Wainoco Oil Corporation
1981 Annual Report

CORPORATE PROFILE

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.

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ANNUAL MEETING NOTICE

The annual meeting of the shareholders of Wainoco Oil Corporation will be held Wednesday, May 12, 1982, at 10:00 a.m., in the Ile de France Room in the Hotel Meridien, 400 Dallas Street, Houston, Texas.

FINANCIAL & OPERATING HIGHLIGHTS

FINANCIAL	1981	1980	1979
Revenue	$ 44,254,000	$ 36,009,000	$ 24,984,000
Net Income (Loss)	(6,212,000)	7,051,000	6,015,000
Earnings (Loss) per share, fully diluted	(.58)	.71	.63
Dividends per share	.14	.125	.075
Funds provided by operations	16,018,000	20,342,000	15,669,000
Total assets	238,719,000	204,910,000	137,716,000
Capital expenditures	73,644,000	62,721,000	52,095,000
Shareholders' equity	70,547,000	84,210,000	36,133,000
PRODUCTION			
Oil and condensate in thousands of barrels	569	432	428
Natural gas in millions of cubic feet	12,142	14,810	12,884
PROVED RESERVES			
Oil and condensate in thousands of barrels	3,162	3,233	2,715
Natural gas in millions of cubic feet	300,053	308,802	264,007
LAND			
Gross acres (000)	23,186	19,403	18,938
Net acres (000)	10,932	7,624	7,309

LETTER TO THE SHAREHOLDERS

The year 1981 signaled expansion of Wainoco's exploration, new methods of financing its drilling programs, and the first loss under present management's 14-year tenure. The first two accomplishments will strengthen the Company's search for reserves and the latter we plan to see relegated to corporate history.

Record revenues of $44 million, a 23% rise over those of the prior year, were principally the result of oil and gas prices one-third higher than in 1980, plus increased oil production. A loss of $6.2 million was substantially caused by charges related to the drilling of an unsuccessful well in Colombia, South America. The full amount of $9.4 million charged against the well included $2 million of uncollected partners' accounts. All of the costs were expensed in 1981 under full cost accounting principles, which require separate cost pools for operations in each country. Other greatly increased costs included interest expense, which grew with higher rates and added debt, and federal excise taxes emanating from the windfall profits tax in the U.S. and new wellhead taxes in Canada. Cash flow from operations of $16 million was 21% below the $20.3 million of 1980.

Production of natural gas reserves, Wainoco's largest asset, dropped 18% from 1980 levels to 12 billion cubic feet in response to purchasers' cutbacks, particularly in Canada. Oil and gas liquids production rose 32% to 569,000 barrels as new wells, primarily in the U.S., added to productivity.

Wainoco's proved reserves of oil and natural gas were essentially the same at the end of 1981 as at the end of 1980. Because about one half of the wells drilled in 1981 were for development of already proven reserves on the Company's large acreage holdings in the Medina trend of the Appalachian Basin, relatively few new gas reserves were added from this source. Also, success in 1981 exploration ventures developed late in the year, with impact on new reserves from this source being shifted beyond the year end. Minimal drilling was done in Canada to extend existing gas reserves because of the lack of markets.

Capital expenditures of $74 million, higher than those of the previous year by 17%, were mostly consumed in the drilling of 217 wells. These wells, 31% more in number than in 1980, resulted in the completion of 34 oil wells and 124 gas wells. Approximately 74% of the expenditures were made in the U.S. Virtually all domestic exploration was done within Wainoco's 1981 joint venture with Texaco U.S.A. This program, which was about two-thirds complete at the end of 1981, met with success late in the program, and development drilling on favorable prospects is being planned. Although the program year is not yet complete and drilling or testing on 20% of the initial prospects is unfinished, a similar venture with Texaco is not scheduled for 1982.

A majority of the year's development expenditures were incurred on the Company's Appalachian Basin leasehold. Of 157 wells drilled from the project's beginning through the end of 1981, 99 were on production at the end of 1981 and another 30 should be connected to the pipeline by the second quarter of 1982. Revenue from this production has become of greater significance as the number of producing wells has increased, and particularly since the Federal Energy Regulatory Commission issued a tight sands ruling in September that allowed higher prices. Gas sales were fully suspended for 44 days in the fall, yet the current winter demand exceeds production capacity. The sales forecast for 1982 is still partially dependent on relief from the recession's effect on industrial consumers in the north and northeast.

Expenditures in Canada amounted to only 12% of the corporate total, down from 35% in the prior period. This reduction stemmed directly from the unfavorable profit picture presented to Canada's oil and gas producers through taxing, pricing, marketing, and royalty policies set by the federal and provincial governments. The initial blow to accommodating economics was dealt in late 1980 with the introduction of the federal government's National Energy Program. Further damage was inflicted in the latter part of 1981 as agreements between the federal government and the provinces meted additional taxes which not only negated a schedule of higher prices but worsened the proposals of the NEP. In the face of this debilitating energy environment, Wainoco's Canadian staff most admirably and diligently conducted the drilling of key wells and made farmout agreements which resulted in the maintenance of the Company's reserves and the preservation of strategic lease rights.

Outside of North America, 14% of Wainoco's capital expenditures were made, 65% of which were attributable to the Colombian operation. The balance was spent on seismic programs in Western Australia and Indonesia. Encouraging interpretations of the seismic data revealed promising geological features, and tests are planned for drilling in the summer of 1982 on the Company's onshore permit in Australia's Canning Basin and on its Indonesian Java Sea Block.

Proposals for the consolidation of Wainoco's limited partnerships have been studied at length. Advantages were seen to come from increased operating efficiencies, cost reductions, and improved liquidity of limited partners' interests.

Some 90% of Wainoco's reserves, based on Btu values, are in the form of natural gas, the price of which continues to rise.

John B. Ashmun, President

Deteriorating market conditions caused the altering and temporary delay of a proposal. Continuing effort, including discussions with partners and advisors, is being made to present a final plan.

