of oil and gas. No gains or losses are recognized upon the sale or disposition of oil and gas properties, except in extraordinary transactions.

Offshore oil and gas properties, not yet evaluated—
All direct costs incurred in the acquisition, exploration, and development of offshore oil and gas properties acquired in the December 1972, Federal offshore lease sale have been capitalized for financial reporting purposes. These costs will be included in the property base for depletion and amortization purposes when the evaluation of the leases is completed. Reference is made to Note 2 for additional information concerning these properties.

Non-producing mining properties—
The Companies are participating in mineral exploration programs. All costs of the projects are being capitalized until such time as evaluation is completed. Such costs are being amortized over a period of five years pending commencement of production or abandonment.

Buildings and equipment—
Depreciation is provided on both the declining balance and straight line methods at rates varying from 10% to 30% which are designed to amortize the cost of the assets over their estimated useful lives. Gains or losses on disposition are credited or charged to operations. Maintenance and repairs are charged to income when incurred. Renewals and betterments which extend the useful life of equipment are capitalized.

Income taxes—

Canadian taxes—
Under Canadian income tax law, drilling, exploration and lease acquisition costs may be deducted from income and any amounts not deducted may be carried forward to subsequent years. Although the utilization of the maximum available deductions may eliminate or reduce current income tax liability, it may also result in the payment of additional taxes in the future when recorded charges against income exceed those available for tax purposes. Directly influencing the timing and amount of this future liability, however, are additional deductions available from continuing exploration and development investment which will result in a further deferment of tax liability. For this reason the Companies, in common with many others in the oil and gas industry, do not provide for income taxes deferred as a result of claiming deductions of this nature for tax purposes greater than the related charges in the accounts.

This policy differs from the tax allocation basis of accounting recommended by the Canadian Institute of Chartered Accountants, as more fully discussed in Note 4, which requires that income taxes be provided for on the basis of income reported in the accounts. The provincial securities commissions have requested the oil and gas industry to undertake a study to determine whether the recommended accounting is appropriate for the industry and have indicated that if an acceptable alternative cannot be justified, companies should be prepared to adopt full tax allocation accounting in 1974.

U.S. taxes—
Under United States income tax law certain amounts are deducted for income tax reporting purposes in different periods than for financial reporting purposes. Deferred taxes are provided on timing differences, if any, between taxable and financial statement income, to the extent that taxes which would otherwise have been payable are reduced, except for the deduction for income tax purposes of certain oil and gas exploration costs which are capitalized for financial reporting purposes. If the unamortized capitalized costs of producing oil and gas properties recorded for financial reporting purposes should ever exceed the estimated future income tax deductions, including available net operating loss carry-forwards attributable thereto, deferred taxes will be provided on oil and gas exploration costs.

2. Offshore oil and gas properties, not yet evaluated—

In December 1972, interests in five leases were purchased in a Federal offshore lease sale. Following is a summary of the investment in these leases:

Offshore Louisiana Area and Block	Wainoco's Interest	Exploratory Wells Drilled	Contribution Wells Drilled on Other Tracts	Total Cost December 31 1973	Total Cost December 31 1972
East Cameron 322	4%	3	—	$1,496,460	$1,199,013
East Cameron 323	4%	6	3	1,508,638	1,395,001
Vermilion 345	4%	1	1	452,653	413,636
Vermilion 363	8%	1	—	1,517,149	1,308,114
Vermilion 364	8%	—	—	605,882	572,114
				$5,580,782	$4,887,878

Accounting policy—

All direct costs incurred in the acquisition, exploration, and development of the leases have been capitalized for financial reporting purposes, including interest of $298,384 on the demand note payable described under "Financing" below.

As the properties are evaluated, the lease costs, together with all applicable drilling and exploration costs, will be transferred to the oil and gas property base for depletion and amortization purposes. For any property which initially may appear to be nonproductive, transfer to the property base normally would occur after the drilling of two to four wells. However, when oil and gas reserves are discovered, the drilling of 10 or more wells might be required before a reasonably accurate estimate of recoverable reserves for use in calculating amortization can be made. Assuming the availability of drilling equipment and material, it is anticipated that substantially all offshore tracts acquired would be evaluated and transferred to the property base within 18 to 24 months of the date of the acquisition of the tracts. In the opinion of management, at December 31, 1973, the fair value of the properties exceeds the total investment of $5,580,782. However, should subsequent exploration result in an impairment of this value to an amount less than the total investment, the loss will be recognized in the period determined.

