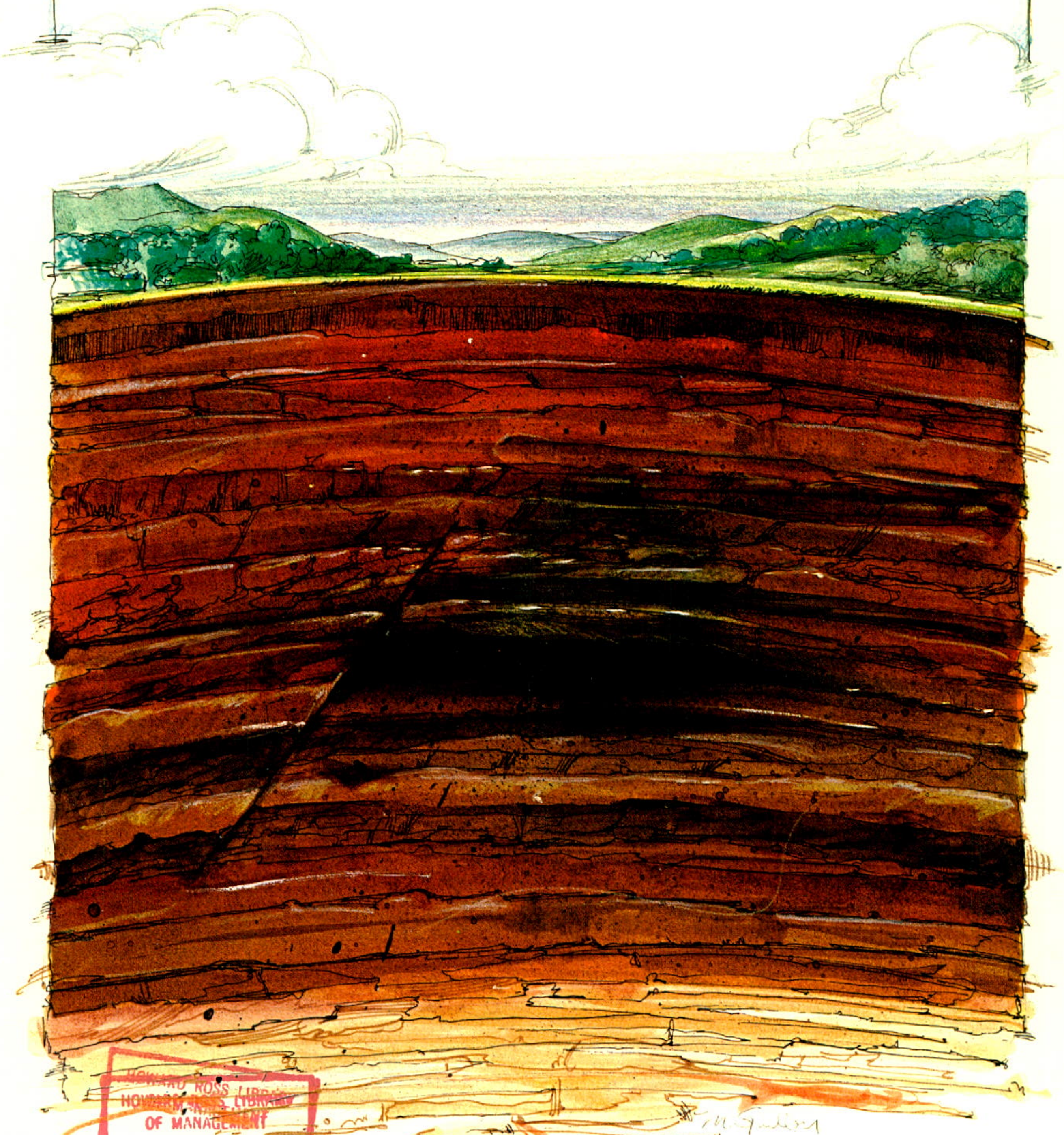
WAINOCO OIL CORPORATION

1980 ANNUAL REPORT



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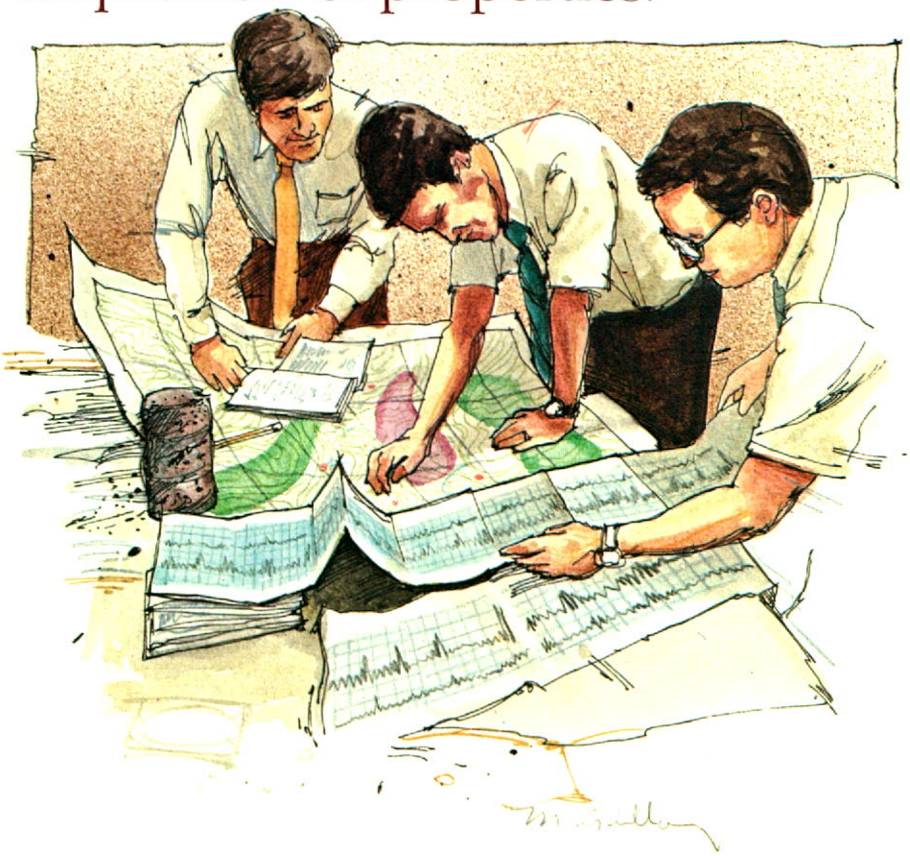
Wainoco Oil Corporation explores for oil and gas in North America and other regions of the world. The Company has production in the United States and the provinces of Alberta and British Columbia, Canada. Oil and gas reserves are acquired primarily through drilling as well as by acquisition of properties.



FINANCIAL & OPERATING HIGHLIGHTS

FINANCIAL	1980	1979	Percent Increase
Revenue	$ 36,009,000	$ 24,984,000	44%
Net income	7,051,000	6,015,000	17%
Earnings per share, fully diluted	.71	.63	13%
Dividends per share	.125	.075	67%
Funds provided by operations	20,342,000	15,669,000	30%
Total assets	204,910,000	137,716,000	49%
Capital expenditures	62,721,000	52,095,000	20%
Shareholders' equity	84,210,000	36,133,000	133%
Shareholders' equity per share	7.92	3.94	101%
Shares outstanding	10,630,140	9,173,348	16%
PRODUCTION			
Oil and condensate in thousands of barrels	432	428	1%
Natural gas in millions of cubic feet	14,810	12,884	15%
PROVED RESERVES			
Oil and condensate in thousands of barrels	3,233	2,715	19%
Natural gas in millions of cubic feet	308,802	264,007	17%
LAND			
Gross acres (000)	19,403	18,938	2%
Net acres (000)	7,624	7,309	4%

LETTER TO THE SHAREHOLDERS

Revenues of $36 million for the year ended December 31, 1980, were 44% higher than those of 1979. Net income was $7.1 million, or 17% above that of the prior period. Cash flow from operations of $20.3 million rose 30% over the previous year's amount. Earnings per share of $.71 and cash flow per share of $2.04 were 13% and 24% higher than they were in 1979. United States operations provided 60% of revenues and 45% of net income for the year. With a growing proportion of capital being expended in the U.S., these percentages should increase.

Along with improved financial results, it is gratifying to report higher oil and natural gas reserves at the year's end. An appraisal by an independent petroleum engineering firm estimated proved gas reserves to be 309 billion cubic feet, up 17% over those of the year before, and proved oil reserves to be 3.2 million barrels, an increase of 19%. These higher reserves followed record production for the year of 14.8 billion cubic feet of gas and 432,000 barrels of oil. The value of increasing reserves is enhanced by rising oil and gas prices. Wainoco's future net revenue from proved reserves is estimated to be approximately $1.25 billion, 77% higher than last year.

Wainoco's 1980 exploration and development expenditures for drilling, acreage acquisition and geophysical examination amounted to $62.2 million. Of these expenditures, $40.3 million, or 65%, were expended in the United States, and $21.9 million, or 35%, were expended in Canada. A total of 166 wells were drilled, of which 108 were located in the United States and 58 were in Canada. Of the 166 wells, 117, or 70%, were successfully completed and the balance were abandoned. Acreage acquisition and geophysical work were conducted in all countries of interest. At the end of the year, 7.6 million acres of oil and gas rights were owned in North America, Western Australia and Colombia.

High points of the year's operations included drilling within our final U.S. and Canadian public limited partnerships, as well as corporate exploration and development in British Columbia, the Anadarko and Appalachian Basins of the U.S., Western Australia and Colombia.

A public limited partnership was formed in the U.S. in 1980 and subscriptions of $25 million were sold for drilling 41 prospects in the Gulf Coast, Mid-Continent, and Rocky Mountain regions of the U.S. In addition to its 40% general partner ownership of the partnership, Wainoco participated for 15% of each partnership prospect. To date, wells on 11 prospects have been successfully completed, and wells on 11 prospects are in various stages of drilling. In Canada, $16.4 million of subscriptions were sold, including $2 million purchased by Wainoco in the fourth public limited partnership formed in that country. Twenty-four partnership prospects have been or are being evaluated in Alberta and British Columbia. At this time 12 wells have been completed as productive on 10 prospects, and drilling or testing is being conducted on seven more.

Corporate drilling at Monias in northeastern British Columbia resulted in five productive wells and a 24 % increase in the Company's proved field reserves. In the U.S., following completion of the Davis #1-18 Springer discovery in the Grady County, Oklahoma, portion of the Anadarko Basin, two development wells are being drilled to depths of 24,000′ and 19,000′. An additional well is planned to start this year. In the northwestern Pennsylvania portion of the Appalachian Basin, through 1980 Wainoco had completed the drilling of 83 gas wells and the construction of an 18-mile pipeline which allowed for commencement of production from the Athens field area. In addition to its 92,000 net acres of leases at Athens, the Company has acquired another 28,000 acres in three nearby areas of the Silurian Medina sand trend in Pennsylvania and southwestern New York.

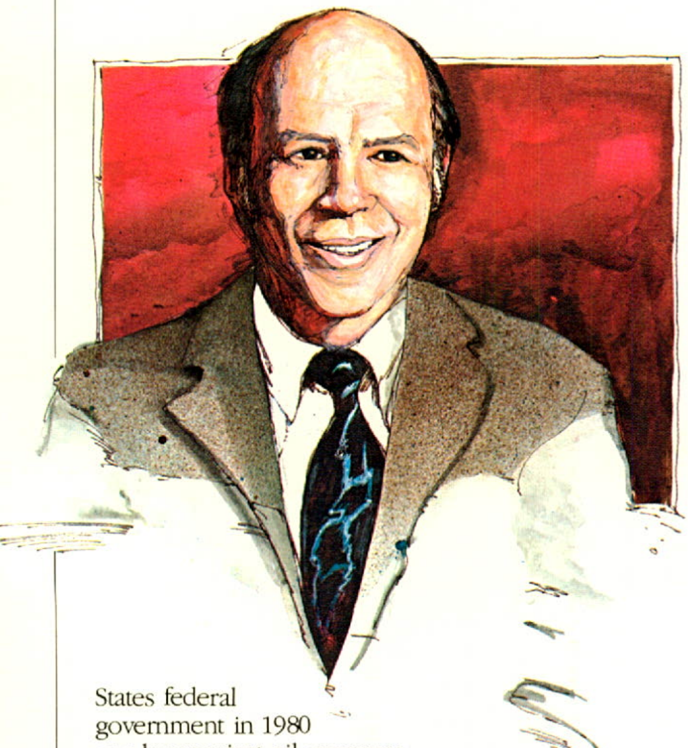
Geophysical studies were conducted on four exploration permits in Western Australia where the Company has 6.8 million net acres.

In southwestern Colombia, geophysical studies confirmed the presence of a large structure on the Company's 250,000 acre permit, and a well in which Wainoco has a 37.5% interest has recently commenced drilling.

The year 1980 marked the end of partially funding the Company's drilling operations through formation of public limited partnerships. Management elected to utilize its growing cash flow in combination with private funding to allow the retention of a greater revenue interest in Wainoco's prospects and permit more time and effort to be spent on finding oil and gas. This decision has been followed by an agreement entered into with Texaco U.S.A. for the formation of a $50 million joint venture to explore some 50 prospects in the U.S. in 1981. The funds will be expended to acquire prospects and drill a test well on each. Wainoco will have sole responsibility for selection and generation of the prospects and will be the operator of the venture. Funds for the completion of successful test wells and further development of the prospects will be contributed equally by each company. Production will be shared equally and Texaco will have the right to purchase the venture's oil and gas at competitive prices. The agreement may be extended at the end of the first year subject to the approval of both parties.

As a result of stricter proposals concerning oil and gas regulation and taxation introduced by Canada's federal government on October 28, 1980, exploration activity in the country has decelerated tremendously. Wainoco, along with most other oil companies, has been forced to reduce the scope of its future plans for Canadian drilling because of the restricted economic environment presented by impositions of both the provincial and federal governments. This political strangulation of Canada's vital petroleum industry mirrors an occurrence in 1973, when for two years following the OPEC embargo increased taxes and royalties along with suppressed prices caused a severe reduction in activity. Because of this previous experience, and the growing need for Canada's energy development, we think that resolution of the problem will not take as long this time. Wainoco's Canadian capital budget, however, will be kept at a level at least 50% below that of 1980 pending such resolution. It is fortunate that the proposals do not materially affect Wainoco's existing assets in Canada. In fact, due in great measure to the federal government's planned acceleration of oil and gas pricing, even in consideration of an added wellhead tax, the Company's future net operating income from proved reserves in Canada is estimated to be 80% more than the amount projected a year ago. Also, the federal government's proposal to assume a 25% interest in petroleum leases only applies to federal acreage, and Wainoco has no reserves on any federal leases in Canada.

Attention is called to a new item of expense on the 1980 statement of income entitled Federal Excise Taxes. This is the Windfall Profit Tax enacted by the United



States federal government in 1980 as a levy against oil revenues. Although it reduced Wainoco's revenues by only $811,000 in its first ten months of existence, it is expected to triple that reduction for 1981. Wainoco spent over three times its cash flow from operations last year to find oil and gas. At a time when every dollar is critical to the development of energy independence, it is our hope that Congress will not see fit to divert more funds from this effort.

The Company is enlarging its operations to find reserves outside of North America. An initial 1981 budget of $6 million has been established for programs in Australia and Colombia, as well as in Indonesia, where the Company has recently obtained a 10% interest in a 3.75 million acre permit in the East Java Sea.