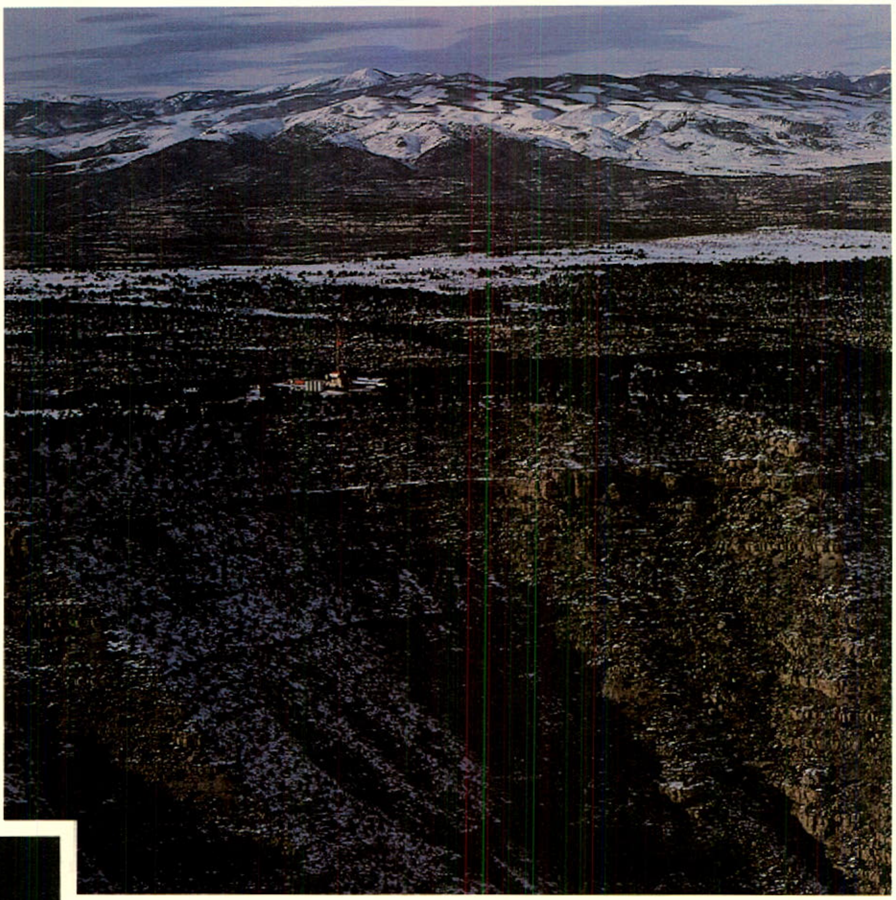
The change instituted in 1981 from financing the Company's drilling programs with offerings of subscriptions in registered public limited partnerships to private arrangements such as the Texaco joint venture is being followed. Negotiations for a large development program on Wainoco's shallow gas properties in northwestern Pennsylvania culminated in the signing of an agreement early in 1982 with five institutional investors. The deal calls for the expenditure of $64 million over a two-year period to drill more than 300 wells. Approximately one half of the funds will be expended in the first year and, based on the results of these wells, the balance will be spent in the second year. Wainoco will contribute its leases to the program and will retain a net profits interest increasing to a final 60% ownership in the properties. In addition to its retention of the above interest, Wainoco will contribute $10 million or 16% of the funds as an investor.

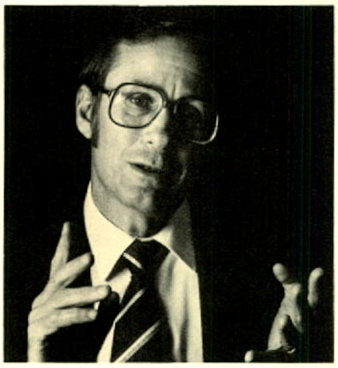
This pattern of financing drilling operations, wherein the Company's leases, technical data, and expertise will be contributed toward drilling by others, is to be pursued throughout 1982. Since the last major retirement of bank debt (through a public equity offering in late 1980), the Company's operations have been funded through borrowings and cash flow. The extended shut-in of over 60% of Wainoco's deliverable gas reserves in Canada and the periodically restricted gas markets in the U.S. have impaired forecasted revenues. Simultaneous increases in expenses and weak equity markets have combined to signal the need for a reduction of debt build up. To accommodate this need and to sustain continued exposure to new reserve additions, the Company will escalate the promotion of outside activity on its properties.

Experiences in 1981 and the current world economic outlook have forced us to approach 1982 with restraint. As the new year begins, however, it is encouraging to know that some 90% of the Company's reserves, based on Btu values, are in the form of natural gas. The Company's gas sold in 1981 at a weighted average price of $2.18 per thousand cubic feet, and the price continues to rise. On a Btu basis, the price still has a considerable way to go before it reaches the Btu equivalent of crude oil selling at the OPEC posted price. Other encouragement comes from the stated intent of Canadian governmental policy to speed up the export of natural gas. This is not expected to affect 1982 gas sales significantly, but it should help in 1983 and beyond. Also, though it has been slow coming, some resolution of the Canadian energy impasse is expected, especially if Canada's economy is to revive. These factors plus a gradual lead by the U.S. out of the current world recession should have positive effects in 1982, which looks to be a year much improved over the one just past.

John B. Ashmun
President
March 20, 1982

Operations Review





The Company spent 74% of its capital in the U.S., drilled 183 wells, completing 26 oil and 105 gas wells, and increased its net acreage 31%.

Charles B. Hauf, Vice President-Exploration, Wainoco Oil & Gas Company

Wainoco's operations for the year reflected continuing emphasis on domestic exploration and production, as the Company spent 74% of its capital budget in the United States. Wainoco Oil & Gas Company, a wholly-owned U.S. subsidiary, conducted operations on behalf of a joint exploration program with Texaco U.S.A., its own corporate activities, and residual partnership developments, expending $53 million of its own funds. The Company participated in the drilling of 183 wells, of which 26 were completed as oil wells and 105 as gas wells. Oil production for the year was 376,000 barrels of oil and gas liquids, an increase of 44% over the previous year. Natural gas production of five billion cubic feet was 9% below that of 1980. The Company's proved oil and gas reserves were slightly below those of last year.

Eastern Division

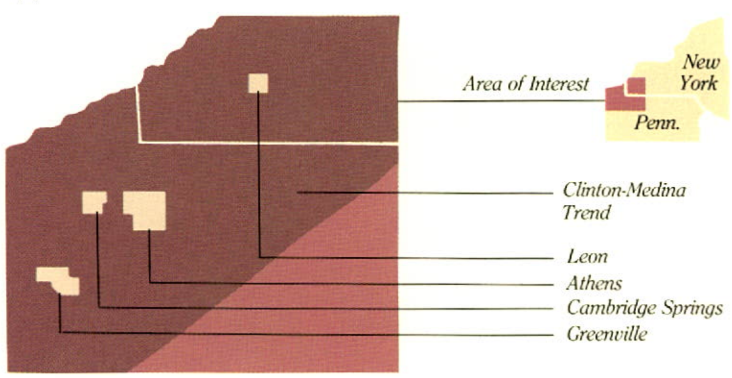
Activity continued to expand in the Company's Eastern Division with favorable exploration in the Michigan Basin and increasing development success in the Appalachian Basin.

In the Appalachian Basin's Silurian Medina trend, where Wainoco began drilling in 1978, the Company drilled 64 wells in northwestern Pennsylvania and 10 wells in southwestern New York. Of the Pennsylvania wells, 38 were drilled at Athens, in Crawford County, bringing the total drilled to 157. At Greenville, in Mercer County, some 25 miles southwest of Athens, 26 wells were drilled on a new lease block. In Cattaraugus County, New York, at Leon, 40 miles northeast of Athens, Wainoco drilled 10 wells with Texaco through their joint venture. Pipeline facilities for the latter two areas should be available for gas delivery in the first quarter of 1982 at Greenville and in the fourth quarter at Leon. Characteristics of the wells in both areas closely resemble those of the producing wells at Athens, although actual results of the drilling will not be determined until the pipelines have been completed and production tests made. Upon completion of satisfactory testing, drilling will continue on the 12,000 acre block at Greenville and on the 21,000 acres held at Leon. A discovery in a new horizon above the Medina was made at Greenville. The well tested over one million cubic feet of gas per day without stimulation from the Oriskany formation at 3,640′. Strong shows of Oriskany gas were also found in two wells offsetting the discovery.