Financing—

In January 1973, $4,687,878 was borrowed in the form of a demand note payable to a bank to finance acquisition of the leases. The note bears interest at one-half percent above the prime commercial rate, and is secured by the interest in the leases. As of December 31, 1973, the balance of this note was $2,150,314. Subsequent to December 31, 1973, the note was paid down to approximately $2,000,000 and negotiations are currently in progress to refinance the note on a long-term basis, however, no definitive agreement has been reached.

In August 1973, a $3,500,000 interest-free, exploration and development loan was obtained from a major gas transmission company. This loan is secured by a first mortgage on certain of the producing oil and gas properties. A preferential right to purchase the natural gas produced from the above offshore blocks has been granted to the lender at the higher of 50 cents per MCF or the highest interstate price approved by the Federal Power Commission at the time commercial reserves are developed.

3. Long-term debt

Long-term debt at December 31, 1973 and 1972 consisted of the following:

	1973	1972
Parent—		
6½% to 8% Bank production and other loans, due 1975, secured by certain oil and gas properties	$ 192,768	$ 332,190
Subsidiaries—		
Note payable to a bank, unsecured, bearing interest up to 8%—U.S.	140,000	340,000
Note payable to a bank, unsecured, due in quarterly principal installments of $11,667 U.S. through July 1975, interest at ½% above bank prime rate	81,667	128,333
Non-interest bearing note payable to a natural gas transmission company (see below) — U.S.	3,500,000	
	$3,914,435	$ 800,523
Current maturities	255,078	311,667
	$3,659,357	$ 488,856

The $3,500,000 note is repayable in five annual installments, as follows: $525,000 one year after initial production of gas from the offshore leases, or September 1, 1977, whichever is earlier, and four successive annual installments thereafter of $612,500, $700,000, $787,500 and $875,000.

Total long-term debt repayments during the five years subsequent to December 31, 1973 will be approximately as follows: 1974 — $255,078; 1975 — $121,807; 1976 — $37,500; 1977 — $525,000 and 1978 — $612,500.

4. Provision for income taxes

Reference is made to Note 1 which explains that for Canadian purposes the Companies do not follow the tax allocation method of accounting as recommended by the Canadian Institute of Chartered Accountants. If the Companies had provided for deferred income taxes on income eliminated for tax purposes by claiming exploration and development expenses greater than the related charges in the accounts during the years, deferred taxes would have been provided and net income would have been reduced by $389,100 ($.12 per share) in 1973 and $248,500 ($.08 per share) in 1972. The deferred tax liability would have amounted to $1,076,600 at December 31, 1973 and $687,500 at December 31,1972.

In addition, on a cumulative basis the capital cost allowances claimed for income tax purposes have been less than the related depreciation charged in the accounts. This difference will be available as a deduction in the determination of taxable income of subsequent years; the resulting tax benefits will be reflected in the accounts as extraordinary items when realized.

Reference is also made to Note 1 which explains that for United States purposes, there are no deferred income taxes that should be recognized.

The major components of the variance between the reported income tax expense and tax based on reported earnings are as follows:

	Year Ended December 31 1973	1972
Net income	$1,060,138	$ 921,147
Corporate tax rate, Canada — 50%, U.S. — 48%		
Tax on reported income at above rates	$ 524,354	$ 453,803
Add (deduct):		
Minimum preference tax	20,000	12,000
Excess of depreciation and statutory depletion claimed for U.S. tax purposes over related amounts charged against income	52,419	56,330
Exploration and development expenditures capitalized but deducted from income for U.S. tax purposes and excess of exploration and development expenditures claimed for Canadian tax purposes over related depletion charged against income	(578,773)	(512,655)
Miscellaneous adjustments	(18,000)	(9,478)
Income tax expense as reported	$ — —	— —

5. Capital stock

On December 18, 1973 the maximum amount of $5,000,000 for which the Company's 5,000,000 common shares could be issued was increased to $15,000,000 by resolution of the directors. Such increase is subject to approval by the shareholders by adoption of the Articles of Association to be presented to the next Annual Meeting.

During 1973, 25,200 shares of the Company's capital stock were issued to an officer and employees on exercise of stock options for $12,561 cash and $152,875 of non-interest bearing notes.

At December 31, 1972, 31,300 shares were reserved for the granting of future options to officers and employees under an incentive stock option plan. During 1973, an additional 50,000 shares were reserved under the plan and 50,000 shares were also reserved under a qualified stock option plan. Options were granted during the year to an officer and employees under the qualified stock option plan to purchase 16,500 shares at a price of $6.44 per share. In addition, options were granted to Canadian employees and officers under the incentive stock option plan to purchase 21,500 shares at prices ranging from $6.25 to $7.25 per share. Options to purchase 14,600 shares were cancelled during the year.