In mid-October, 1980, 1,250,000 shares of common stock were sold through a public underwriting in the U.S. and net proceeds of $41 million were applied to reduce bank loans. With a considerably strengthened financial position, new credit lines and greater cash flow should provide more than sufficient funds for 1981 operations.

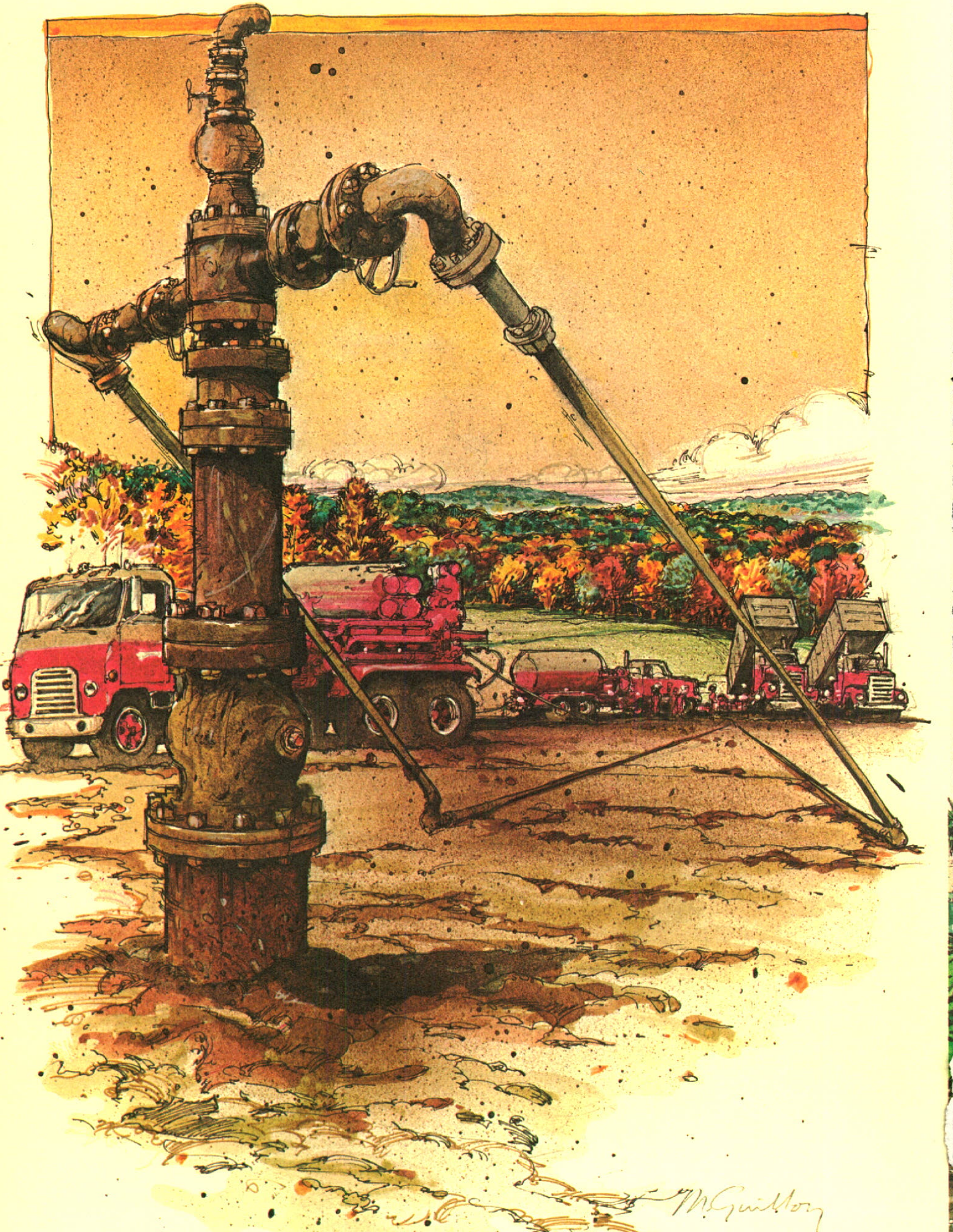
With regret, the resignation of James A. Baker, III, from the Board of Directors was accepted in December, 1980, prior to his appointment as Chief of Staff for President Reagan. It is a pleasure to report the appointment as a Director of Vice Admiral James Bond Stockdale, whose broad experience in service to his country and in academic surroundings will lend strength and leadership to the Company.

1981 and ensuing years are viewed with continued optimism. Expanded operations in the United States and new activity in promising areas overseas will more than supplant a reduced program in Canada this year. Natural gas markets in the northeast U.S. and particularly in Canada are expected to be soft again as warm weather approaches. However, because of increased gas sales in other areas and higher oil production, the projection for the full year is for a significant improvement in revenues and earnings.

The Company's continued growth and development are a direct result of the expertise and enthusiasm of its staff. It is a pleasure to work in an atmosphere so dedicated to Wainoco's success.

John B. Ashmun
President
March 31, 1981

REVIEW OF OPERATIONS



Medina sand fracturing at Athens

UNITED STATES OPERATIONS

STATISTICAL SUMMARY	1980	1979
EXPLORATION AND DEVELOPMENT		
Wells Drilled	108	104
Wells Completed as Productive	71	76
PRODUCTION		
Oil & Condensate (mbbl)	261	275
Gas (mmcf)	5,725	3,924
PROVED RESERVES		
Oil & Condensate (mbbl)	1,725	1,595
Gas (mmcf)	44,087	41,148
LAND		
Gross acres (000)	510	490
Net Acres (000)	233	192

Wainoco Oil & Gas Company, the wholly-owned subsidiary for U.S. operations, was restructured in 1980 through the promotion of key personnel, additions of technical staff, the establishment of new Eastern and Western Divisions and enlargement of the Gulf Coast Division. Three vice presidents are now responsible for the subsidiary's exploration, land and production operations. There are currently 115 personnel in the three divisions, with offices located in Houston and Corpus Christi, Texas, Lafayette, Louisiana, Denver, Colorado, and Meadville, Pennsylvania. With increased emphasis on development of reserves and production in the U.S., it is expected that there will be further expansion of Wainoco Oil & Gas Company's offices and staff.

Wainoco Oil & Gas Company's operations resulted in increases in reserves, revenues, production, and acreage. The Company participated in the drilling of 108 wells, 71 of which were successful. Reserves of oil and natural gas increased 8% and 7%, respectively. Significant development drilling took place in the Company's Athens play in Pennsylvania, and first efforts in Michigan were successful. In addition, the Gulf Coast Division had 20 completions and the Western Division had five.

Eastern Division:

Wainoco's Eastern Division was created this year as an operating unit to coordinate exploration activities east of the Mississippi River and north of the Gulf Coast. Activity was focused on shallow gas development in the northwestern Pennsylvania portion of the Appalachian Basin and the search for pinnacle reefs along the northern reef trend of the Michigan Basin.

March 1980 saw the completion of a pipeline into the Athens area of Crawford County, Pennsylvania and the first production of gas from Wainoco's Silurian Medina gas play, a part of Columbia Gas Transmission Company's larger Project PENNY. Activity during the year brought the total number of gas wells drilled by Wainoco in Pennsylvania to 83. All wells have been completed as producers at an average depth of 5,000′. Plans for the Appalachian Basin call for the drilling of approximately 120 wells in 1981. Some of these wells will be drilled at Athens and the balance on newly acquired acreage in Pennsylvania and New York. Wainoco owns about 120,000 acres in this play, in which it has an average 79% net revenue interest. Although shut-in due to a summer gas surplus, almost 600 million cubic feet of gas were produced at Athens in 1980. In 1981, production is expected to be significantly greater. Athens's gas is being sold at a current price of $2.73 per thousand cubic feet. Wainoco is working with other operators and the State of Pennsylvania in applying to the Federal Department of Energy for a tight formation classification for the Medina sand in this area. Studies indicate that this reservoir has characteristics that would qualify gas produced from it to be sold at a higher price. This price, over $2.00 above that now being paid, would be retroactive to first production from most of the Company's wells. It is expected that the application will be filed in the second quarter of 1981.

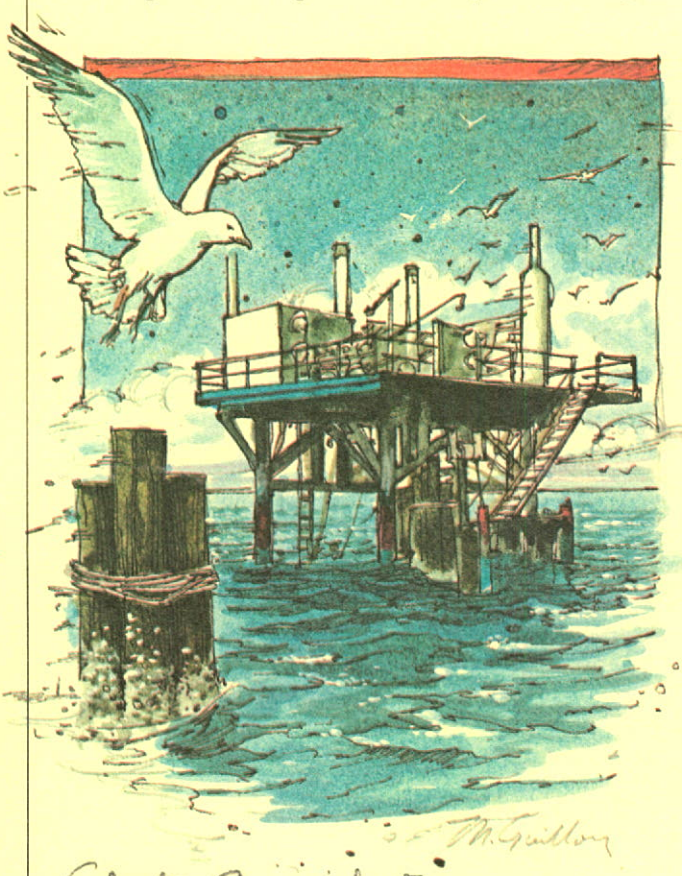
In Manistee and Wexford Counties, Michigan, Wainoco has a 100% working interest and a 75% net revenue interest in almost 4,000 acres in the northern Silurian reef trend of the Michigan Basin where high resolution seismic is being used in an exploration effort that will extend into 1981. The Company completed the Anderson-Lutz 1-27, which tested at a rate of 553 barrels of oil and 108 thousand cubic feet of gas per day from the Silurian Niagaran Reef at a depth of 4,700′.

Gulf Coast Division:

Following the successful pattern of previous years, in 1980 Wainoco expended the bulk of its exploration and production budget in the coastal regions of Texas and Louisiana. A total of 43 wells were drilled in this division by the Company and its limited partnerships. Twenty were successful, yielding two oil and 18 gas wells for a success ratio of 49%.

Texas:
In Colorado County, the Company drilled the J.R. Thomas #1 well on the Eagle Lake prospect on a 320 acre lease in which Wainoco and its 1980 partnership have a 37.5% interest. The well was completed in the Wilcox sand at depths of 9,750′ to 9,756′. Initial potential was 3.2 million cubic feet of gas and 441 barrels of oil per day.

A very interesting Frio sand discovery in Kleberg County was completed this year which could add significantly to Company reserves. The initial well, the L.L. Huff #1, Vattmanville prospect, flowed from perforations between 10,702′ and 10,734′ at the rate of 6.3 million cubic feet of gas and 184 barrels of condensate per day. There are additional prospective sands in this well and a seismic program is being conducted prior to development drilling.



Galveston Bay production

Wainoco and its 1980 partnership own a 66.67% interest in the well and a 50% interest in the adjacent 3,207 acre block.

During 1980, significant development wells were drilled as extensions to discoveries drilled in conjunction with Wainoco's 1979 partnership. In Rusk County, Wainoco and the partnership hold a 21.9% interest in the Yandle Gas Unit #2, Henderson Deep prospect, which flowed 2.5 million cubic feet and 16 barrels of condensate per day from the Jurassic Cotton Valley at a depth of 10,600′. In Galveston Bay, Chambers County, Wainoco and the partnership have a 100% interest in the State Tract 258 #3, Ship Channel prospect, which flowed 2.8 million cubic feet and 134 barrels of condensate from the Frio sand at 9,600′. The A.M. Cardenas #2, San Salvador prospect, in which Wainoco and the partnership own a 56.25% interest, was completed flowing 690 million cubic feet and six barrels of condensate per day from the Frio at a depth of 8,550′. An additional development well is being drilled.

Louisiana:
In Cameron Parish the Company extended the Ocean View Beach Field to the east with the R. R. Stone #1. The well found the lower Abbeville "A" sand productive at 11,500′ and flowed 7.3 million cubic feet of gas and 97 barrels of condensate per day. Wainoco and its 1980 partnership own a 23.8% interest in the well. Another well located east of the Stone #1 and owned 37.5% by the Company and its 1980 partnership is now drilling in an attempt to establish further production.

Wainoco has participated in two Miocene tests in the Rousseau Field in La Fourche Parish. The Robichaux #1 logged gas pays at 14,492′ and 14,580′ and is waiting potential tests and surface facilities. The Plater #1, in the same area, was drilled on a 547 acre lease in which Wainoco and its 1980 partnership own a 50% interest. It was completed in the Ridgefield sand at 14,800′ and flowed 3.8 million cubic feet of gas and 372 barrels of condensate per day.

Also in La Fourche Parish, the Rathborne Land & Lumber #1 well in the Bayou Choctaw Field was completed in early 1981 flowing 1.25 million cubic feet of gas and 77 barrels of condensate per day at 12,700′. Wainoco and its 1980 partnership own a 16.67% interest in the 744 acre prospect.

In Calcasieu Parish, the Reeves #1, Calcasieu River prospect, flowed 1.2 million cubic feet and 117 barrels of condensate per day from the Hackberry sand. A 67% interest is held by Wainoco and the 1980 partnership.

Western Division:
The Company's Mid-Continent Division was reorganized in 1980 in response to the continued growth of the Company's activities in both the eastern and western areas of the United States. As a result, management formed Eastern and Western Divisions, and in the fall opened its Western Division office in Denver, Colorado. This office allows the Company to more effectively participate in the booming exploration activity now taking place in the Rocky Mountain and Mid-Continent basins.

The Western Division completed five wells in 1980. Production commenced from the Davis #1-18 well, the initial test well on the Company's North Marlow prospect in Grady County, Oklahoma. The Davis well, in which Wainoco has an 18.7%

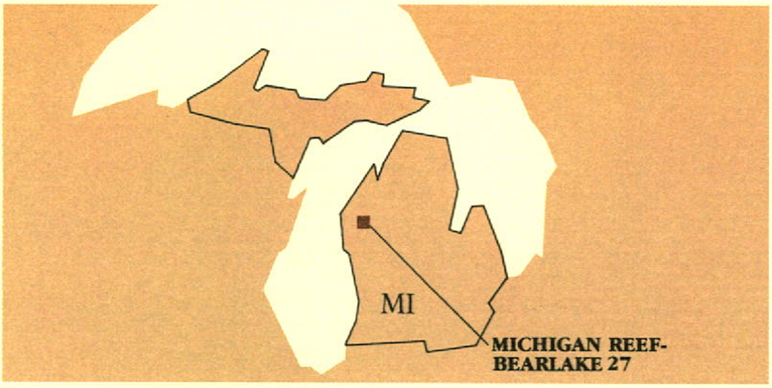
interest, is producing 2.5 million cubic feet of gas per day from a Mississippian Springer sand at 17,350′. A second well on the 8,000 acre North Marlow block, the Graham #1-19, a 24,000′ Ordovician Bromide sand test, is presently drilling below 13,000′. In addition to this well, the Company has an interest in two other North Marlow wells. One, a Springer test located 2.5 miles northwest of the discovery, is drilling below 11,000′. The other will be drilled later in 1981, north of the discovery.