The Federal Energy Regulatory Commission in September, 1981, ruled that gas produced from the Silurian Medina sands in five northwestern Pennsylvania counties, including Crawford and Mercer, qualified for higher prices under Section 107 (tight sands) of the Natural Gas Policy Act. The ruling was retroactive to September, 1980, effectively increasing revenues some 70% through an advance in price which is currently set at $5.22 per thousand cubic feet. In January, 1982, a similar ruling was made for Medina gas produced in Cattaraugus County, New York.

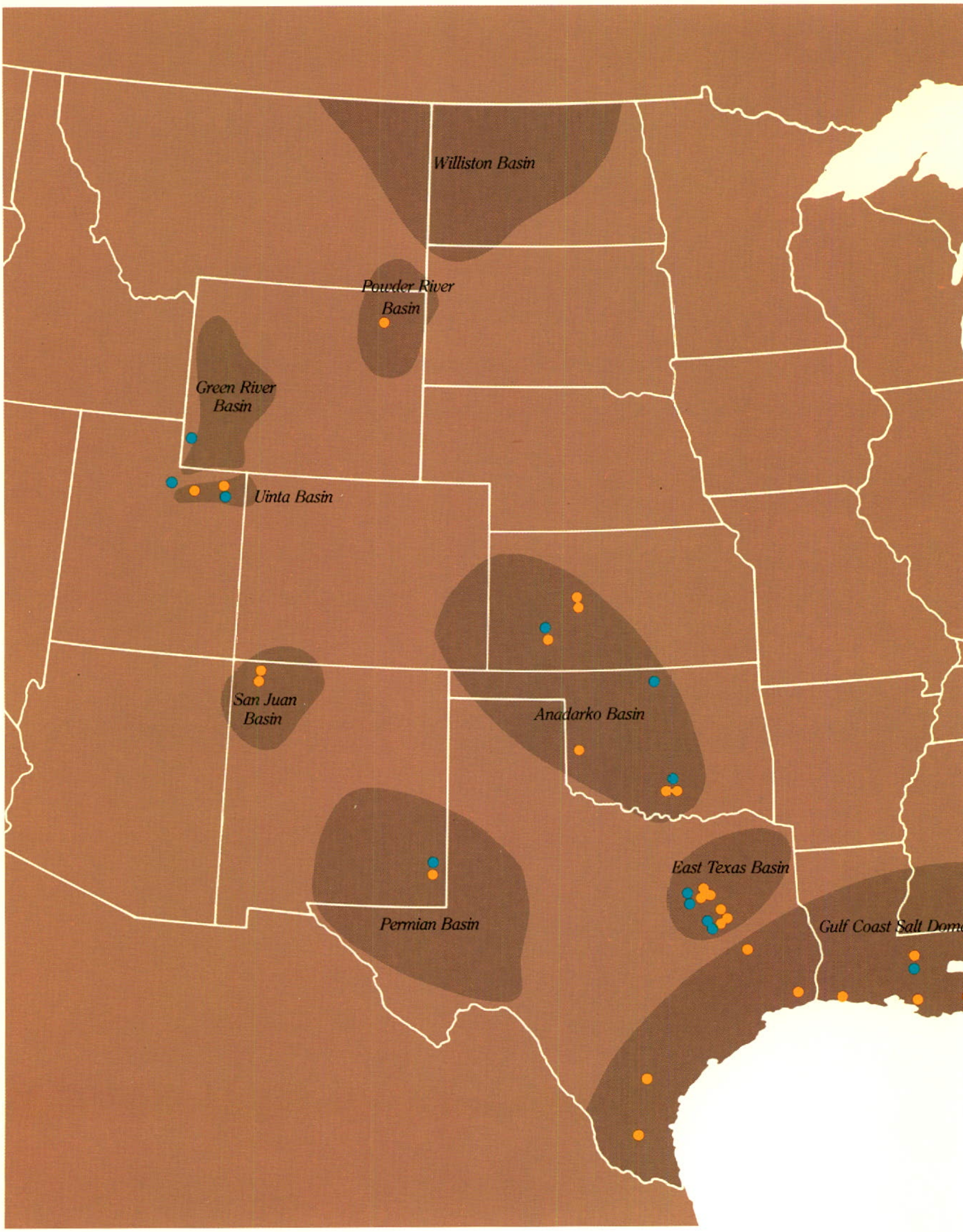
Wainoco plans to drill over 300 wells on its Pennsylvania acreage during the next two years. In the first quarter of 1982, the Company and a group of institutional investors signed a $64 million drilling program to develop Wainoco's leases in Crawford and Mercer Counties, Pennsylvania. Funds from the $64 million agreement will be expended for further development at Athens and Greenville, and will also be applied in new drilling at Cambridge Springs, eight miles west of Athens. This activity, along with the anticipated development of Leon later in the year, will result in new high levels of Appalachian Basin drilling on the Company's approximate 140,000 acre lease spread. As more wells are tied into the pipelines, this area, from which Wainoco's gas production totaled 1.25 billion cubic feet in 1981, could develop as one of the Company's larger sources of long-term reserves.