Shares of the Company's capital stock were reserved at December 31, 1973 as follows:

For options granted to purchase shares at prices ranging from $2.00 to $6.75 per share, exercisable at various dates to September 5, 1978:

to an officer	10,000
to employees	33,800

6. Statutory information

The total remuneration paid to the directors and senior officers of the Company (including the five highest paid employees) during 1973 amounted to $198,431, of which $87,897 was paid by a subsidiary.

7. Commitments and contingencies

The Company is the general partner in three limited partnership drilling programs, Wainoco 70 Company, Wainoco 71 Company, and Wainoco 72 Company. The Company and one of its subsidiaries are the general partners in the Wainoco 73 Company limited partnership drilling program. The investments in these funds consist of certain exploration and development expenditures which are included in oil and gas properties and equipment in the accounts. Under the Articles of the limited partnerships, the general partners may be required by the limited partners to purchase their interests after January 1, 1972, 1973, 1974 and 1975 respectively. Such purchases may be required only if proven oil or gas reserves are established and are to be made at prices approximating fair market value based upon a valuation to be obtained upon receipt of such purchase request. The general partners have paid commissions to brokers for sales of interests in the limited partnerships and such commissions are recoverable by the general partners from the initial future revenues which would otherwise be attributable to the limited partner upon whose interest the commission was paid. Such commissions totaled $209,921 as of December 31, 1973 and are included in other assets in the accompanying balance sheet.

A foreign subsidiary of the Company has obtained an oil exploration license, which requires annual expenditures of approximately $80,000, $120,000, $150,000 and $300,000 through June 1977. The Company has the option to terminate the agreement on each anniversary date, in which case any future obligations are cancelled.

8. Reclassification of 1972 Accounts

During 1972 the Company disposed of its transportation division at a loss of $122,846. Included in the 1972 results of operations are the following revenues and expenses related to the transportation division:

Revenues	$251,326
Expenses	
Cost of sales and operating expenses	$284,842
Selling and administration	63,551
Interest on long-term debt	11,841
Depreciation	29,402
	$389,636
Net Loss	($138,310)
Per share	$ (.04)

The above accounts were previously reported as such in 1972 and have been reclassified in the consolidated statements of income and changes in financial position in order to comply with the provisions of Opinion 30 of the Accounting Principles Board of the American Institute of Certified Public Accountants.

In addition, administration and overhead recoveries in the amount of $217,007 were previously reported as oil and gas sales in 1972 and have been reclassified to selling and administrative expense in order to conform with the 1973 classification of accounts.

Auditors' Report

To The Shareholders of Wainoco Oil Ltd.

We have examined the consolidated balance sheet of Wainoco Oil Ltd. and subsidiaries as at December 31, 1973 and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination of the financial statements of Wainoco Oil Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of other auditors who have examined the financial statements of a subsidiary, Wainoco, Inc. We previously made a similar examination of the financial statements of the prior year.

In our opinion these consolidated financial statements and comparative figures present fairly the financial position of Wainoco Oil Ltd. and subsidiaries as at December 31, 1973 and 1972 and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the two year period.

Calgary, Canada
March 18, 1974

Clarkson, Gordon & Co.
Chartered Accountants

Directors
John B. Ashmun
President

William A. Faubion
Vice President

Henry D. Lindsley III
Vice President-Corporate Finance
Schneider, Bernet & Hickman
Dallas, Texas

Wales H. Madden, Jr.
Partner
Selecman and Madden
Amarillo, Texas

T. B. Pickens, Jr.
President
Mesa Petroleum Co.
Amarillo, Texas

Robert F. Smith
Vice President

Officers
John B. Ashmun,
President

Robert F. Smith
Vice President

William A. Faubion
Vice President

Thomas B. Grootemaat
Secretary-Treasurer

Offices
Houston, Texas
Calgary, Alberta
Denver, Colorado
Edmonton, Alberta
St. Louis, Missouri

Registrars and Transfer Agents
Montreal Trust Company, Calgary, Alberta
Chemical Bank, New York City, New York

Auditors
Clarkson, Gordon & Co., Calgary, Alberta

Shares Listed
Toronto Stock Exchange, Toronto (WOL)
American Stock Exchange, New York (WOL)

Subsidiaries
Wainoco, Inc.
Laird Oil and Gas, Incorporated
WOL Securities, Inc.
Wainoco Kenya, Inc.

WAINOCO OIL LTD.
Suite 600
1100 Milam Building
Houston, Texas 77002