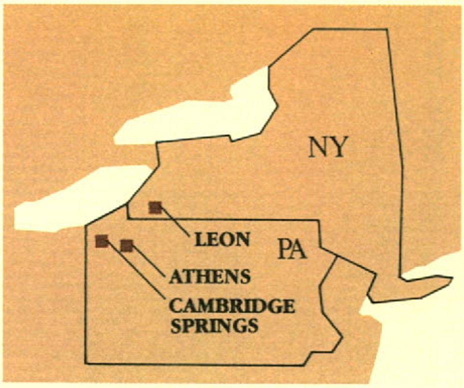
Wainoco participated in a significant extension of the N.E. Lovington Field in Lea County, New Mexico. The Pennzoil State #2 well, in which the Company owns a 14.6% interest, tested 1,008 barrels of oil plus 1.6 million cubic feet of gas per day. Another well, completed in late 1979, tested 449 barrels of oil plus 665 thousand cubic feet of gas per day. As a result, three development wells are planned in 1981 for the Lovington area, where the Company owns an average 42% working interest in an additional 2,100 acres in the area.

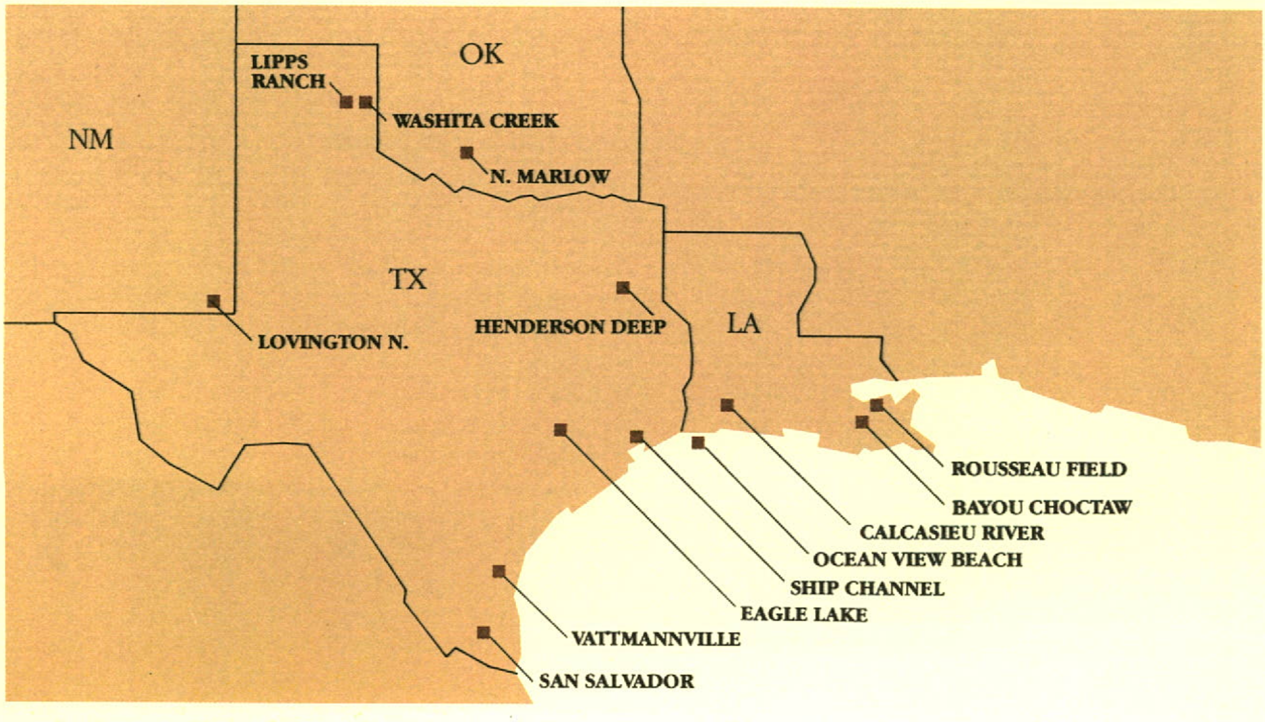
The Company has just completed an extensive seismic program on the 42,000 acre Lipps Ranch prospect in Roberts County, Texas, in which Wainoco owns a 50% interest. An excellent well, the Lipps #12-A, has been completed flowing 622 barrels of oil and 5.5 million cubic feet of gas from 44′ of Mississippian limestone at 9,000′. There are now four producing wells on the northeast side of this large lease and a minimum of three locations are to be drilled in 1981.

Subsequent to year-end, Wainoco and its 1980 partnership completed the Stickley A-2 well at a depth of 15,780′ in the Lower Morrow formation on the Washita Creek prospect, Hemphill County, Texas. The well, which initially was tested at a flow rate of 11 million cubic feet of gas, has more recently flowed gas at a daily rate of 2.8 million cubic feet. A contract for sale of the deregulated gas is expected to result in a price over $6 per thousand cubic feet, and production should commence in the second quarter of 1981.

United States Highlighted Activity







CANADIAN OPERATIONS

STATISTICAL SUMMARY	1980	1979
EXPLORATION AND DEVELOPMENT		
Wells Drilled	58	51
Wells Completed as Productive	46	37
PRODUCTION		
Oil & Condensate (mbbl)	171	153
Gas (mmcf)	9,085	8,960
PROVED RESERVES		
Oil & Condensate (mbbl)	1,508	1,120
Gas (mmcf)	264,715	222,859
LAND		
Gross acres (000)	1,142	949
Net Acres (000)	341	318

During 1980 the activities of Wainoco Oil & Gas Limited, Wainoco's wholly owned Canadian subsidiary, were marked by continued increases in reserves and a significant growth in revenues. Production of natural gas for the year was up slightly to nine billion cubic feet in contrast to the influence of a generally weak market on the balance of the Canadian oil industry. Oil and condensate production increased by 12% to 171,000 barrels. Proved gas reserves are estimated to be 265 billion cubic feet, an increase of 19% over last year. Proved oil and condensate reserves are estimated at 1.5 million barrels, an increase of 35%. The Calgary offices were moved into new quarters and a new position of Vice President of Wainoco Oil & Gas Limited was created to manage Canadian operations.

Wainoco participated in 58 wells during 1980, of which 46 were productive, for an overall success ratio of 79%. In British Columbia 20 wells were drilled and 16 were completed, while in Alberta 37 wells were drilled, resulting in 30 completions. One unsuccessful test was drilled at Liard River in the Northwest Territories.

British Columbia:

Exploration in the Monias area of northeastern British Columbia, southwest of Ft. St. John, remained active in 1980. The Company participated in the drilling of five deep Mississippian tests following the significant Monias 7-30 multi-zone discovery drilled in September 1979. All five tests have proved additional gas reserves in one or more zones. The Monias 11-29 and 12-19 wells, direct east and south offsets to the 7-30 discovery, are being tested in both the Belloy and Halfway zones. The Boudreau 10-4 well flowed gas from the Mississippian Upper Kiskatinaw, and is being tested in this zone and the Taylor Flats in addition to the shallower Halfway. The Monias 7-17 well, five miles southwest of the 7-30 discovery, has indicated gas potential in the Upper Kiskatinaw and Belloy, and has proven reserves in the Halfway extending the western limits of the Monias field. The Monias 7-27 well, drilling at year-end, encountered significant Halfway gas pay and tested gas at 3.5 million cubic feet per day from the Belloy 7-30 zone, representing a three mile western extension of Belloy reserves.

Three miles east of the Monias field a new zone gas discovery with substantial reserves was completed by another company in the Lower Kiskatinaw at 8,000′. Wainoco owns no interest in the well, but was successful in acquiring an interest in lands adjacent to this discovery and will participate in a Kiskatinaw test early in 1982.

At Moberly, immediately southwest of Monias, the Wainoco 80 Canada partnership drilled a new zone gas discovery of 3 million cubic feet per day in the Pennsylvanian Taylor Flats formation at 7,600′. An interest in 1,630 additional acres offsetting the discovery was recently acquired giving the partnership a 56% interest in a total of 6,194 acres.

In the Groundbirch area, 17 miles west of the Monias field, and in the Gates area, nine miles south of Groundbirch, the Company drilled two interesting tests to the Mississippian with numerous shows of gas. Production casing was run and the holes are being evaluated. The Groundbirch well has multiple pay zones indicated, including the Upper Belloy at 8000′. The Gates well found the deeper zones non-commercial and tests are underway in the Halfway sand. Additional acreage has been continuously acquired by Wainoco during the year in the Monias, Gates, and Groundbirch areas, and the Company's holdings now total 129,307 gross acres and 47,348 net acres. The very substantial gas reserves established by Wainoco and others, coupled with proximity to processing facilities at Ft. St. John, make the probability excellent that this area will be considered for increased gas deliverability when market conditions for British Columbia gas improve.

M. Guillory

Drilling at Monias

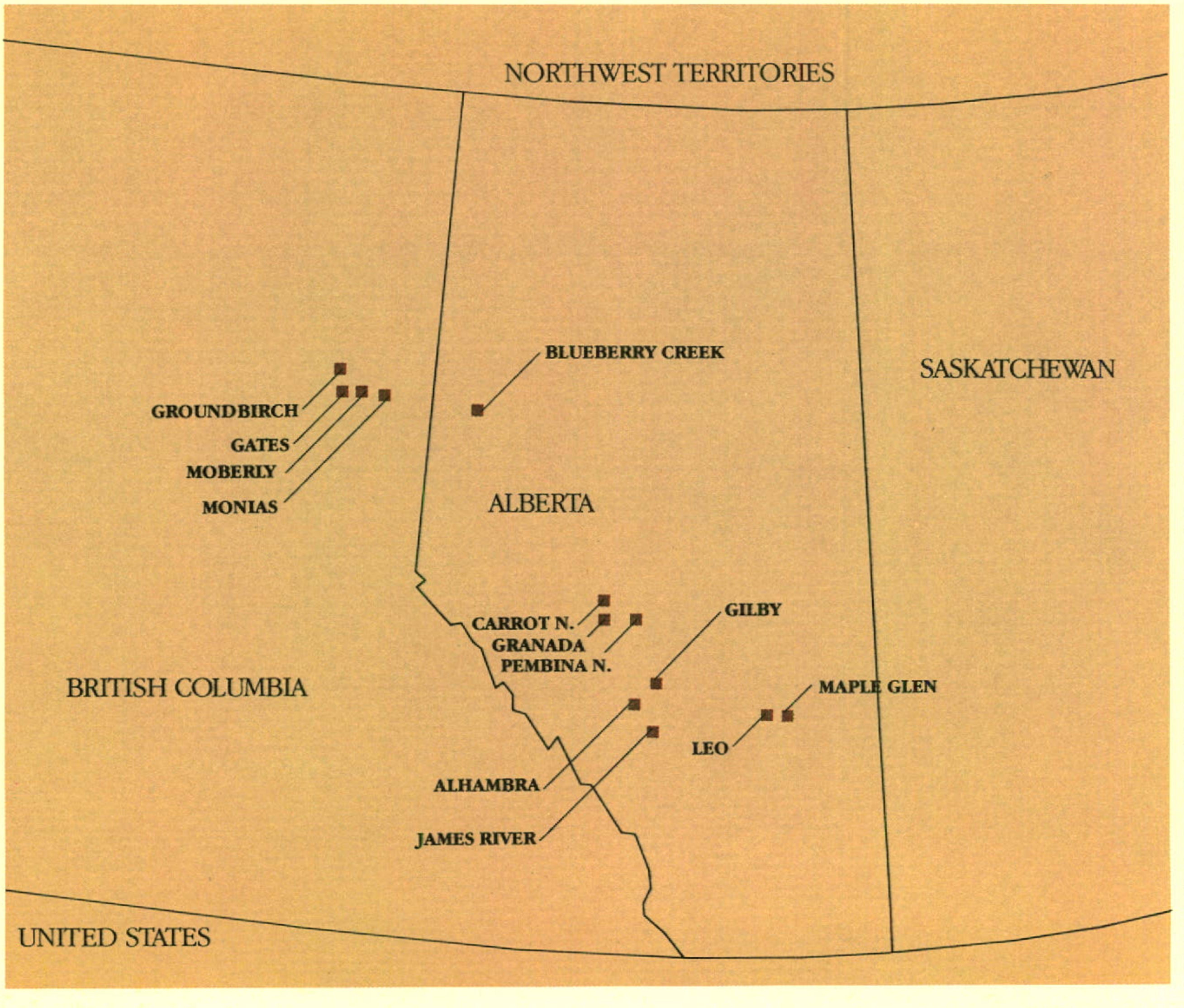
Alberta:

Wainoco and its 1980 limited partnership made two significant oil discoveries at Blueberry Creek and North Pembina. At Blueberry Creek, 280 miles northwest of Edmonton, an oil discovery was made in the Triassic Tangent dolomite at a depth of 4,000′. The well is presently on production but all information is being held confidential as additional acreage is available in the area. Offset development drilling will soon commence on the 5,760 acre block in which the partnership owns a 50% interest. At North Pembina, 60 miles west of Edmonton, the partnership completed an oil discovery in the Ostracod sand at a depth of 5,900′. The deeper Nisku formation was non-productive. The well flowed oil at 1,080 barrels per day from 25 feet of pay in the Ostracod sand. The Wainoco 80 Canada partnership has a 100% interest in this well and 960 total acres. A second productive well is now being completed in the same Ostracod zone.

At Granada, 25 miles west of North Pembina, the Company participated in a multi-zone gas discovery in the Niton sands at a depth of 7,300′. The well was completed flowing at a rate of 11 million cubic feet per day from 29 feet of pay. Wainoco holds a 12.5% interest in the 640 acre well spacing unit and a 33% interest in 3,040 adjacent acres. An offset well to the south of the discovery will be commenced

Gas flow at Moberly

Canadian Highlighted Activity



shortly. At Carrot North, the 80 partnership is completing a second Niton discovery with 11 feet of pay. The partnership has a 75% interest in the 640 acre spacing unit and an 85% interest in 1,600 adjacent acres.

At James River, 65 miles north of Calgary, Wainoco 80 Canada participated in the drilling of an indicated multi-zone gas discovery well. The Ostracod sand at a depth of 9,300′ is presently being completed and flowed gas in excess of 1 million cubic feet per day from 13 feet of pay. Shallower prospective zones are present in the Viking and Belly River sands. The partnership holds a 50% interest in 1,280 acres on the prospect.