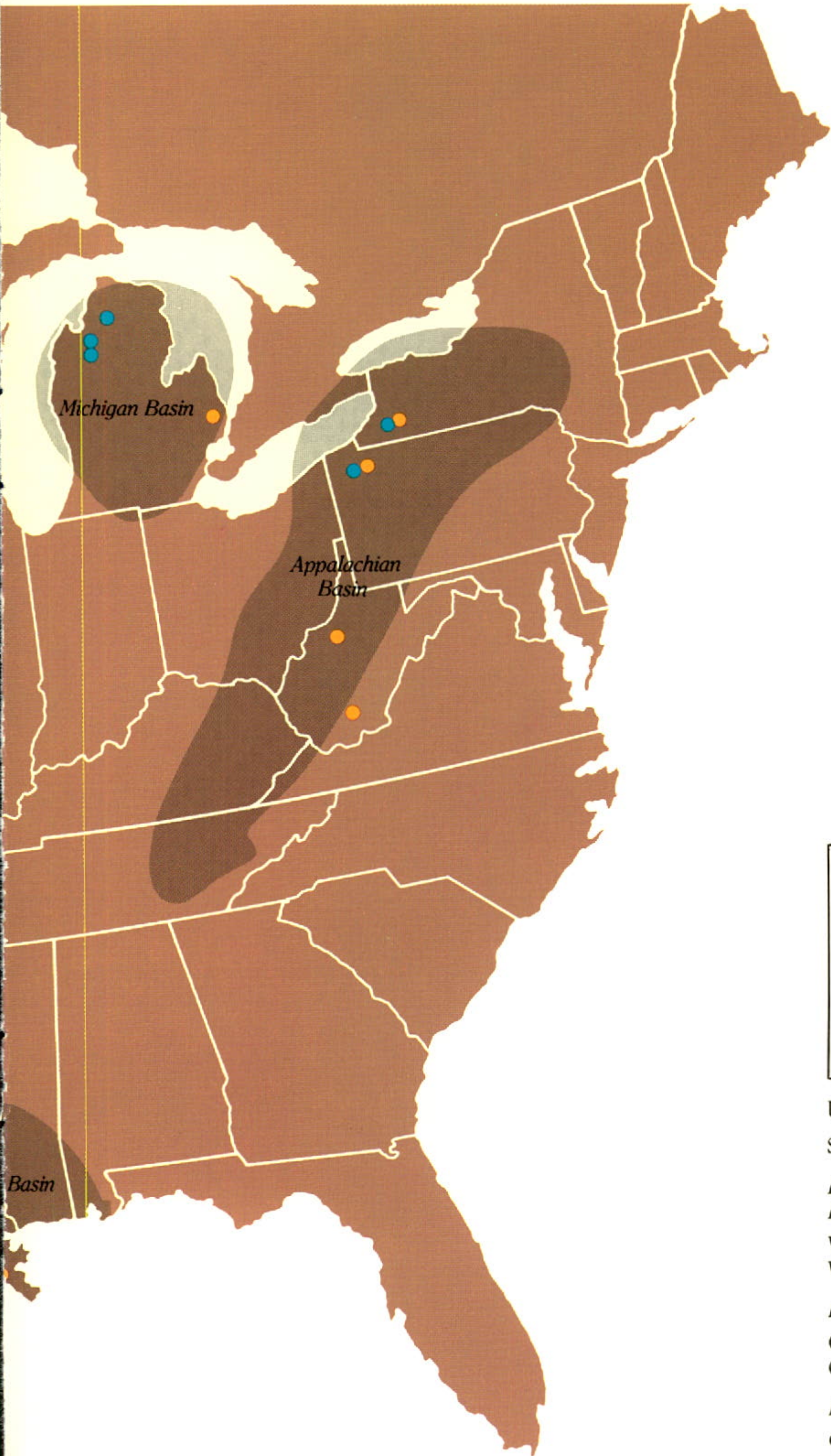
Appalachian Basin



Exploration in the Michigan Basin was concentrated on Michigan's Silurian Niagaran Pinnacle Reefs, but also involved drilling for deeper targets. In Manistee County, the Bowling No. 2-35 was completed flowing 500 barrels of

Highlighted Activity in the United States





LEGEND

Prospect or Area of Interest

Basins

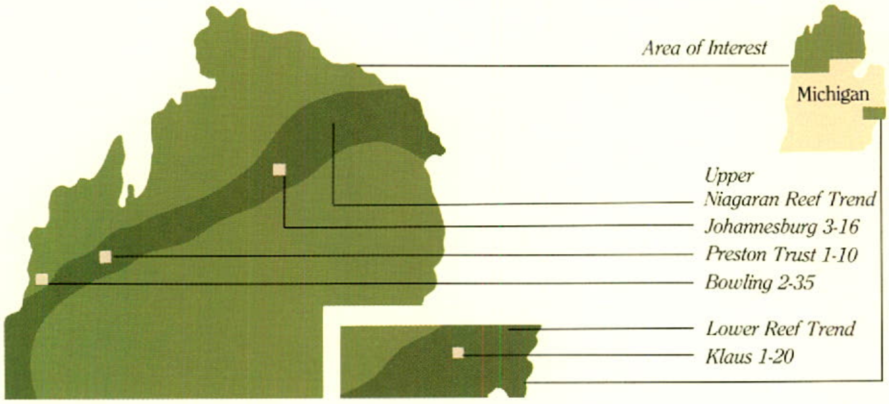
Producing Areas–1981 Drilling

UNITED STATES OPERATIONS

STATISTICAL SUMMARY	1981	1980
Exploration and Development		
Wells Drilled	183	108
Wells Completed as Productive	131	71
Production		
Oil & Condensate (mbbl)	376	261
Gas (mmcf)	5,203	5,725
Proved Reserves		
Oil & Condensate (mbbl)	1,666	1,725
Gas (mmcf)	42,088	44,087
Land		
Gross Acres (000)	568	510
Net Acres (000)	306	233

oil and 500 thousand cubic feet of gas per day. Wainoco owns a 22% interest in the well, which has an estimated 50′ of reef pay. The Preston Trust No. 1-10 in Grand Traverse County, in which Wainoco owns a 17% interest, was completed flowing 400 barrels a day from a 300′ section of reef.

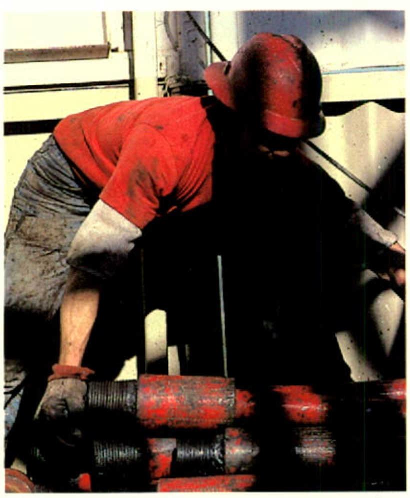
Michigan Basin



A deep well in northeastern Michigan's Otsego County has flowed gas at rates up to 750 thousand cubic feet per day from the Prairie du Chien sand at 7,900′. Completion of this well, the Johannesburg Manufacturing No. 3-16, is still in progress, so the potential of this reservoir is unknown, yet it holds extreme interest because the Basin's only other reported producer from this sand tested at very high rates. Wainoco owns a 25% interest in the well and a 25% interest in 15,000 acres around it. Niagaran Reef features have been identified on a portion of the acreage and further drilling is planned.

Western Division

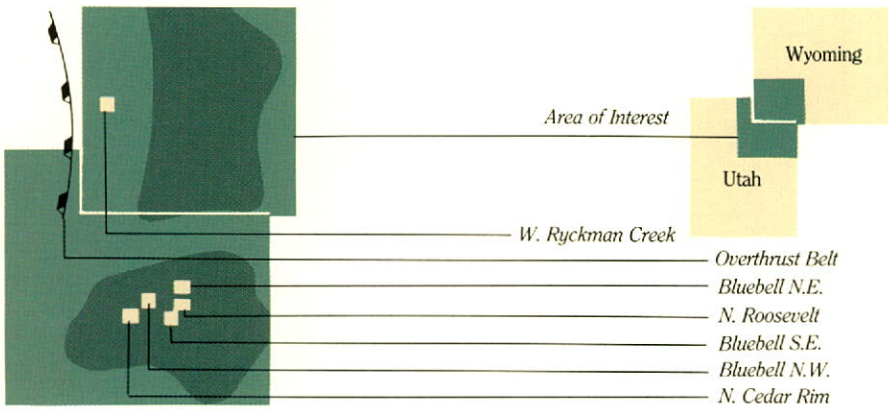
Wainoco's Western Division experienced substantial growth in 1981, with participation in 45 wells, 18 of which were completed as oil wells and 10 as gas wells. Operations for this Division are widely spread over the Rocky Mountain states, Oklahoma, Kansas, the Texas Panhandle, and the Permian Basin on both sides of the Texas-New Mexico border.