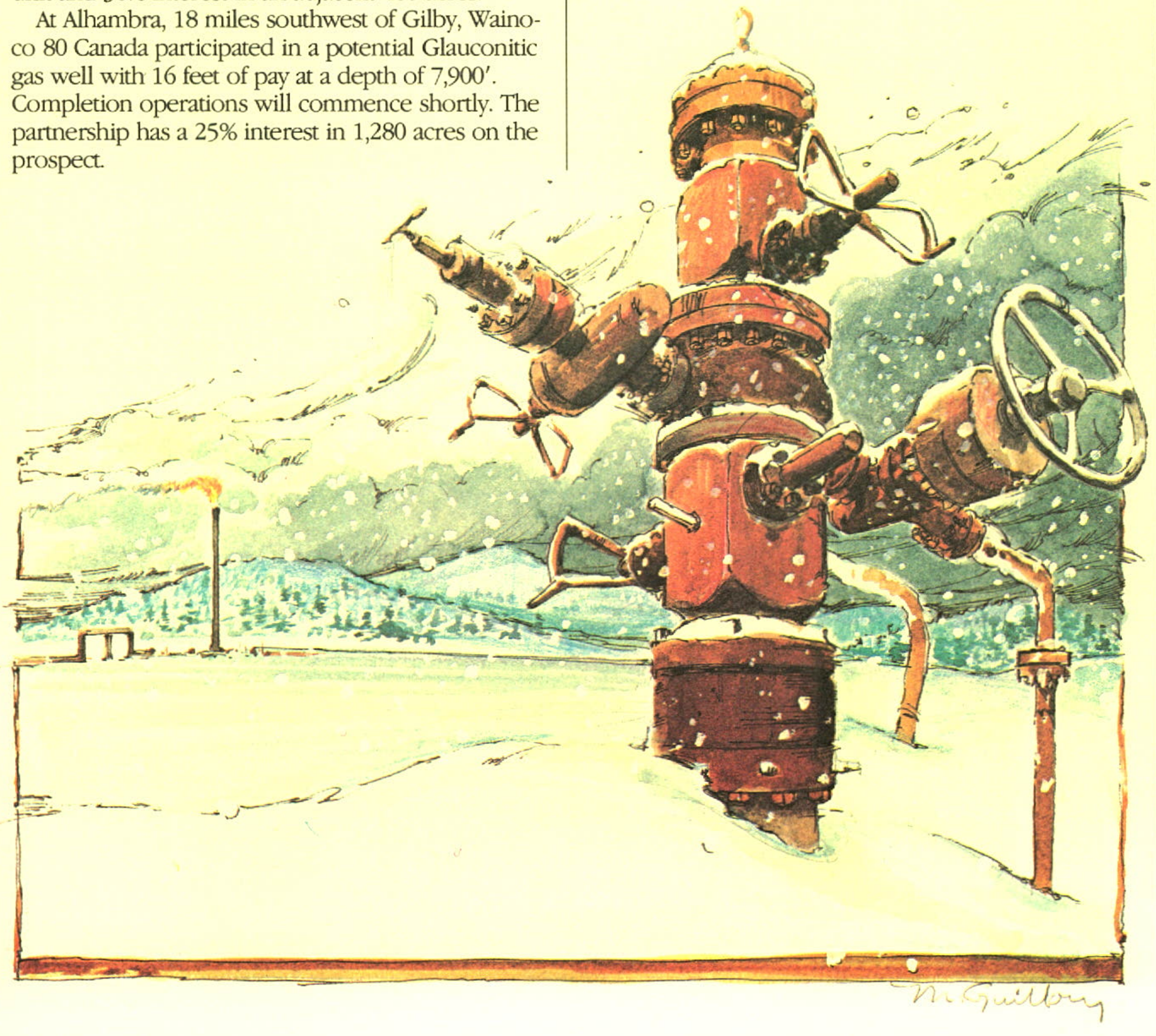
At Gilby, 45 miles northeast of James River, Wainoco 80 Canada is completing an indicated triple zone gas discovery well at 7,400′ in the Pekisko carbonate and the Ostracod and Glauconitic sands. The Pekisko flowed gas at 1.1 million cubic feet per day from 23 feet of pay, the Ostracod flowed at 1 million cubic feet per day from 15 feet of pay, and a test is proceeding in the Glauconitic with 9 feet of indicated gas pay. The partnership holds a 60% interest in the 640 acre well spacing unit and 30% interest in an adjacent 480 acres.

At Alhambra, 18 miles southwest of Gilby, Wainoco 80 Canada participated in a potential Glauconitic gas well with 16 feet of pay at a depth of 7,900′. Completion operations will commence shortly. The partnership has a 25% interest in 1,280 acres on the prospect.

In the Maple Glen-Leo area, 100 miles northwest of Calgary, the Company, with earlier partnerships, participated in the drilling of six successful development wells which established additional gas reserves in the Hackett and Viking sands. These wells will provide the deliverability required to fulfill new gas contracts and will increase production by 1.5 million cubic feet per day. A 20 million cubic feet per day gas plant is being constructed by Wainoco on behalf of area owners and will be in service by September 1981. This plant will allow full utilization of existing gas contracts in Leo and Maple Glen which should increase net production by one million cubic feet per day.

Operation of Wainoco's producing properties continues to occupy the full efforts of the Company's production staff and, although fewer wells will be drilled in 1981, exploration efforts will be concentrated on the generation of prospects for future drilling.

Gas well at Maple Glen

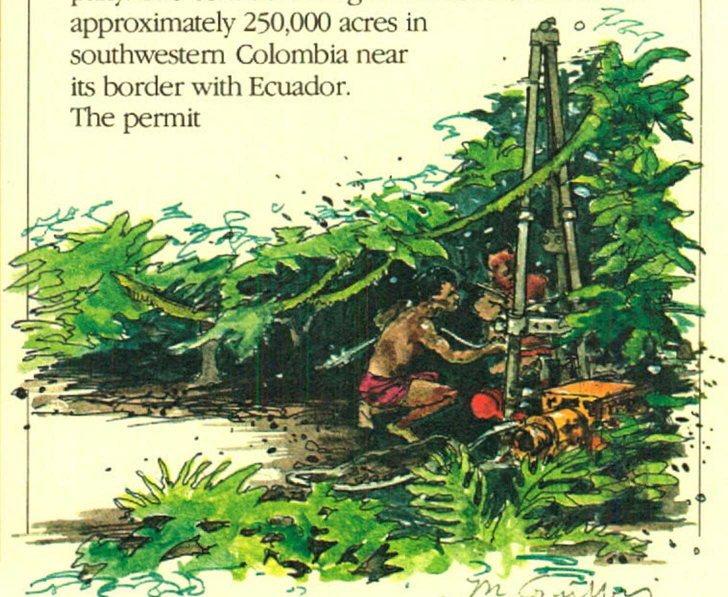


INTERNATIONAL OPERATIONS

Wainoco has enlarged its organization for operations outside of North America to accommodate its interest in the search for large reserves. Recognizing the added risks of foreign exploration, countries offering geological merit and political stability are chosen for the Company's exposure. Less than ten percent of Wainoco's capital budget is currently allocated to activities in three countries. Three new subsidiaries, Wainoco Australia Limited, Wainoco Colombia, Inc. and Wainoco Indonesia, Inc., have been organized to conduct current operations.

Colombia:

In Colombia, Wainoco signed an Association Contract in early 1980 with Ecopetrol, the state oil company. The contract area granted covers an area of approximately 250,000 acres in southwestern Colombia near its border with Ecuador. The permit



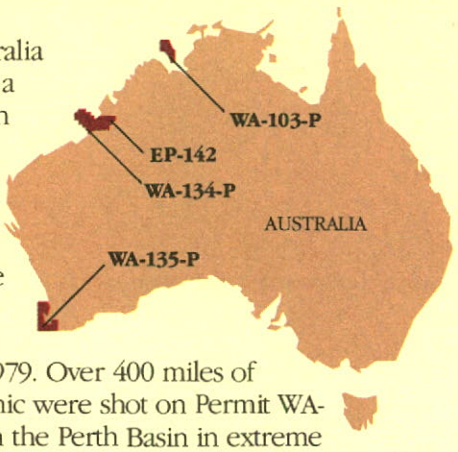
Seismic shooting in Colombia

encompasses a large anticlinal feature documented with surface geology and 80 miles of seismic shooting. A 13,000′ exploratory well has recently been started to test the Tertiary marine section. The contract area is located in a largely untested sedimentary basin extending for over 500 miles along the western coast of Colombia with potential oil and gas accumulations similar to those in the Pacific coastal basins of Ecuador and Peru.

Indonesia:

In early 1981, Wainoco Indonesia, Inc. signed a Production Sharing Contract with Pertamina, the Indonesian national oil company for a 10% interest in a block of 3.75 million acres in the East Java Sea. Over 1,800 miles of seismic shooting will be conducted during the year and the drilling of a well is planned for 1982.

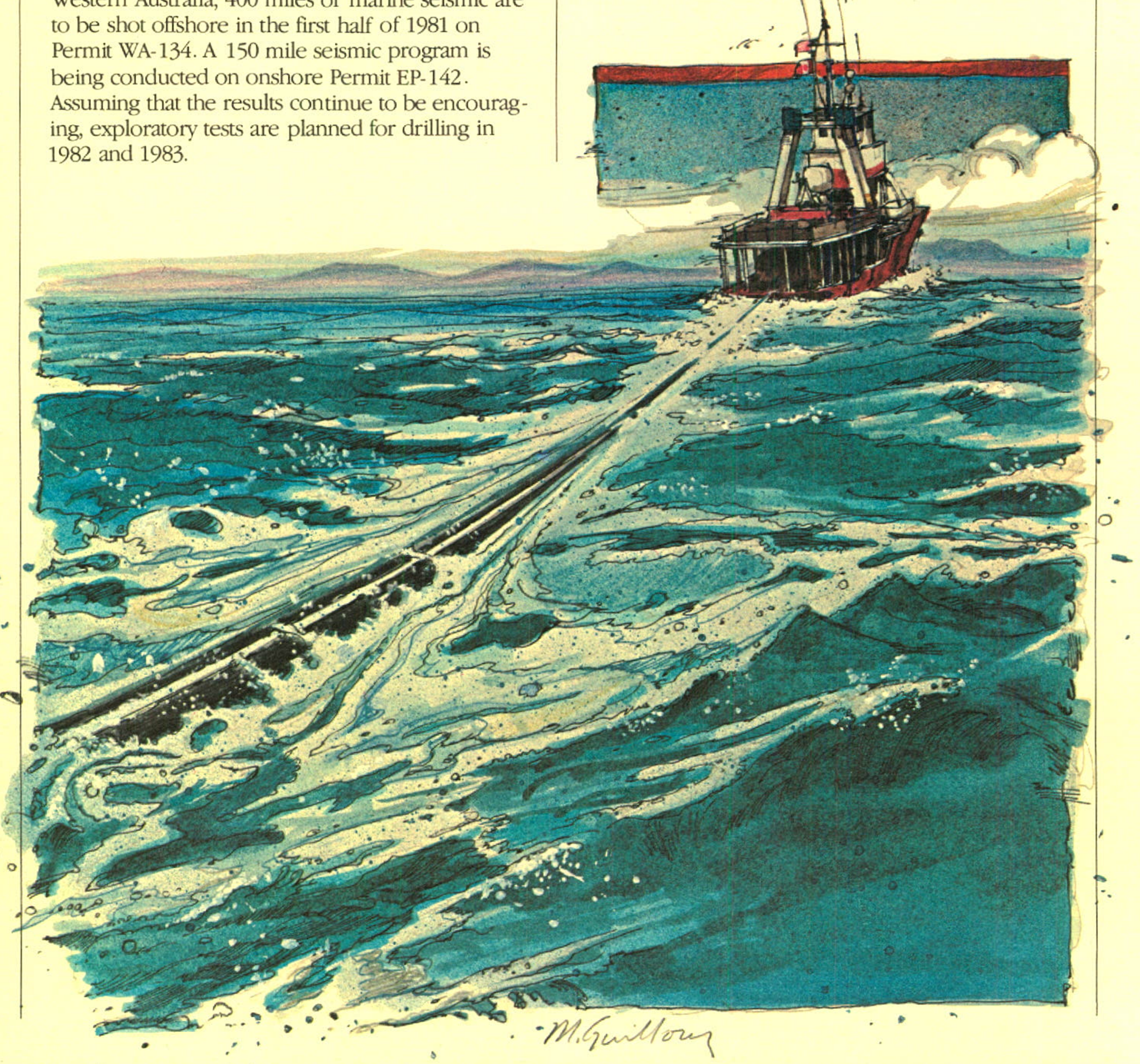
Australia:



Wainoco Australia Limited holds a 50% interest in three exploration permits totaling 12.3 million acres granted by the government of Western Australia in 1979. Over 400 miles of offshore seismic were shot on Permit WA-135, located in the Perth Basin in extreme southwestern Australia. The results to date reveal several prospects of interest, and it appears that finalization of the studies will indicate potentially drillable structures. In the Canning Basin of central Western Australia, 400 miles of marine seismic are to be shot offshore in the first half of 1981 on Permit WA-134. A 150 mile seismic program is being conducted on onshore Permit EP-142. Assuming that the results continue to be encouraging, exploratory tests are planned for drilling in 1982 and 1983.

Wainoco Australia Limited also owns a 12.5% interest in Permit WA-103-P which covers 5.2 million acres in the offshore Bonaparte Basin of northwestern Australia. During 1980, an extensive program of seismic was conducted to further delineate the Petrel gas structure and other associated trends on the southern end of the permit.
The test well planned for late 1980 was delayed due to rig unavailability and plans are to drill the well in 1982. Meanwhile, the oil potential of the northern part of this block will be evaluated this year by a 600 mile seismic program. If results are encouraging, the survey will be followed by a test well in 1982.

Marine seismic - offshore Australia



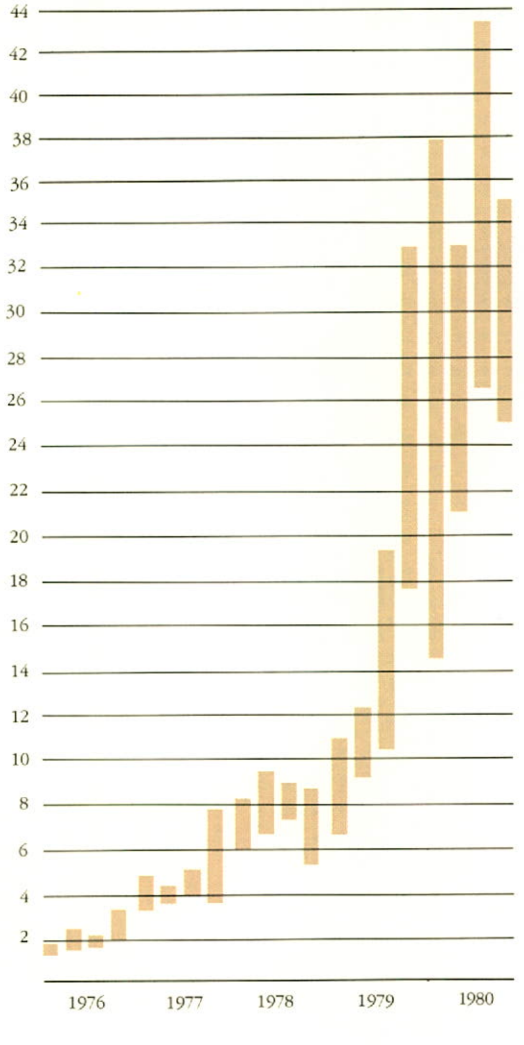
FINANCIAL REVIEW

FINANCIAL REVIEW

The financial position of Wainoco at the end of 1980 was the strongest in the Company's history. Although the balance of long term bank debt at year end was $51 million, the ratio of total long term debt to shareholders' equity stood at .9 to 1. Bank debt is expected to increase during 1981 as a result of a continuing expansion of operations; however, funds provided by operations, which increased 30% during 1980, are expected to provide a large portion of capital requirements. The Company ended the year with a working capital balance of $26.2 million and unused credit facilities of $33.1 million.

Common Stock Price Range

Adjusted for 2-for-1 stock split in October, 1979.



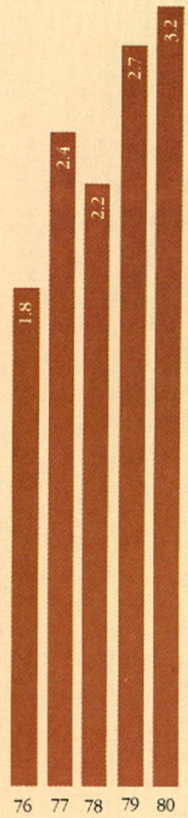
Wainoco's common stock, listed on the American and Toronto Stock Exchanges during 1980, traded a record volume of 11.3 million shares. In early April, 1981, the Company's shares began trading on the New York Stock Exchange. It is expected that the move will give the Company an even broader market and a higher profile with the investing public. Along with the increased liquidity for Wainoco's shares during 1980, the number of shareholders of record increased significantly.

After record production volumes, proved oil and gas reserves rose to 3.2 million barrels and 309 billion cubic feet of gas. The future net revenue of these proved reserves was approximately $834.1 million, undiscounted, and $371.6 million, discounted to present value at 10%. The prices used in the computation are unescalated except to the extent described in Note 2 to the Financial Statements. As noted in the President's letter, by assigning appropriate price and cost escalations over their life, these reserves would yield approximately $1.25 billion, undiscounted, and $495 million, present value discounted at 10%. Shown in the table below is a breakdown of proved reserves of oil and natural gas, with gas converted to oil at six thousand cubic feet per barrel, and future net revenue, undiscounted and discounted at 10%, stated on a per share basis (10,630,140 shares outstanding at December 31, 1980). Probable and possible categories of reserves of oil and natural gas and their associated future net revenue have not been included.

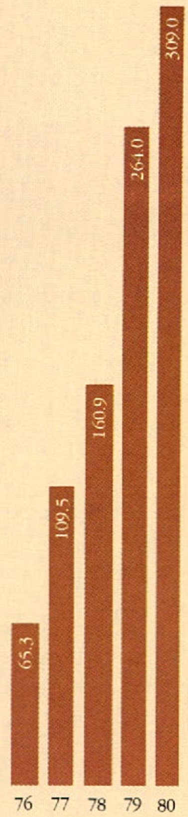
PROVED RESERVES - PER SHARE	
Oil and Gas in Equivalent Barrels	5.14
FUTURE NET REVENUE - PER SHARE	
Undiscounted $78	Discounted $35
FUTURE NET REVENUE, ESCALATED - PER SHARE	
Undiscounted $118	Discounted $47

In addition to the reserves of oil and natural gas, the value of the Company is further enhanced by its acreage held for future exploration and development. At December 31, 1980, the Company held net undeveloped acreage of 196,000 acres in the United States and 192,000 acres in the Canadian provinces of Alberta and British Columbia. In addition, the Company currently has large undeveloped acreage positions in Australia, Colombia, and Indonesia.

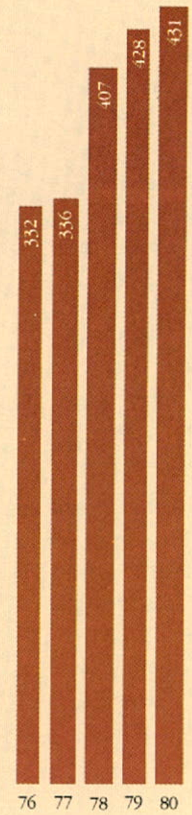
The charts on the following pages provide additional perspective on Wainoco's growth from 1976 through 1980.



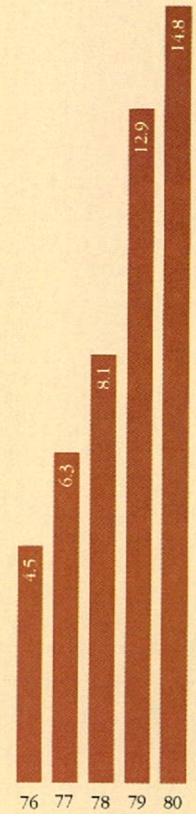
Oil Reserves, Proved,
Million Barrels



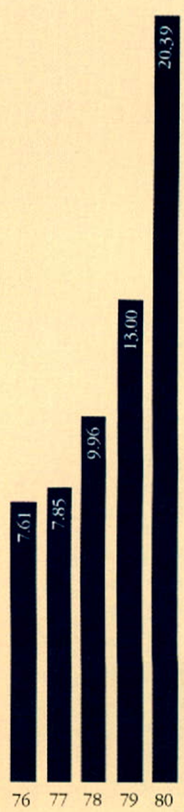
Gas Reserves, Proved,
Billion Cubic Feet



Oil Production,
Thousand Barrels



Gas Production,
Billion Cubic Feet

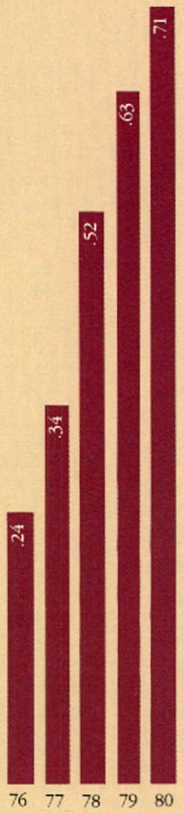


Weighted Average Oil
Price Per Barrel

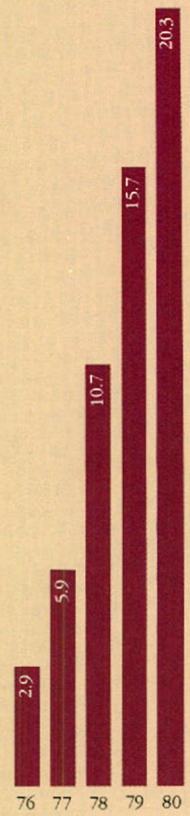
Weighted Average Gas
Price Per MCF

Revenue,
Million Dollars

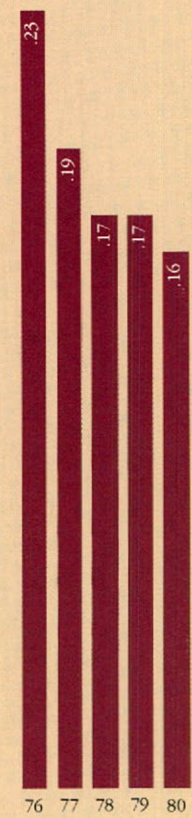
Net Income,
Million Dollars



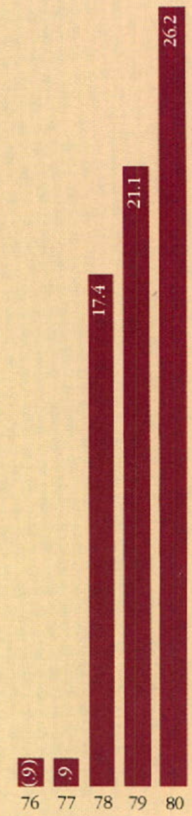
Earnings Per Share,
Fully Diluted



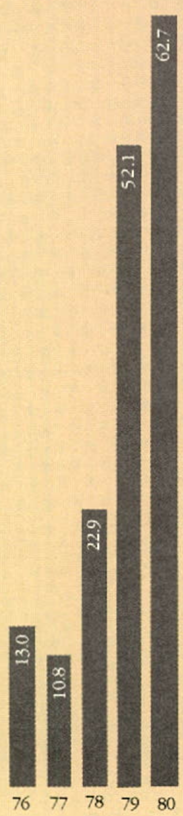
Funds Provided
by Operations,
Million Dollars



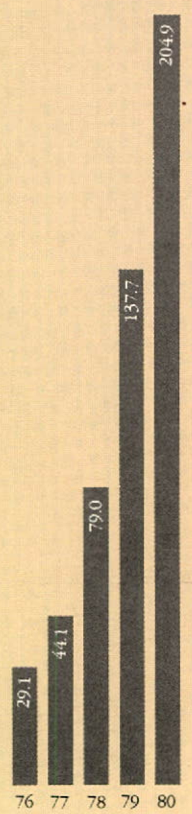
Production Cost
Per Dollar of
Oil and Gas Sales



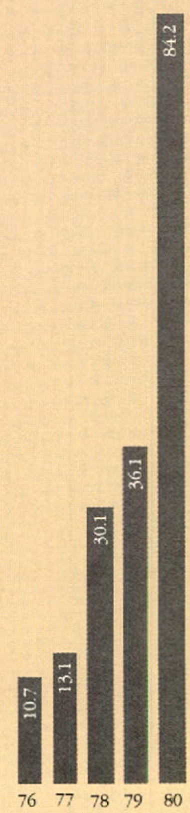
Working Capital,
Million Dollars



Capital Expenditures,
Million Dollars



Total Assets,
Million Dollars



Shareholders' Equity,
Million Dollars

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
REVENUES:			
Oil and gas sales	$33,485,000	$22,972,000	$15,299,000
Interest income	1,112,000	1,036,000	810,000
Other	1,412,000	976,000	752,000
	$36,009,000	$24,984,000	$16,861,000
EXPENSES:			
Production costs	$ 5,354,000	$ 3,951,000	$ 2,553,000
Federal excise taxes	811,000	—	—
Depreciation, depletion and amortization	10,005,000	6,502,000	4,793,000
General and administrative, net	4,375,000	2,839,000	2,547,000
Interest —			
Long-term debt and other, net of interest capitalized of $1,989,000 in 1980 and $689,000 in 1979	8,413,000	5,349,000	2,580,000
Charged to associated partnerships	(2,128,000)	(2,471,000)	(859,000)
Provision for losses on equipment inventory	—	—	200,000
Loss (gain) on translation of foreign currency	(422,000)	305,000	(491,000)
	$26,408,000	$16,475,000	$11,323,000
INCOME BEFORE INCOME TAXES	$ 9,601,000	$ 8,509,000	$ 5,538,000
PROVISION FOR INCOME TAXES	2,550,000	2,494,000	1,282,000
NET INCOME	$ 7,051,000	$ 6,015,000	$ 4,256,000
EARNINGS PER SHARE:			
Primary	$ .71	$ .64	$ .55
Fully diluted	$ .71	$ .63	$ .52

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

CONSOLIDATED BALANCE SHEETS

December 31, 1980 and 1979

	1980	1979
ASSETS		
Current Assets:		
Cash, including temporary investments of $7,418,000 in 1980 and $2,065,000 in 1979	$ 9,224,000	$ 3,098,000
Accounts receivable —		
Joint operators, pledged	16,364,000	17,038,000
Oil and gas sales	11,323,000	5,827,000
Other	1,039,000	490,000
Current portion of advances to associated partnerships	12,843,000	7,947,000
Leases, at cost, pledged, and equipment inventory, at average cost	4,066,000	4,565,000
Unexpended investment in partnerships	981,000	868,000
Unsecured note receivable	—	1,487,000
Other	188,000	268,000
Total current assets	$ 56,028,000	$ 41,588,000
Property and Equipment, at cost:		
Oil and gas properties, on a full-cost basis, partially pledged		
Cost of properties being amortized	$160,167,000	$ 91,429,000
Cost of properties not being amortized	6,690,000	13,672,000
Furniture, fixtures and other equipment	1,695,000	1,457,000
	$168,552,000	$106,558,000
Less — Accumulated depreciation, depletion and amortization	29,387,000	19,812,000
	$139,165,000	$ 86,746,000
Other Assets:		
Noncurrent advances to associated partnerships	$ 8,351,000	$ 8,020,000
Debenture issue expense, net of amortization	953,000	1,026,000
Other	413,000	336,000
	$ 9,717,000	$ 9,382,000
	$204,910,000	$137,716,000

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

	1980	1979
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings	$ 419,000	$ 626,000
Accounts payable and accrued liabilities	22,532,000	13,062,000
Oil and gas proceeds payable	6,925,000	6,814,000
Total current liabilities	$ 29,876,000	$ 20,502,000
10 3/4% Subordinated Debentures, less unamortized discount of $2,671,000 in 1980 and $2,874,000 in 1979	$ 27,329,000	$ 27,126,000
Long-Term Debt	$ 50,953,000	$ 45,648,000
Deferred Revenue	$ 1,844,000	$ 716,000
Deferred Income Taxes	$ 10,698,000	$ 7,591,000
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, no par, 25,000,000 shares authorized, 10,630,140 shares outstanding in 1980 and 9,173,348 in 1979	$ 57,459,000	$ 15,221,000
Paid-in capital	2,872,000	2,872,000
Retained earnings	23,879,000	18,040,000
	$ 84,210,000	$ 36,133,000
	$204,910,000	$137,716,000

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
Source of Funds:			
Funds provided by operations —			
Net income	$ 7,051,000	$ 6,015,000	$ 4,256,000
Expenses not requiring current outlay of funds —			
Depreciation, depletion and amortization	10,005,000	6,502,000	4,793,000
Deferred income taxes	3,083,000	2,949,000	1,558,000
Amortization of debenture discount	203,000	203,000	51,000
Total from operations	$ 20,342,000	$ 15,669,000	$ 10,658,000
Long-term borrowings	21,805,000	45,648,000	21,172,000
Sale of 10 3/4% subordinated debentures	—	—	26,872,000
Issuance of common stock	42,238,000	604,000	12,831,000
Deferred revenue	1,128,000	419,000	297,000
Unsecured note receivable	—	1,487,000	—
Management fees from associated partnerships included in oil and gas properties	308,000	728,000	501,000
Other, net	9,000	77,000	(95,000)
Total source of funds	$ 85,830,000	$ 64,632,000	$ 72,236,000
Application of Funds:			
Additions to property and equipment	$ 62,721,000	$ 52,095,000	$ 22,915,000
Payments on long-term debt and change in current maturities	16,500,000	4,218,000	19,854,000
Increase in noncurrent advances to associated partnerships	331,000	3,912,000	2,510,000
Debenture issue expense	—	—	1,108,000
Cash dividends	1,212,000	685,000	—
Conversion of convertible subordinated debentures, net of unamortized issue expense of $594,000	—	—	9,406,000
Total application of funds	$ 80,764,000	$ 60,910,000	$ 55,793,000
Increase in Working Capital	$ 5,066,000	$ 3,722,000	$ 16,443,000
Increase (Decrease) in Components of Working Capital:			
Cash and temporary investments	$ 6,126,000	$ (5,628,000)	$ 1,724,000
Accounts receivable	5,371,000	11,556,000	7,259,000
Current portion of advances	4,896,000	2,940,000	3,383,000
Leases and equipment inventory	(499,000)	1,478,000	223,000
Unexpended investment in partnerships	113,000	(40,000)	908,000
Unsecured note receivable	(1,487,000)	1,487,000	—
Other current assets	(80,000)	(556,000)	753,000
Short-term borrowings	207,000	2,028,000	5,945,000
Current maturities of long-term debt	—	—	1,200,000
Accounts payable and accrued liabilities	(9,470,000)	(5,684,000)	(4,040,000)
Oil and gas proceeds payable	(111,000)	(3,883,000)	(1,008,000)
Income taxes payable	—	24,000	96,000
Increase in Working Capital	$ 5,066,000	$ 3,722,000	$ 16,443,000
Working Capital, beginning of year	21,086,000	17,364,000	921,000
Working Capital, end of year	$ 26,152,000	$ 21,086,000	$ 17,364,000

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 1980, 1979 and 1978

	Common Stock				
	Number of Shares	Amount	Paid-In Capital	Retained Earnings	Total
Balance, December 31, 1977	6,405,594	$ 1,786,000	$2,814,000	$ 8,454,000	$13,054,000
Exercise of stock options	95,400	150,000	—	—	150,000
Issuance of shares under stock purchase plan	24,438	83,000	—	—	83,000
Conversion of convertible subordinated debentures	2,073,414	9,597,000	—	—	9,597,000
Issuance of common stock in connection with sale of subordinated debentures	420,000	3,001,000	—	—	3,001,000
Net income	—	—	—	4,256,000	4,256,000
Balance, December 31, 1978	9,018,846	$14,617,000	$2,814,000	$12,710,000	$30,141,000
Exercise of stock options	132,060	438,000	—	—	438,000
Issuance of shares under stock purchase plan	22,442	166,000	—	—	166,000
Net income	—	—	—	6,015,000	6,015,000
Cash dividends	—	—	—	(685,000)	(685,000)
Other	—	—	58,000	—	58,000
Balance, December 31, 1979	9,173,348	$15,221,000	$2,872,000	$18,040,000	$36,133,000
Exercise of stock options	175,134	860,000	—	—	860,000
Issuance of shares under stock purchase plan	31,658	294,000	—	—	294,000
Issuance of common stock	1,250,000	41,084,000	—	—	41,084,000
Net income	—	—	—	7,051,000	7,051,000
Cash dividends	—	—	—	(1,212,000)	(1,212,000)
Balance, December 31, 1980	10,630,140	$57,459,000	$2,872,000	$23,879,000	$84,210,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1980, 1979 and 1978

(1) Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Wainoco Oil Corporation (the Parent), a Wyoming corporation, and its wholly owned subsidiaries, including Wainoco Oil & Gas Company (Wainoco Company) and Wainoco Oil & Gas Limited (Wainoco Limited) (collectively referred to as Wainoco). All significant intercompany transactions have been eliminated in consolidation.