In the Northeast Lovington Field of Lea County, New Mexico, three wells were completed, giving the Company an interest in six producing wells in the field. Two of the wells were prolific producers. The No. 3 Pennzoil State, owned 14.5% by Wainoco, flowed 1,320 barrels of oil and 1.2 million cubic feet of gas per day from the Strawn Limestone with perforations between 11,432′ and 11,442′. The Company also owns 25% of the Aztec State No. 3, which flowed 900 barrels of oil and 1.5 million cubic feet of gas per day. Production is from 32′ of pay selectively perforated between 11,219′ and 11,302′. The Company plans additional drilling on its interests in the approximate 3,000 acres held in the field area.

The Company completed three wells from the lower pay (Wasatch) in the Blue Bell-Altamont Field in Utah's Uinta Basin. The Fisher No. 1-19A flowed 598 barrels of oil and 306 thousand cubic feet of gas per day on initial tests from perforations between 14,000′ and 16,363′. Wainoco and its 1980 U.S. limited partnership own a 43% interest in this well. The Company also drilled the State No. 1-14-B1, which was completed flowing 486 barrels of oil and 435 thousand cubic feet of gas per day from perforations between 9,977′ and 12,739′. The LeBeau No. 1-34-A1 flowed 327 barrels of oil and 570 thousand cubic feet of gas from perforations between 11,488′ and 13,754′. Wainoco owns a 25% interest in the

Overthrust Belt & Bluebell-Altamont



State No. 1-14-B1 and a 15% interest in the LeBeau No. 1-34-A1. Additional drilling is being done in this field, where the Company has varying interests in some 10,000 acres.

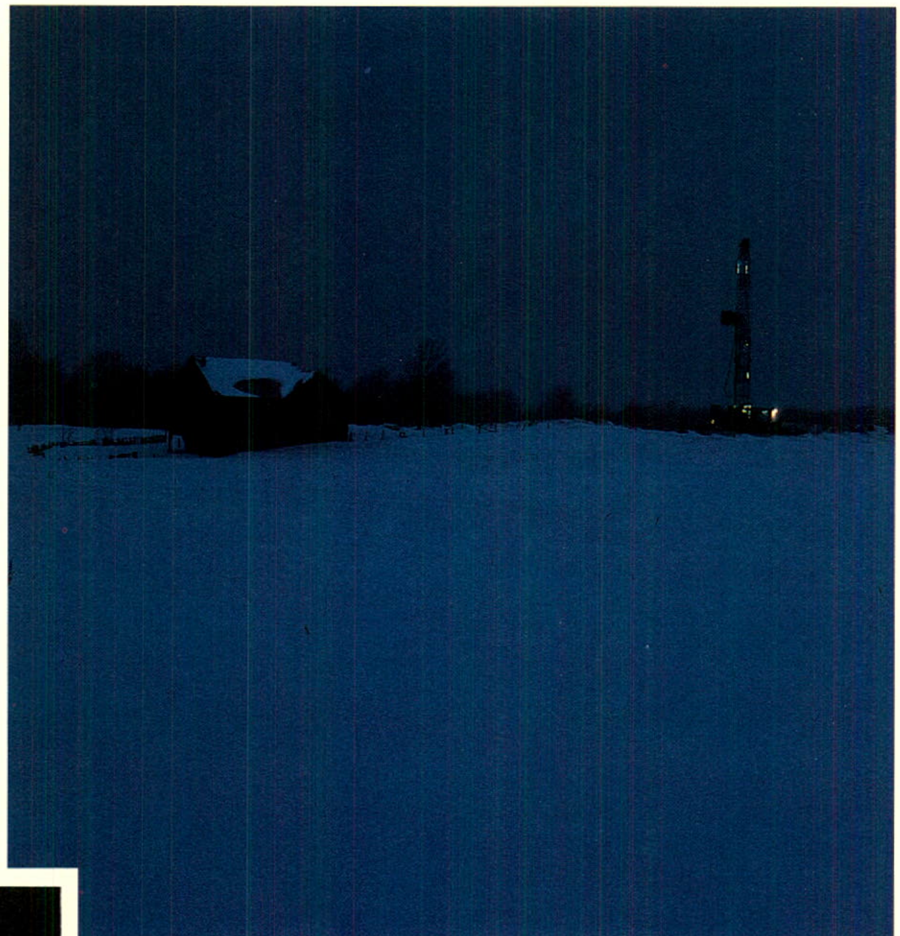
Gulf Coast Division

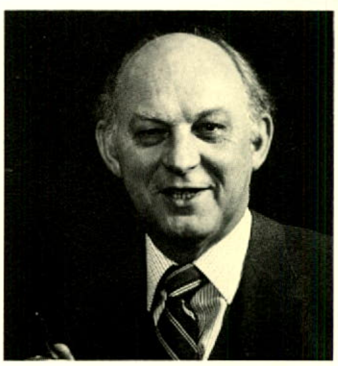
A total of 52 wells were drilled in the Gulf Coast Division with five completed as oil wells and 22 as gas wells.

A well drilled by Wainoco for its Texaco joint venture in LaFourche Parish, Louisiana, extended the limits of the Rousseau Field. The Bouterie Heirs No. 1 flowed at an initial rate of 10 million cubic feet of gas and 482 barrels of oil per day and logged pay in two Miocene intervals, between 14,564′ and 14,590′ and between 14,890′ and 14,930′. Other potentially productive zones were also encountered and will be tested in 1982. Wainoco owns 19% of the well and the approximate 2,000 acres in the field area.

The W. E. Riley Gas Unit No. 1, Freestone County, Texas, was completed as a new field discovery. Production from perforations between 13,015′ and 13,030′ in the Cotton Valley formation flowed 3.4 million cubic feet of gas per day. This production is classified as tight sands gas under Section 107 of the Natural Gas Policy Act and is being sold at $5.22 per thousand cubic feet. Wainoco and its 1980 U.S. limited partnership own a 37.3% working interest in the well and in the surrounding 600 acres. Additional tests will be made of other indicated pay sands in this well, and a second well is planned. Another Freestone County well, the Emerson No. 1, was completed in the Cotton Valley limestone from 10,375′ to 10,603′ and flowed 100 barrels of oil and 250 thousand cubic feet of gas per day. Wainoco owns a 25% working interest in the well and in the 1,435 acres surrounding it. Additional drilling to develop the prospect is planned for 1982.

In Navarro County, Texas, the Company completed the Boyd Unit No. 1, Northwest Cheneyboro Prospect, as an oil well in the Cotton Valley limestone on a 320 acre lease. Wainoco owns a 50% working interest in this well, which is flowing 90 barrels of oil per day through perforations between 9,481′ and 9,638′. Wainoco also owns a significant interest in two adjacent 320 acre blocks.





The Canadian subsidiary drilled 33 wells, completing 19 gas and eight oil wells, and negotiated the drilling of 117 farmout wells.

Denis F. Bacon, Vice President of Canadian Operations, Wainoco Oil & Gas Limited

Wainoco Oil & Gas Limited, Wainoco's wholly-owned Canadian subsidiary, continued its exploration and development activities during 1981, but at an expenditure level considerably below that of the previous year. Despite capital expenditures of $8.7 million, which were reduced 60% from the previous year's total, Wainoco's Calgary staff negotiated farmouts and drilling arrangements resulting in a high volume of operations. The Company participated in drilling 33 wells, of which 19 were completed as gas wells and eight as oil wells. In addition, the Company caused the drilling of 117 wells in which it retained overriding royalty interests.