Currency translation

The Canadian dollar financial statements of Wainoco Limited have been translated to United States dollars. Gains and losses on translation are included in the consolidated statements of income currently.

Oil and gas properties

Wainoco follows the accounting policy (commonly referred to as "full-cost" accounting) of capitalizing costs incurred in the acquisition, exploration and development of oil and gas reserves. No gains or losses are recognized upon the sale or disposition of oil and gas properties, except in extraordinary transactions.

Wainoco's investment in limited partnerships is accounted for on the proportionate consolidation method. Wainoco's proportionate share of the partnerships' assets, liabilities, revenues and expenses is included in the appropriate classifications in the accompanying consolidated financial statements. Substantially all of Wainoco's investment is attributable to oil and gas property costs.

Wainoco computes the provision for depreciation, depletion and amortization of oil and gas properties on a quarterly basis using the composite unit-of-production method based on dollars of future gross revenue attributable to proved reserves. Under this method, the quarterly provision is calculated by multiplying the total unamortized cost of oil and gas properties (excluding the cost of significant investments in unproved and unevaluated properties) by an overall rate determined by dividing (a) the quarter's oil and gas revenue by (b) the total future oil and gas revenue as estimated by a firm of independent petroleum engineers or Wainoco. Wainoco uses the future gross revenue method as it believes this method recognizes that due to the effects of regulated prices, the economic life of oil and gas properties is more accurately measured in terms of revenues generated, and therefore, more accurately matches the cost of the properties with the revenues produced.

Income taxes
The Parent and Wainoco Company file a consolidated United States federal income tax return. The Parent charges Wainoco Company with an amount equal to the income taxes it would pay on a separate return basis. Wainoco Limited files a separate Canadian income tax return. Wainoco Company and Wainoco Limited provide deferred taxes on a separate return basis.

Deferred taxes are provided on timing differences between taxable and financial statement income to the extent that taxes which would otherwise have been payable are reduced. Wainoco follows the flow-through method of accounting for investment tax credits received in the United States whereby the credits available each year are applied as a reduction of the United States tax provision.

Common stock
In a special meeting in February, 1980, shareholders approved an increase in authorized common shares from 10,000,000 to 25,000,000.

In October, 1980, Wainoco sold 1,250,000 common shares in a public offering at $34.75 per share. The proceeds of the sale, after deducting the underwriting discount and selling expenses, were credited to common stock.

Earnings per share
Primary earnings per share have been computed based on the weighted average number of common shares outstanding and assuming exercise of stock options outstanding during 1980, 1979 and 1978. The convertible subordinated debentures discussed in Note 3 were not common stock equivalents. The average common and common equivalent shares outstanding were 9,981,477 in 1980, 9,439,472 in 1979 and 7,782,998 in 1978.

Fully diluted earnings per share assume the addition of dilutive stock options and shares issuable upon conversion of the convertible subordinated debentures and the related reduction of interest expense, net of income tax effect ($376,000 in 1978). The weighted average shares outstanding assuming full dilution were 9,990,151 in 1980, 9,492,268 in 1979 and 8,912,376 in 1978.

As discussed in Note 3, in June, 1978, the Parent called for the redemption of its outstanding 8% convertible subordinated debentures by July 31, 1978. Had all $9,970,000 of the debentures which were converted through July 31, 1978, been converted at January 1, 1978, primary earnings per common and common equivalent share for the year ended December 31, 1978, would have been $.52.

As set forth above, the Company sold 1,250,000 shares of common stock in October, 1980. Had this sale taken place at January 1, 1980, primary earnings per share for 1980 would have been $.88.

Accounting changes
In October, 1979, the Financial Accounting Standards Board issued Statement No. 34 which requires the capitalization of interest for certain assets. The statement is to be applied prospectively for reporting periods beginning after December 15, 1979. In the fourth quarter of 1979, Wainoco elected early adoption of Statement No. 34 retroactive to January 1, 1979, and commenced capitalizing interest on the cost of significant investments in unproved and unevaluated oil and gas properties excluded from the capitalized costs to be amortized.

(2) Oil and gas properties, reserves and related financial data

Oil and gas properties
The following tables set forth (in thousands) the costs incurred in and net revenues from oil and gas producing activities for each of the three years in the period ended December 31, 1980, and the capitalized costs and related accumulated depreciation, depletion and amortization (DD&A) at December 31, 1980 and 1979.

Capitalized Costs Incurred	Property Acquisition	Exploration	Development	Purchase of Reserves-In-Place	Total
1980					
United States	$ 6,181	$10,521	$23,649	$ —	$40,351
Canada	9,543	9,932	2,381	—	21,856
	$15,724	$20,453	$26,030	$ —	$62,207
1979					
United States	$ 6,816	$ 4,497	$11,986	$ 7,404	$30,703
Canada	8,800	1,758	6,815	3,567	20,940
	$15,616	$ 6,255	$18,801	$10,971	$51,643

Capitalized Costs Incurred	Property Acquisition	Exploration	Development	Purchase of Reserves-In-Place	Total
1978					
United States	$ 5,496	$ 3,816	$ 4,120	$ —	$13,432
Canada	2,651	2,976	3,132	—	8,759
	$ 8,147	$ 6,792	$ 7,252	$ —	$22,191

Production Costs Incurred, DD&A and Net Oil and Gas Sales	United States	Canada	Total
1980			
Operating Costs	$ 2,404	$ 1,883	$ 4,287
Production Taxes	1,067	—	1,067
	$ 3,471	$ 1,883	$ 5,354
Provision for DD&A	$ 7,439	$ 2,200	$ 9,639
DD&A per Dollar of Oil and Gas Sales	$ .37	$ .16	$ .29
Oil and Gas Sales, Net of Production Cost	$16,633	$11,498	$ 28,131
1979			
Operating Costs	$ 1,676	$ 1,604	$ 3,280
Production Taxes	671	—	671
	$ 2,347	$ 1,604	$ 3,951
Provision for DD&A	$ 4,235	$ 1,991	$ 6,226
DD&A per Dollar of Oil and Gas Sales	$ .34	$ .19	$ .27
Oil and Gas Sales, Net of Production Cost	$ 9,946	$ 9,075	$ 19,021
1978			
Operating Costs	$ 1,246	$ 768	$ 2,014
Production Taxes	539	—	539
	$ 1,785	$ 768	$ 2,553
Provision for DD&A	$ 3,440	$ 1,182	$ 4,622
DD&A per Dollar of Oil and Gas Sales	$ .36	$ .21	$ .30
Oil and Gas Sales, Net of Production Cost	$ 7,871	$ 4,875	$ 12,746

Capitalized Costs and Accumulated DD&A	United States	Canada	Total
1980			
Unproved Properties	$10,918	$15,748	$ 26,666
Proved Properties	88,757	51,434	140,191
	$99,675	$67,182	$166,857
Accumulated DD&A	$21,239	$ 7,600	$ 28,839
1979			
Unproved Properties	$ 8,859	$ 7,760	$ 16,619
Proved Properties	50,916	37,566	88,482
	$59,775	$45,326	$105,101
Accumulated DD&A	$13,943	$ 5,400	$ 19,343

At December 31, 1980, Wainoco had invested $6,690,000 in unproved and unevaluated properties, consisting primarily of lease acquisition costs, which have been excluded from the cost of properties to be amortized since they had not been sufficiently tested to determine whether proved reserves were attributable to the properties or whether impairment had occurred. It is anticipated that exploration and development activities projected for 1981 will determine the final evaluation of these properties. It is not possible at this time to determine the potential impact on the amortization rate for inclusion of these costs and related reserves, if any.

Reserves and future net revenues (unaudited)
The following table identifies Wainoco's proved oil and gas reserves as of December 31, 1980, 1979 and 1978, as estimated by Ryder Scott Company, a firm of independent petroleum engineers. Crude oil includes condensate and natural gas liquids and is stated in thousands of barrels. Natural gas is stated in millions of cubic feet.

	United States		Canada		Total	
	Oil	Gas	Oil	Gas	Oil	Gas
1980						
Proved developed and undeveloped reserves:						
Beginning of year	1,595	41,148	1,120	222,859	2,715	264,007
Revisions to previous estimates	96	(8,074)	23	113	119	(7,961)
Improved recovery	—	—	341	214	341	214
Extension, discoveries and other additions	295	16,734	194	50,436	489	67,170
Purchase of minerals-in-place	—	4	1	178	1	182
Production	(261)	(5,725)	(171)	(9,085)	(432)	(14,810)
End of year	1,725	44,087	1,508	264,715	3,233	308,802
Proved developed reserves:						
Beginning of year	1,595	31,976	1,096	143,097	2,691	175,073
End of year	1,698	31,016	1,278	170,982	2,976	201,998
1979						
Proved developed and undeveloped reserves:						
Beginning of year	1,131	13,272	1,033	147,594	2,164	160,866
Revisions to previous estimates	118	876	164	4,012	282	4,888
Improved recovery	70	—	—	—	70	—
Extension, discoveries and other additions	482	25,663	53	73,987	535	99,650
Purchase of minerals-in-place	69	5,261	23	6,226	92	11,487
Production	(275)	(3,924)	(153)	(8,960)	(428)	(12,884)
End of year	1,595	41,148	1,120	222,859	2,715	264,007
Proved developed reserves:						
Beginning of year	1,131	13,272	1,006	92,674	2,137	105,946
End of year	1,595	31,976	1,096	143,097	2,691	175,073
1978						
Proved developed and undeveloped reserves:						
Beginning of year	1,268	10,896	1,100	99,618	2,368	110,514
Revisions to previous estimates	99	3,028	(22)	3,447	77	6,475
Extensions, discoveries and other additions	53	3,155	81	48,831	134	51,986
Production	(289)	(3,807)	(126)	(4,302)	(415)	(8,109)
End of year	1,131	13,272	1,033	147,594	2,164	160,866
Proved developed reserves:						
Beginning of year	1,268	10,896	1,056	50,450	2,324	61,346
End of year	1,131	13,272	1,006	92,674	2,137	105,946

Presented below (in thousands) are the estimated future net revenue and present value of future net revenue (discounted at a rate of 10 percent per year) from proved oil and gas reserves at December 31, 1980, 1979 and 1978. This information is based on the respective prices in effect as of December 31, 1980, 1979 and 1978 (considering possible future price escalations only to the extent provided by fixed determinable contractual arrangements) and future development costs. Canadian reserves have been priced using increases contemplated under the proposed National Energy Program. Current costs used in the computations assumed a continuation of existing economic conditions.

	Estimated Future Net Revenue					
	Proved Developed and Undeveloped			Proved Developed		
	United States	Canada	Total	United States	Canada	Total
1980						
1981	$ 12,172	$ 9,796	$ 21,968	$ 20,045	$ 11,687	$ 31,732
1982	15,126	12,304	27,430	17,680	13,785	31,465
1983	18,375	17,169	35,544	13,152	16,404	29,556
Remainder	107,868	641,268	749,136	71,940	396,030	467,970
	$153,541	$680,537	$834,078	$122,817	$437,906	$560,723
1979						
1980	$ 17,655	$ 9,668	$ 27,323	$ 20,315	$ 10,431	$ 30,746
1981	12,614	12,280	24,894	14,323	12,837	27,160
1982	13,932	10,513	24,445	10,079	11,353	21,432
Remainder	67,924	190,394	258,318	47,458	124,578	172,036
	$112,125	$222,855	$334,980	$ 92,175	$159,199	$251,374
1978						
1979	$ 6,846	$ 6,585	$ 13,431	$ 6,846	$ 6,996	$ 13,842
1980	4,704	6,836	11,540	4,704	7,349	12,053
1981	3,499	7,502	11,001	3,499	7,899	11,398
Remainder	10,531	92,853	103,384	10,531	58,235	68,766
	$ 25,580	$113,776	$139,356	$ 25,580	$ 80,479	$106,059

	Estimated Present Value of Future Net Revenues		
	United States	Canada	Total
Proved developed and undeveloped reserves:			
1980	$84,449	$287,135	$371,584
1979	$68,918	$100,564	$169,482
1978	$18,645	$ 52,832	$ 71,477
Proved developed reserves:			
1980	$75,944	$198,690	$274,634
1979	$61,311	$ 83,557	$144,868
1978	$18,645	$ 46,238	$ 64,883

(3) Subordinated debentures, long-term debt and short-term borrowings

8% Convertible subordinated debentures
In June, 1978, Wainoco called for the redemption of its $10,000,000 8% convertible subordinated debentures. Debentures totaling $9,970,000 were converted at the option of holders at $4.81 per share and 2,073,414 shares of common stock were issued upon such conversion. The balance of the debentures ($30,000) were redeemed at 110% plus accrued interest. Upon conversion, the principal amount of the debentures and accrued interest, net of income tax effect, through the date of conversion, less unamortized issue expense, were credited to common stock.

10 3/4% Subordinated debentures
In October, 1978, Wainoco sold $30,000,000 of 10 3/4% subordinated debentures due in 1998 with 420,000 shares of common stock. The issue price of the debentures and common stock ($30,000,000) and the related issue expense ($1,235,000) were allocated between the debentures and the common stock based on their fair market value. The portion of the issue price allocated to common stock ($3,128,000) constitutes issue discount which is being amortized over the life of the debentures. Amortization was $203,000 in 1980, $203,000 in 1979 and $51,000 in 1978. Interest on the debentures is payable semi-annually and annual sinking fund payments of $2,500,000 begin in 1988. The debentures are redeemable at 110.75% beginning in 1978, declining annually to 100% in 1988. The indenture covering the debentures provides for certain restrictions, none of

which are significant at December 31, 1980.

Long-term debt
Long-term debt at December 31, 1980 and 1979, consisted of the following:

	1980	1979
	(In thousands)	
Demand note payable by Wainoco Limited to a Canadian bank of \$52,300,000 (Canadian) at December 31, 1980 and \$29,900,000 (Canadian) at December 31, 1979; secured by substantially all Canadian oil and gas properties; due July, 1982; guaranteed by the Parent (see discussion below)	\$43,859	\$25,624
Note payable by Wainoco Company to a United States bank; secured by substantially all United States oil and gas properties, lease inventory, accounts receivable from joint operators; due April, 1982 (see discussion below)	2,000	18,500
Wainoco's proportionate share of notes payable by associated partnerships, secured by the partnerships' oil and gas properties	5,094	1,524
	\$50,953	\$45,648

A Canadian bank has provided Wainoco Limited with a revolving line of credit of \$65,000,000 (U.S. dollar equivalent of approximately \$54,500,000 at December 31, 1980) with interest at the bank's prime rate plus .5 percent and an annual commitment fee of one half of one percent on any unused portion. Under the terms of the loan agreement, the bank has the option to review the secured oil and gas properties and make a determination of the credit to be made available (the borrowing base). If the bank, at its sole discretion, determines that the aggregate unpaid balance on the line is in excess of the borrowing base, then Wainoco Limited must either (1) provide additional security to increase the borrowing base to an amount at least equal to such excess, (2) repay any such excess, or (3) convert the outstanding balance to a six-year term loan repayable in equal monthly principal installments with interest at the bank's prime rate plus one percent. Although the advance on the line of credit is evidenced by a demand note, the bank has advised Wainoco Limited that it will not require repayment as long as the terms and conditions of the loan agreement are met.

A United States bank has provided Wainoco Company with a revolving line of credit of \$24,500,000 with interest at the bank's prime rate plus .75 percent and an annual commitment fee of one half of one percent on any unused portion. The loan agreement provides, among other things, that Wainoco Company (1) will not incur any additional indebtedness, except as provided for in the loan agreement, which permits debt subordinate to the bank, debt up to 10 percent of the borrowing base, liabilities incurred in formation and operation of associated limited partnerships, and certain other exclusions, (2) will not sell or otherwise dispose of a substantial portion of its properties, and (3) will maintain a current ratio (excluding current maturities of the bank's notes payable) of at least one to one. During the term of the agreement, the bank will review the secured oil and gas properties and make a semi-annual determination of the credit to be made available to Wainoco Company (the borrowing base). If the bank determines that the unpaid balance on the line is in excess of the borrowing base, then Wainoco Company must either (1) repay any such excess or (2) provide additional security to increase the borrowing base to an amount at least equal to such excess. At the termination date, any principal remaining outstanding in the revolving line of credit may be converted to a term loan repayable in not less than 60 nor more than 74 substantially equal monthly installments, commencing in June, 1982, with interest at the bank's prime rate plus .75 percent.

Short-term borrowings
The Canadian bank has agreed to provide Wainoco Limited with a demand loan of up to \$500,000 (U.S. dollar equivalent of approximately \$419,000 at December 31, 1980) for working capital purposes. This loan bears interest at the bank's prime rate plus .5 percent. Wainoco Limited has drawn \$419,000 on this line of credit as of December 31, 1980.

The maximum amount of short-term borrowings outstanding as of any month-end was approximately \$437,000 in 1980 and \$440,000 in 1979. The average amount outstanding was approximately \$427,000 in 1980 and \$550,000 in 1979, and the average interest rate paid was approximately 14.9 percent in 1980 and 13.9 percent in 1979.

(4) Associated partnerships

The Parent and/or its subsidiaries are general partners in seventeen public limited partnerships and have received management and other fees as consideration for services rendered certain of the partnerships. In addition, the general partners are reimbursed for direct, administrative and overhead costs incurred in conducting the business of all except two of the partnerships.

In June and July, 1980, Wainoco completed the sale of interests in Wainoco 80 Company (a Texas limited partnership) and Wainoco 80 Canada (an Alberta limited partnership), respectively. Wainoco is required to maintain for its own interest a working interest in all Wainoco 80 Company properties equal to 15 percent of the partnership's interest. Wainoco subscribed for \$2,000,000 (Canadian), of limited partner interests in the Canadian partnership. The unexpended portion of this contribution is included in current assets in the accompanying December 31, 1980, consolidated balance sheet, and will be reclassified to oil and gas properties as the total limited partner contributions are expended.

Effective in 1981, the Company has announced it will no longer form public limited partnerships for any of its drilling programs. For 1981, a private joint venture has been formed through which most activity will be conducted for that year.

The general partners have advanced funds to certain partnerships to finance certain exploration and development expenditures which are recoverable only from future revenues of the partnerships. Based on the most recent oil and gas reserve information on the partnerships' properties, the advances for certain of the partnerships exceeded the estimated fair market value of their oil and gas properties by approximately $6,300,000 and $1,800,000 at December 31, 1980 and 1979, respectively. These amounts have been included in oil and gas properties since the expenditures were discretionary in nature and considered to be an integral part of Wainoco's oil and gas exploration and development activities. Amortization is being computed on these amounts in the same manner as other investments in oil and gas properties. The amounts may change in future periods depending on the determination of the estimated fair market value of the partnerships' oil and gas properties.

The general partners may be required to purchase the limited partners' interest in the partnerships in varying amounts, depending on the terms of the different partnership agreements. The purchase price will generally be based on the limited partners' share of (1) the estimated present value of future net income from oil and gas properties, discounted for risk factors associated with developing and producing the reserves, (2) the value of undeveloped acreage held by the partnerships, and (3) the value of other partnership assets and liabilities. At December 31, 1980, the partnerships formed prior to 1980 had been evaluated. The maximum purchase commitment as of December 31, 1980, for the evaluated partnerships was $38,300,000 and the maximum annual non-cumulative purchase commitment for all partnerships (assuming no prior purchases of the partnership interests) was $14,700,000 for 1981, $17,200,000 for 1982 through 1985 and decreasing amounts through 2001, the year in which all partnerships will have terminated. Of the total maximum purchase commitment for evaluated partnerships, Wainoco believes that approximately $26,800,000 would be available in borrowings secured by the oil and gas reserves attributable to the interests of the limited partners in these partnerships. In the future, these purchase commitments and the available borrowings may be more or less depending upon future estimates of each partnership's oil and gas reserves and net assets.

(5) Income taxes

Pretax income and the provisions for income taxes (in thousands) for each of the three years in the period ended December 31, 1980, consisted of the following:

	1980	1979	1978
Pretax income —			
Canada	$ 6,022	$ 5,539	$ 2,974
United States	3,579	2,970	2,564
Total	$ 9,601	$ 8,509	$ 5,538
Provision for income taxes —			
Canada			
Current	$ (533)	$ (455)	$ (310)
Deferred	2,665	2,067	1,030
	$ 2,132	$ 1,612	$ 720
United States			
Current	$ —	$ —	$ 34
Deferred	418	882	528
	$ 418	$ 882	$ 562
Total	$ 2,550	$ 2,494	$ 1,282

Deferred income taxes result from timing differences in the recognition of revenues and expenses for income tax and financial reporting purposes. The provisions for deferred taxes shown in the preceding table are primarily attributable to exploration and development expenditures capitalized for financial reporting purposes and expensed for income tax reporting purposes.

Set forth below (in thousands) is a reconciliation between the provision for income taxes computed at the statutory Canadian and United States federal income tax rates on income before provisions for income taxes and the provisions for income taxes as reported.

	1980	1979	1978
Provision for Canadian and United States income taxes at statutory rates	$ 4,731	$ 4,010	$ 2,658
Increase (decrease) in provision resulting from:			
Canada			
Royalties, rentals and similar payments deducted currently for financial reporting purposes which are not deductible for income tax reporting purposes	$ 3,776	$ 2,578	$ 1,203
Resource and depletion allowances	(3,501)	(2,404)	(1,216)
Provincial tax credits and rebates	(908)	(684)	(426)
Gain on foreign currency translation	(310)	—	—
Investment tax credits	(135)	(172)	(60)
Other, net	9	2	(85)
	$(1,069)	$ (680)	$ (584)
United States			
Statutory depletion in excess of tax basis	$ (532)	$ (575)	$ (435)
Investment tax credits	(698)	(315)	(422)
Other, net	118	54	65
	$(1,112)	$ (836)	$ (792)
Provision for income taxes, as reported	$ 2,550	$ 2,494	$ 1,282

As of December 31, 1980, Wainoco has a United States tax depletion carry-forward of approximately $4,532,000, which is indefinitely available to reduce United States income taxes payable and a United States net operating loss carry-forward of approximately $17,768,000, which will expire in as follows: $108,000 in 1985, $7,431,000 in 1986, and $10,229,000 in 1987. In addition, Wainoco has approximately $2,260,000 of investment tax credit carry-forwards available to reduce future Canadian and United States federal income taxes payable, of which $2,179,000 has been recognized as a reduction of deferred income taxes for financial reporting purposes through December 31, 1980 and will expire as follows:

	Amount	
Year	Canada	United States
1982	$ 59,000	$ 28,000
1983	84,000	50,000
1984	201,000	210,000
1985	265,000	298,000
1986	—	286,000
1987	—	779,000

Wainoco Limited has an earned depletion base carry-forward of approximately $9,142,000 for Canadian income tax purposes of which $4,698,000 has been recognized for financial reporting purposes through December 31, 1980.

(6) Stock option plans and stock purchase plan

Stock option plans
Wainoco has three stock option plans which authorize the granting of options to purchase 1,599,000 shares of common stock. Options under the 1968 plan are granted to Canadian employees at 85 to 90 percent of the market price at the date of grant and options under the 1973 and 1977 plans are granted at not less than fair market value on the date of grant. No entries are made in the accounts until the options are exercised, at which time the proceeds are credited to common stock. Options to purchase 181,480 shares as of December 31, 1980, and 47,800 as of December 31, 1979, were available to be granted under the plans.

A summary of the 1980 stock option activity is as follows:

	Number of Shares Under Option	Option Price Range Per Share
Outstanding — December 31, 1979	699,040	$ .81 to $27.00
Granted	319,000	19.02 to 34.88
Exercised	175,134	.81 to 28.63
Lapsed	75,680	1.50 to 28.63
Outstanding — December 31, 1980	767,226	$ 1.07 to $34.88
Exercisable — December 31, 1980	333,192	$ 1.07 to $34.88

Stock purchase plan
In May, 1977, the shareholders approved an employee stock purchase plan under which an aggregate of 400,000 shares of common stock may be issued. All permanent, full-time employees who are employed for the full plan year are eligible to participate in the plan except those who own in excess of five percent of Wainoco's outstanding common stock. The plan allows each eligible employee to purchase Wainoco stock at 85 percent of market value subject to certain limitations. There have been 78,538 shares purchased through the plan as of December 31, 1980. No entries are made in the accounts until shares are purchased, at which time the proceeds are credited to common stock.

(7) Commitments and contingencies

Pension plans
Wainoco Company's pension plan is noncontributory, open to all United States employees over 25 years of age with one year of service and has a normal retirement age of 65. Pension plan expense was $300,000 in 1980, $165,000 in 1979 and $96,000 in 1978. Wainoco's policy is to fund pension costs accrued. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5 percent and 6.5 percent in 1980 and 1979, respectively. A comparison of accumulated plan benefits and plan net assets for Wainoco Company's pension plan is presented below:

	January 1, 1980	January 1, 1979
Actuarial present value of accumulated plan benefits:		
Vested	$ 342,000	$ 258,000
Nonvested	2,097,000	1,929,000
	$2,439,000	$2,187,000
Net assets available for benefits	$ 674,000	$ 334,000

Wainoco Limited's pension plan is open to all Canadian employees over 25 years of age and provides for a normal retirement age of 65 and for voluntary employee contributions. Wainoco Limited accrued $46,000 in 1980, $84,000 in 1979 and $54,000 in 1978 as its contribution to the plan. Wainoco Limited is not required to report to certain governmental agencies pursuant to ERISA and does not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above for Wainoco Company.

Lease commitments
Total operating lease rental expense (exclusive of oil and gas lease rentals) were $816,000, $456,000 and $400,000 for 1980, 1979 and 1978, respectively.

Wainoco has entered into five noncapitalized building lease agreements which expire from 1981 through 1990. The following is a summary of Wainoco's minimum annual rental payments as of December 31, 1980, under these agreements:

1981	$ 839,000	1984	873,000
1982	835,000	1985-1990	3,776,000
1983	873,000		

Other
The general partners are contingently liable for the liabilities of the limited partners of certain of the associated partnerships, including aggregate bank indebtedness of approximately $3,317,000 at December 31, 1980, which is secured by substantially all of the partnerships' assets.

(8) United States and Canadian operations

Wainoco is engaged in one line of business, the exploration, development and production of oil and gas reserves. Wainoco's United States operations are primarily conducted by Wainoco Company and its Canadian operations by Wainoco Limited. Set forth below (in thousands) are the revenues and net income for the years 1980, 1979 and 1978 and identifiable assets as of December 31, 1980, 1979 and 1978, by country:

	United States	Canada	Consolidated
1980			
Revenues	$ 21,530	$14,479	$ 36,009
Net income	3,161	3,890	7,051
Identifiable assets	124,533	80,377	204,910
1979			
Revenues	$ 13,534	$11,450	$ 24,984
Net income	2,088	3,927	6,015
Identifiable assets	81,712	56,004	137,716
1978			
Revenues	$ 10,677	$ 6,184	$ 16,861
Net income	2,002	2,254	4,256
Identifiable assets	44,726	34,271	78,997

During 1980, Wainoco made sales to two major customers of $7,200,000 and $4,000,000 which accounted for 31 percent of consolidated revenues. During 1979, Wainoco made sales to two major customers of $6,400,000 and $3,800,000 which accounted for 41 percent of consolidated revenues. During 1978, Wainoco made sales to four major customers of $2,400,000, $2,100,000, $1,700,000 and $1,600,000 which accounted for 46 percent of consolidated revenues.

(9) Selected quarterly financial data (unaudited)

Summarized below is Wainoco's quarterly unaudited financial data for 1980 and 1979.

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
1980 —				
Revenues	$9,546	$8,275	$7,757	$10,431
Income before income taxes	$4,367	$ 868	$1,724	$ 2,642
Provision for income taxes	1,437	198	240	675
Net income	$2,930	$ 670	$1,484	$ 1,967
Earnings per share — Primary	$ .30	$ .07	$ .15	$ .19
Fully diluted	$ .30	$ .07	$ .15	$ .19
Dividends per share	$ .03	$ .03	$ .03	$ .035

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
1979 —				
Revenues	$5,378	$4,962	$5,984	$ 8,660
Income before income taxes	$2,069	$1,364	$1,584	$ 3,492
Provision for income taxes	579	332	553	1,030
Net income	$1,490	$1,032	$1,031	$ 2,462
Earnings per share — Primary	$ .16	$ .11	$ .11	$ .26
Fully diluted	$ .16	$ .11	$ .11	$ .25
Dividends per share	$ .015	$ .015	$ .015	$ .03

(10) Reserve recognition accounting (unaudited)

Under Reserve Recognition Accounting (RRA), a valuation of the Company's proved reserves is recognized as an asset and net changes to the valuation are included in earnings as they occur. Under the full-cost method of accounting followed by the Company, oil and gas properties included in the accompanying Consolidated Balance Sheets consist of capitalized costs incurred in the acquisition, exploration and development of oil and gas reserves, and revenues reported in the accompanying Consolidated Statements of Income are recognized as those reserves are produced.

Presented below are the unaudited Consolidated Supplemental Earnings Summary prepared on the basis of RRA, and Analysis of Changes in Estimated Present Value of Future Net Revenues from Proved Oil and Gas Reserves for the years in the period ended December 31, 1980.