The lack of markets for Canadian natural gas had a negative effect on Wainoco's gas sales in 1981. Wainoco's gas sales were 6.9 billion cubic feet, a 24% decrease from the previous year. Oil and condensate production increased by 11% to 193,000 barrels. Proved reserves of oil and gas as of the end of the year were slightly below those of a year ago.

Alberta

At Jenner-Wardlow, in southeastern Alberta, a farmout of leases owned by Wainoco and two limited partnerships resulted in the drilling of 108 shallow Milk River and Medicine Hat gas wells. Production from this $8 million drilling program, to which Wainoco contributed leases in exchange for a 15% overriding royalty, is scheduled to go on stream in January of 1983 at an estimated rate of 5.4 million cubic feet of gas per day.

At Leo, the gas plant constructed by Wainoco went on stream in October of 1981, increasing the Company's net gas production from 4.0 to 6.5 million cubic feet per day. The plant has a capacity of 20 million cubic feet of gas per day. Three wells drilled on Wainoco farmouts in this area will contribute toward higher deliverability and more reserves.

Two development wells were completed on behalf of the Canadian 1980 limited partnership at Pembina North, 60 miles west of Edmonton, offsetting the 9-22 Ostracod oil discovery of 1980. These two wells qualify for the higher price allowed newly discovered oil, and along with the discovery have an allowable of 120 barrels of oil per day.

Wainoco owns a 25% working interest in the 11-22 well at Granada, 25 miles west of Pembina North. The well, an offset to the 7-27 multiple zone Niton Sand discovery drilled in 1980, encountered 42′ of pay in three Niton Sands which flowed at rates up to 3.5 million cubic feet of gas per day. A nearby pulp mill will supply an early market for this gas.

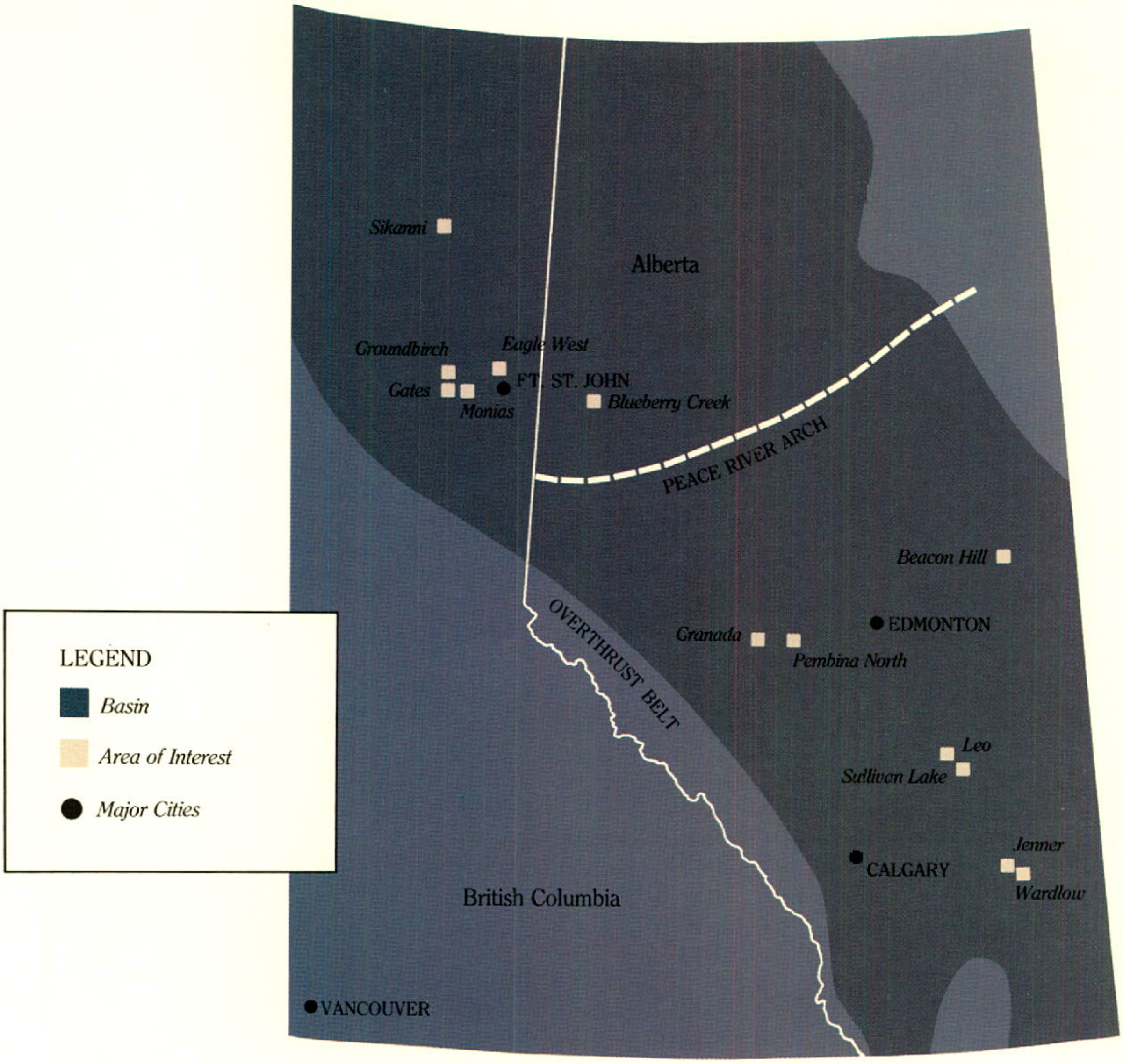
British Columbia

At Eagle West, four miles west of Ft. St. John, the Company and earlier partnerships participated in the drilling of three Belloy oil wells which will be incorporated in the large West Eagle Unit immediately to the north.

At Groundbirch, about 20 miles northwest of Monias, the 6-17 well was drilled by the 1980 Canadian partnership. It was completed flowing 769 thousand cubic feet of gas per day from the Taylor Flats and 1.1 million cubic feet of gas per day from the Belloy.

On the west side of the Monias field in northeastern British Columbia, southwest of Ft. St. John, two gas wells were completed. The Monias 7-27, which was announced last year as a Taylor Flats (formerly designated Belloy) Carbonate well, was completed early in 1981 in the Halfway Sand, flowing 3.3 million cubic feet of gas per day. As a result, the well created extensions of both Taylor Flats and Halfway reserves.

Highlighted Activity in Canada



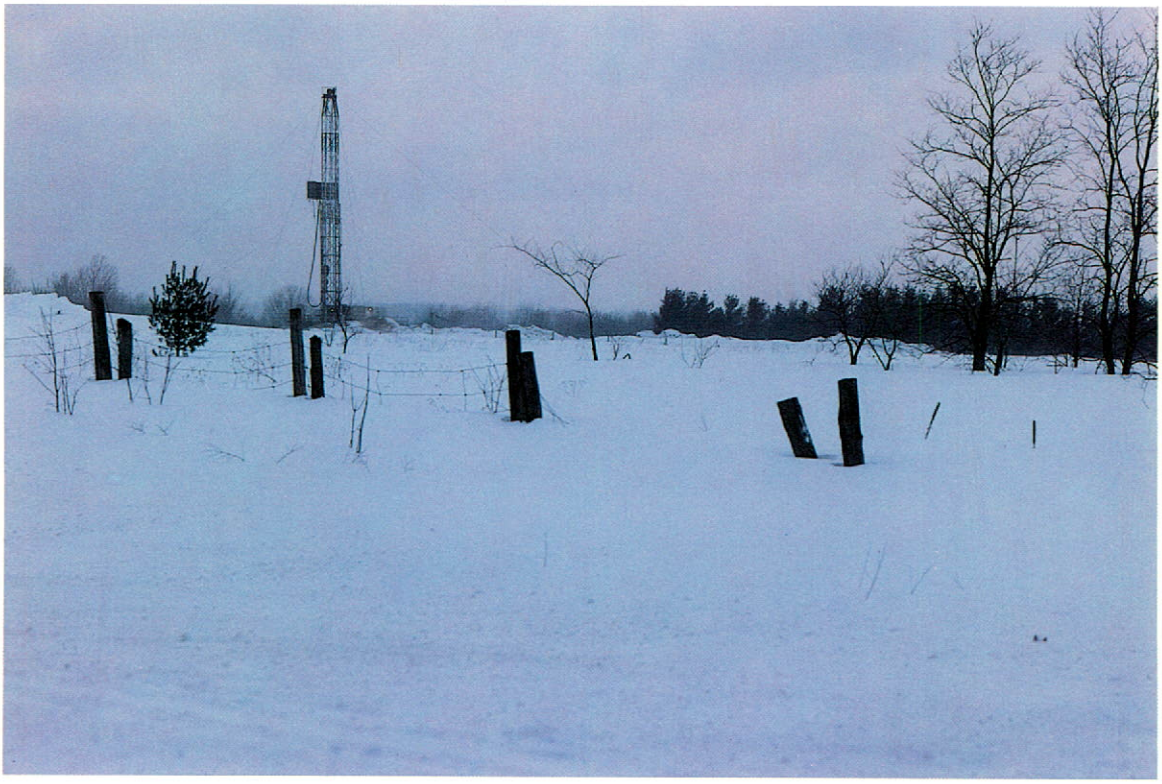
CANADIAN OPERATIONS

STATISTICAL SUMMARY	1981	1980
Exploration and Development		
Wells Drilled	33	58
Wells Completed as Productive	27	46
Production		
Oil & Condensate (mbbl)	193	171
Gas (mmcf)	6,939	9,085
Proved Reserves		
Oil & Condensate (mbbl)	1,496	1,508
Gas (mmcf)	257,965	264,715
Land		
Gross Acres (000)	1,131	1,142
Net Acres (000)	297	341

The Monias 7-21 well, drilled to the southwest of the 7-27 well, encountered indicated gas pay in the Taylor Flats Carbonate and Halfway Sand and is awaiting production testing.

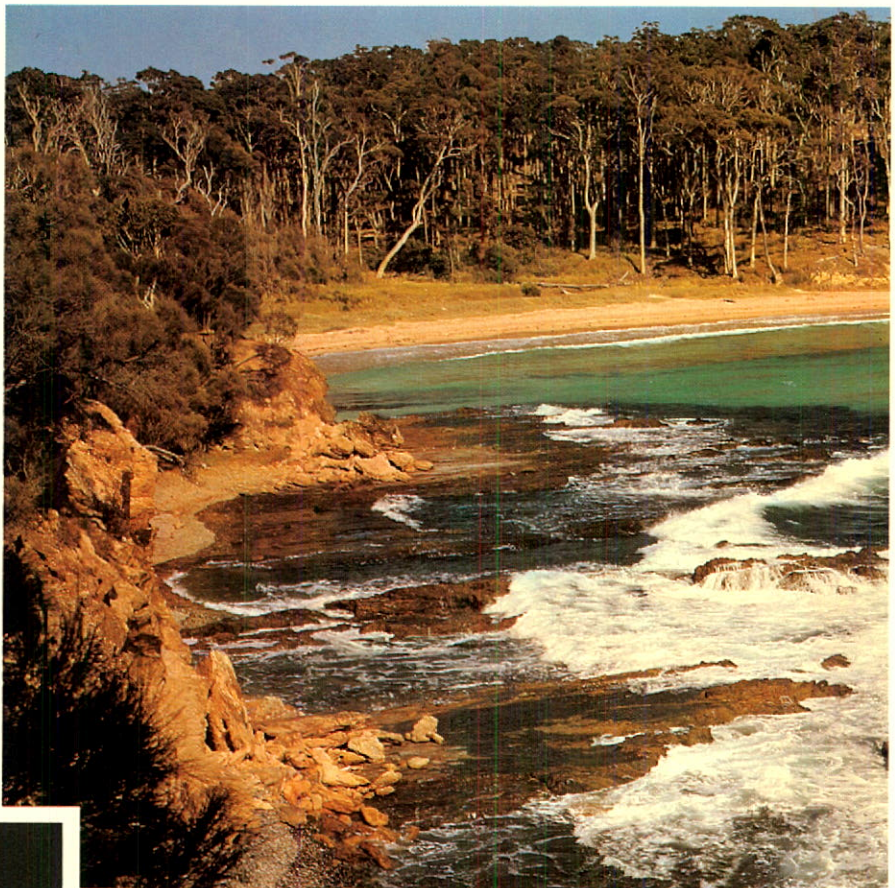
Further completion work was done on a previously drilled deep test on the east flank of Monias. The Monias 11-29, an offset to the 7-30 multiple zone discovery of September, 1979, flowed 3.4 million cubic feet per day from the Taylor Flats Sandstone and two million cubic feet per day from the overlying Taylor Flats Carbonate. The Halfway Sand in the well has been assigned proved reserves, and production tests will be made when a market is available.

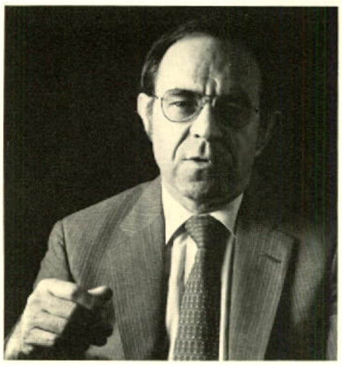
The 1980 Canadian limited partnership also participated in three Halfway Sand gas wells at Sikanni, 120 miles north of Monias. On production tests,



the wells flowed at rates of up to 1.2 million cubic feet of gas per day. These three wells and the three Halfway gas wells drilled by the 1979 Canadian partnership in 1980 give Wainoco a significant ownership position in the large Halfway gas play being developed in this area.

The Monias and Sikanni areas, where significant reserves have been established, are being considered by British Columbia Petroleum Corporation, the provincial gas purchaser, as primary sites for new processing facilities when marketing conditions for British Columbia gas improve.





Test wells will be drilled in the Canning and Bonaparte Basins in Australia, and in the Java Sea in Indonesia.