CONSOLIDATED SUPPLEMENTAL EARNINGS SUMMARY

For the years ended December 31, 1980, 1979 and 1978 *Prepared on the basis of Reserve Recognition Accounting (RRA) (Unaudited)*

	1980	1979	1978
		(In thousands)	
Additions to Proved Reserves:			
New field discoveries and extensions	$ 99,981	$ 87,509	$22,802
Revisions to reserves proved in prior years:			
Changes in price	$153,076	$ 27,300	$ 1,913
Other	(28,238)	(4,694)	(9,777)
Interest factor — accretion of discount	16,948	7,148	6,375
Total revisions to proved reserves	$141,786	$ 29,754	$(1,489)
Total additions to proved reserves	$241,767	$117,263	$21,313
Exploration and development costs:			
Costs incurred during the year —			
Acquisition of properties	$ 15,724	$ 15,616	$ 8,147
Exploration	20,453	6,255	6,792
Development, net	26,030	18,801	7,252
	$ 62,207	$ 40,672	$22,191
Changes in deferred costs	(10,047)	(9,409)	(6,075)
Future development costs considered in valuation of new field discoveries and extensions	19,692	14,628	4,524
Future development cost incurred	(6,780)	(4,524)	(3,688)
Total acquisition, exploration and development costs	$ 65,072	$ 41,367	$16,952
RRA income before other revenues (and expenses) and income taxes	$176,695	$ 75,896	$ 4,361
Other revenues (expenses)			
Interest and other income	2,832	2,740	2,063
General and administrative expenses including depreciation on fixed assets	(4,668)	(2,839)	(2,547)
Interest expense, net	(6,285)	(2,878)	(1,721)
Gain (loss) on translation of foreign currency	422	(305)	491
RRA income before income taxes*	$168,996	$ 72,614	$ 2,647
Provision for income taxes	118,162	24,000	1,200
RRA net income	$ 50,834	$ 48,614	$ 1,447
Earnings per share:			
Primary	$ 5.09	$ 5.15	$ .19
Fully diluted	$ 5.09	$ 5.12	$ .16

* Income before income taxes under the full cost method followed by Wainoco as reported on the Consolidated Statements of Income is $9,601 for 1980, $8,509 for 1979 and $5,538 for 1978.

ANALYSIS OF CHANGES IN ESTIMATED PRESENT VALUE OF FUTURE NET REVENUES FROM PROVED OIL AND GAS RESERVES

For the years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
		(In thousands)	
Balance — beginning of year	$169,482	$ 71,477	$63,746
Revisions to reserves proved in prior years	141,786	29,754	(1,489)
New field discoveries and extensions	99,981	87,509	22,802
Less related future development costs	(19,692)	(14,628)	(4,524)
Purchases of reserves-in-place	567	9,867	—
Future development costs from prior years valuation incurred	6,780	4,524	3,688
Production, net of production costs and excise tax	(27,320)	(19,021)	(12,746)
Balance — end of year	$371,584	$169,482	$71,477

STATEMENT OF RRA POLICIES

The following accounting policies have been followed where RRA presentations differ from generally accepted accounting principles (GAAP). The estimates of proved reserves and related valuations were developed by the Company's independent petroelum engineers in accordance with SEC rules and guidelines.

Recognition of assets and earnings under RRA

Under RRA, assets are recognized and earnings recorded when proved reserves are added through exploration and development activities. Proved reserves are valued as set out in Note 2. The SEC has acknowledged that the method employed does not necessarily yield the best estimate of the fair market value of a company's oil and gas properties. Any estimate of fair market value should take into account other factors, such as anticipated future increases in prices of oil and gas and any related development and production costs and probable reserves discounted for the risks associated with developing and producing such reserves. In the opinion of management, the fair market value of Wainoco's oil and gas properties could be substantially in excess of the RRA valuation of its reserves.

New field discoveries and extensions are included in earnings as they occur and represent proved reserves added from drilling exploratory and development wells. Subsequent revisions to the RRA valuation of proved reserves are included in earnings as they occur. The major factors causing revisions in proved reserves based on an annual RRA valuation are described below:

(1) "Changes in Price" — represents the approximate effect of increases from one period to the next in the prices and production costs used in the RRA valuation calculation.

(2) "Other" — primarily represents changes in engineering estimates of quantities and timing of production of reserves due to production history of the properties, additional drilling, general marketing conditions and various other considerations.

(3) "Interest Factor — Accretion of Discount" — represents the effect of the passage of time on the discounted value of proved reserves which is equal to 10 percent of the RRA valuation as of the beginning of the year.

Exploration and development costs

Costs incurred during the year and expensed for RRA purposes include acquisition, exploration and development costs of properties evaluated in the current year. Because future development costs are considered in valuing proved reserves in the year of discovery, such costs are reversed in the year actually incurred to eliminate duplicate charges to expense. Costs of acquiring unproved properties and drilling exploration and development wells are deferred until the properties are evaluated, at which time they are charged to expense. All deferred costs are assessed for recoverability and any impairment is included in current expenses. Costs deferred at year-end were $26,666,000 in 1980, $16,619,000 in 1979 and $7,210,000 in 1978. Other exploratory and development costs are charged to expense when incurred.

Other revenues and expenses

The accounting policies followed for "Other revenues (expenses)" are the same as GAAP.

Income taxes

The provision for income taxes for the oil and gas production segment has been computed using the liability method. The estimated liability at the beginning and end of the year is computed by applying the year-end statutory income tax rates to the difference between (a) the RRA valuation of proved reserves and (b) the tax basis of proved oil and gas properties after taking into consideration the net operating losses, statutory depletion, resource allowances, investment tax credit carryovers and rebates. The provision for income taxes for other revenues and expenses has been computed under the deferred method as described in Notes 1 and 5.

Other considerations

Because earnings under RRA are recognized upon discovery of proved reserves and when the RRA valuation of proved reserves change, no earnings are reported as oil and gas are produced. Consequently, RRA earnings will differ substantially from funds generated or required by current exploration, development and producing operations. For information on funds flow, see the Consolidated Statement of Changes in Financial Position.

The Company cautions against placing undue reliance on RRA results. RRA attempts to report the ultimate financial result of events which are not subject to consistently reliable evaluation. Estimates of proved reserves are subject to significant revisions as more data becomes available, particularly reserves attributed to new discoveries. Additionally, costs incurred in one year may lead to significant discoveries in later years, and improved recovery techniques could significantly alter recoverable reserves from any given property. These and other factors should be considered in evaluating RRA data.

AUDITORS' REPORT

To the Shareholders of Wainoco Oil Corporation:

We have examined the consolidated balance sheets of Wainoco Oil Corporation (a Wyoming corporation) and subsidiaries as of December 31, 1980 and 1979, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Wainoco Oil Corporation and subsidiaries as of December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis except for the change adopted in 1979 (with which we concur) in the capitalization of interest as described in Note 1 to the financial statements.

ARTHUR ANDERSEN & CO.

Houston, Texas
March 12, 1981

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenues and production costs

Oil and gas sales increased 50% in 1979 and 46% in 1980 due to increases in both sales volumes and prices. Of these increases 80% and 68% in 1979 and 1980, respectively, were attributable to gas sales alone. Gas sales increased due to production volume increases of 4,775 MMCF in 1979 and 1,926 MMCF in 1980, assisted by a 23% improvement in the weighted average price in 1980. In 1979, 98% of the increased gas sales were attributable to Canadian production, whereas, in 1980, 94% of the increase was located in the United States. Oil volumes increased only 3% and 1% in 1979 and 1980, respectively, but weighted average prices improved 33% in 1979 and 57% in 1980. The increases in production noted were primarily due to new production coming on line in excess of the normal decline of existing production. Oil prices have risen primarily due to the effects of deregulation in the United States.

Production costs, excluding the Windfall Profit Tax (Excise tax) imposed in the United States in 1980, were relatively constant in relation to gross oil and gas sales (17%, 17% and 16% of gross sales in 1978, 1979 and 1980, respectively). The amount paid pursuant to the Windfall Profit Tax, aggregating $811,000 in 1980, was responsible for a 37% increase in 1980 over 1979 for costs related to production.

Interest income increased in 1980 and 1979 due to higher levels of short-term investments and increasing interest rates over the three year period. Other income increased steadily over the three years as operational activity generating management and overhead fees increased yearly.

Depreciation, depletion and amortization, expressed as a percent of oil and gas sales, was 30%, 27% and 29% in 1978, 1979 and 1980, respectively. The variations in this relationship are the results of additions to the full-cost pools and oil and gas reserves being slightly disproportionate relative to the existing relationship between the full-cost pools and oil and gas reserves attributable to each pool.

General and administrative expenses, net of allocations to partnerships, increased 11% in 1979 due to a 25% increase in personnel and inflationary cost increases. The 54% increase in 1980 was attributable to a 12% increase in personnel, inflationary cost increases and a reduced portion of overhead allocated to partnerships.

Net interest expense increased 67% in 1979 and 118% in 1980. The increases in gross interest expense over the three year period resulted from higher average debt balances and increased interest rates in each period. The interest charged to associated partnerships increased in proportion to increased advances to partnerships and was also affected by increased interest rates.

The gain or loss on translation of foreign currency is primarily a function of long-term debt balances in Canadian dollars and the relative exchange rates between the United States and Canadian dollars. These gains or losses are generally unrealized.

The combined United States-Canadian tax rate was 23%, 29% and 27% in 1978, 1979 and 1980, respectively.

Inflation and changing prices

The Company has experienced significant increases in its cost of labor, materials, contract services and other operating costs as a result of general inflation as well as scarcities due to high demand for oilfield services and materials. To date, the Company's increases in oil and gas prices, although subject to the constraints of governmental regulations, have more than offset these cost increases.

Inflationary pressures, increased demand and the ever increasing difficulty of finding new reserves has driven the replacement cost of the Company's oil and gas properties considerably beyond the historical cost levels maintained for financial purposes. Based on historical cost, property and equipment represent 68% of the Company's total assets. The depreciation, depletion and amortization thereof charged to current operations is an allocation of historical cost and is less than the replacement cost of the resources consumed. Current tax laws do not allow deductions for any amounts in excess of those based on historical cost. To the extent that certain costs are not deductible when incurred, this results in effective tax rates in real economic terms in excess of established statutory rates.

However, because sales prices have generally risen at a higher rate than finding and operating costs and, because current expenditures are recovered from future production subject to frequent increases in price, management does not anticipate adverse erosion of the asset base due to inflation and changing prices.

Liquidity and Capital Resources

Wainoco has managed capital expenditures, for its own account and on behalf of its partnerships, aggregating $53.4 million in 1978, $95.1 million in 1979 and $98.6 million in 1980, primarily for oil and gas exploration and development activities. Of these funds, limited partners (other than Wainoco) contributed $31.2 million in 1978, $43.4 million in 1979 and $36.4 million in 1980 while Wainoco, both for its own account and as general and limited partner in its partnerships, contributed $22.2 million in 1978, $51.7 million in 1979 and $62.2 million in 1980. Working capital provided by operations has increased as a source of Wainoco's funds, providing $10.7, $15.7 and $20.3 million in 1978, 1979 and 1980, respectively.

Management has determined that Wainoco will discontinue its practice of conducting a substantial portion of its exploration activities through the formation and management of public limited partnerships. As a replacement for this source of funds and method of operating, in February, 1981, the Company entered into a $50 million joint drilling venture with Texaco U.S.A. which will be operated by the Company. It is therefore anticipated that similar joint ventures, cash flow from operations, debt and possibly additional equity capital will be utilized to finance future operations.

Additional sources of funds for exploration and development have been provided by the public issue and sale of a series of 10 3/4% subordinated debentures in 1978 ($28.8 million net of issue expenses) and by a public offering of 1,250,000 shares of common stock in 1980 ($41.1 million net of issue expenses). Wainoco also has arranged revolving lines of credit with a Canadian bank and a United States bank aggregating $5.7, $61.7 and $79.4 million in 1978, 1979 and 1980, respectively, of which $1.0 million in 1978, $17.1 million in 1979 and $33.1 million in 1980 were unused.

Wainoco considers, and currently uses for internal management purposes, a number of measures of liquidity. These measures include working capital, funds provided by operation, unused lines of credit and ratios of debt to equity and working capital; all of which are set forth below.

Working capital synopsis (In thousands)

	1980	1979	1978
Provided by operations	$20,300	$15,700	$10,700
Long-term debt, net	5,300	41,400	18,800
Issuance of common stock	42,200	600	12,800
Unsecured note receivable	—	1,500	—
Property, plant and equipment, net	(62,700)	(52,100)	(22,900)
Noncurrent advances to associated partnerships	(300)	(3,900)	(2,500)
Other, net	300	500	(500)
Increase in Working Capital	$ 5,100	$ 3,700	$16,400
Working Capital, beginning of year	21,100	17,400	1,000
Working Capital, end of year	$26,200	$21,100	$17,400

Funds provided by operations (In thousands)

The Company has in recent years experienced growth in this area due to significant increases in both reserves and production.

	1980	1979	1978
Funds provided by operations	$20,300	$15,700	$10,700
Increase in funds provided by operations	$ 4,600	$ 5,000	$ 4,800

Unused lines of credit (In thousands)

During 1979, the Company finalized committed bank credit lines which were available to finance operations.

	1980	1979	1978
Total lines of credit	$79,400	$61,700	$ 5,700
Outstanding	46,300	44,600	4,700
Unused line of credit	$33,100	$17,100	$ 1,000

Ratios:

	1980	1979	1978
Debt to Equity	.9	2.0	1.0
Working Capital	1.9	2.0	2.3

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DIRECTORS

John B. Ashmun
Houston, Texas
William A. Faubion
Houston, Texas
James S. Palmer
Calgary, Alberta
Louis Putze
Ligonier, Pennsylvania
William Scheerer, II
New York, New York
James B. Stockdale
Palo Alto, California

OFFICERS

John B. Ashmun
President
William A. Faubion
Executive Vice President
Darcy D. Schindewolf
Vice President - Secretary and Treasurer
Ronald F. Wilson
Vice President - Controller

REGISTRARS AND TRANSFER AGENTS

Common Stock
First City National Bank
Houston, Texas
Montreal Trust Company
Toronto, Ontario

10 3/4% Subordinated Debentures
First City National Bank
Houston, Texas

AUDITORS

Arthur Andersen & Co.
Houston, Texas

COUNSEL

Andrews, Kurth, Campbell & Jones
Houston, Texas
Burnet, Duckworth & Palmer
Calgary, Alberta

SUBSIDIARIES

Wainoco Oil & Gas Company
Wainoco Oil & Gas Limited
Wainoco International, Inc.
Wainoco Australia Limited
Wainoco Colombia, Inc.
Wainoco Indonesia, Inc.

COMMON STOCK

Wainoco Oil Corporation common stock is listed for trading on the New York and Toronto Stock Exchanges under the symbol WOL. The high and low quarterly sales prices for the stock on the American Stock Exchange, on which it traded during 1980, rounded to the nearest 1/8 and after giving effect to the 2-for-1 stock split in October, 1979, are shown below:

	High	Low
1980		
First Quarter	37 7/8	14 1/2
Second Quarter	33	21
Third Quarter	43 3/8	26 1/2
Fourth Quarter	35 1/8	25 1/8
1979		
First Quarter	10 7/8	6 3/8
Second Quarter	12 1/4	9
Third Quarter	19	10 1/4
Fourth Quarter	32 7/8	17 3/8

AVAILABILITY OF FORM 10-K

The Company's Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, is available upon request and may be obtained by writing to:

Vice President - Secretary and Treasurer
Wainoco Oil Corporation
1200 Smith Street, Suite 1500
Houston, Texas 77002

ANNUAL MEETING NOTICE

The annual meeting of the shareholders of Wainoco Oil Corporation will be held Wednesday, May 20, 1981, at 10:00 a.m., Ile de France Room in the Hotel Meridien, 400 Dallas Street, Houston, Texas.

WAINOCO
OIL CORPORATION

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