Robert G. Bertagne, Vice President-Exploration, Wainoco International

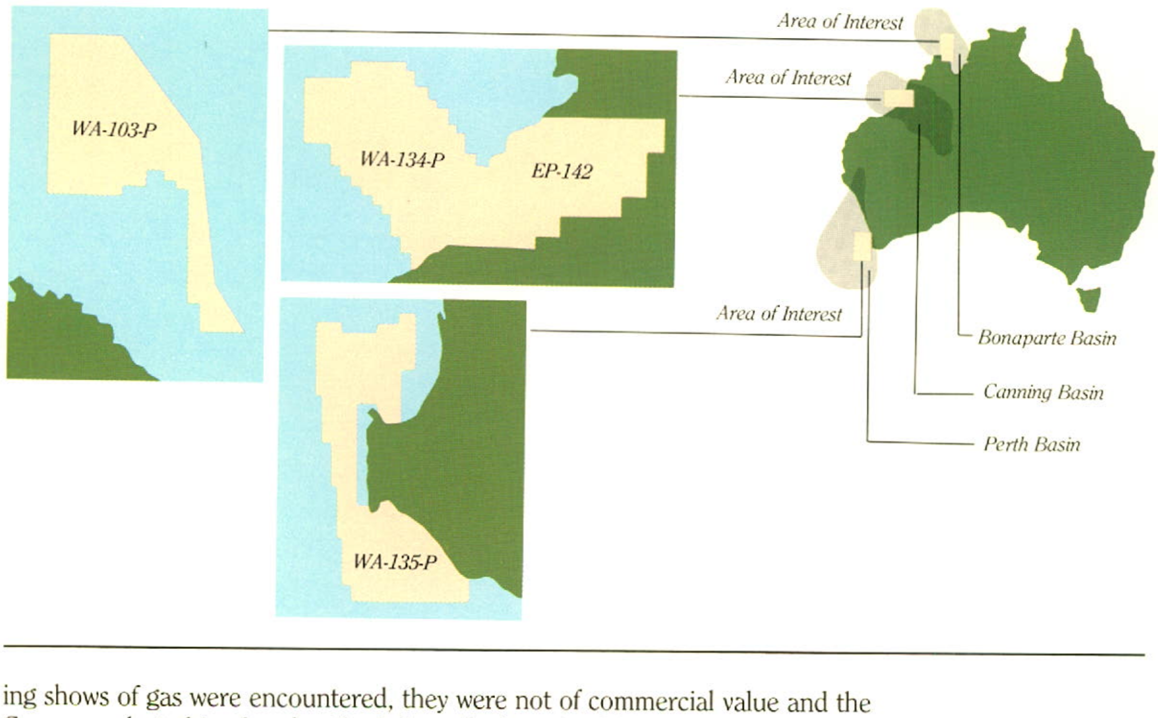
Wainoco's foreign exploration efforts in 1981 focused on further evaluation of the areas in Australia, Colombia, and Indonesia where exploration permits had been previously obtained. Capital expenditures for the year of $11 million were due in large part to costs of an exploratory well drilled in extreme southwestern Colombia.

Wainoco's largest international position is in Western Australia, where it holds an interest in 17.5 million acres. Wainoco Australia Limited increased its interest to 75% in 12.3 million acres on three exploration permits granted to Wainoco in 1979 by the government of Western Australia. Exploration efforts to date have involved Wainoco's shooting of over 1,000 miles of seismic data. On permit WA-135, located offshore in the Perth Basin, 480 miles of seismic profiling were shot in 1981. In the Canning Basin, south of Broome, a 380-mile seismic program was completed offshore on permit WA-134, and 160 miles were shot onshore on permit EP-142. The data obtained has indicated the existence of significant structural anomalies on all three permits. Although no further work is scheduled for the two offshore permits, 134 and 135, Wainoco has negotiated for a 5,500′ test to be drilled on EP-142 onshore in the summer of 1982. Eagle Corporation Limited, an Australian exploration company, has executed an agreement to earn a 30% interest in the northern half of the 3.8 million acre permit by drilling this well, which will test a seismic feature delineated by Wainoco's 1981 seismic work. Additional seismic work is planned on the permit's southern half to determine the existence of a reef trend similar to that on which the Blina discovery, 100 miles to the northeast, was made last year.

In the Bonaparte Basin, Wainoco Australia owns a 12.5% interest in 5.2 million acres offshore on permit WA-103. Approximately 800 miles of seismic lines were shot in the northern part of this permit in 1981 by Shell under the terms of an option from Wainoco and its partners. Shell has the right to earn a 60% interest in this portion of the permit by drilling a well in 1983. On the southern portion of the permit, a 10,500′ test is planned for 1982. The objective of this well is the lower Permian formation, the same geological zone which recently tested oil and gas from Aquitaine's Petrel S.E. well on the adjoining permit to the east. Australian Aquitaine Pty. Ltd. will earn 50% of Wainoco's interest in the southern part of WA-103 by paying for Wainoco's costs in this well.

Wainoco Colombia and industry partners drilled a disappointing 14,287′ wildcat in 1981 near Tumaco in southwest Colombia. Although some interest-

Australian Activity

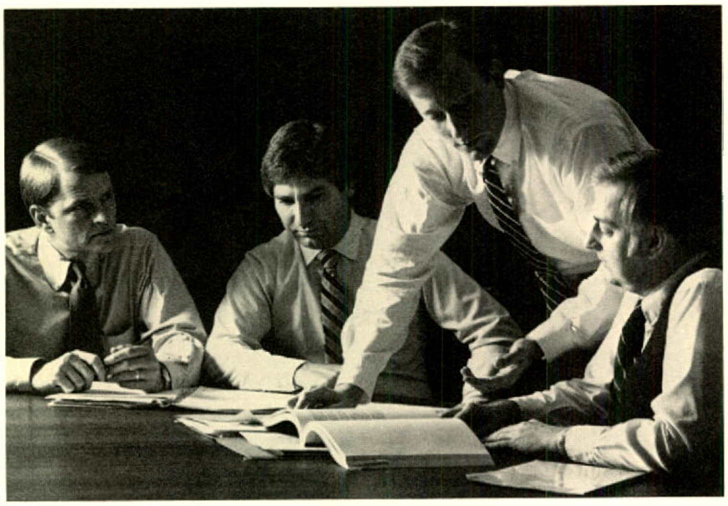


ing shows of gas were encountered, they were not of commercial value and the Company elected to abandon the hole and release its 250,000 acre concession.

In Indonesia, Wainoco owns a 10% interest in the 3.74 million acre Bawean Block in the Java Sea. Seismic crews conducted a 2,500-mile seismic program in 1981 and the data is being interpreted. Two wells will be drilled later this year to depths of 6,000′ and 9,000′ testing prospective horizons in the area.

Last year's financial results, though disappointing, were not the result of any change in the Company's basic operating philosophy. They were the result, primarily, of the dry hole the Company drilled in Colombia, South America. In addition, higher interest expense, windfall profits taxes, and Canadian wellhead taxes also had a negative effect. In spite of these hindrances, however, cash flow remains strong, corporate financing is sound, and, though down from its price at the end of 1980, the common stock is trading at a level commensurate with that of other independent oil stocks.

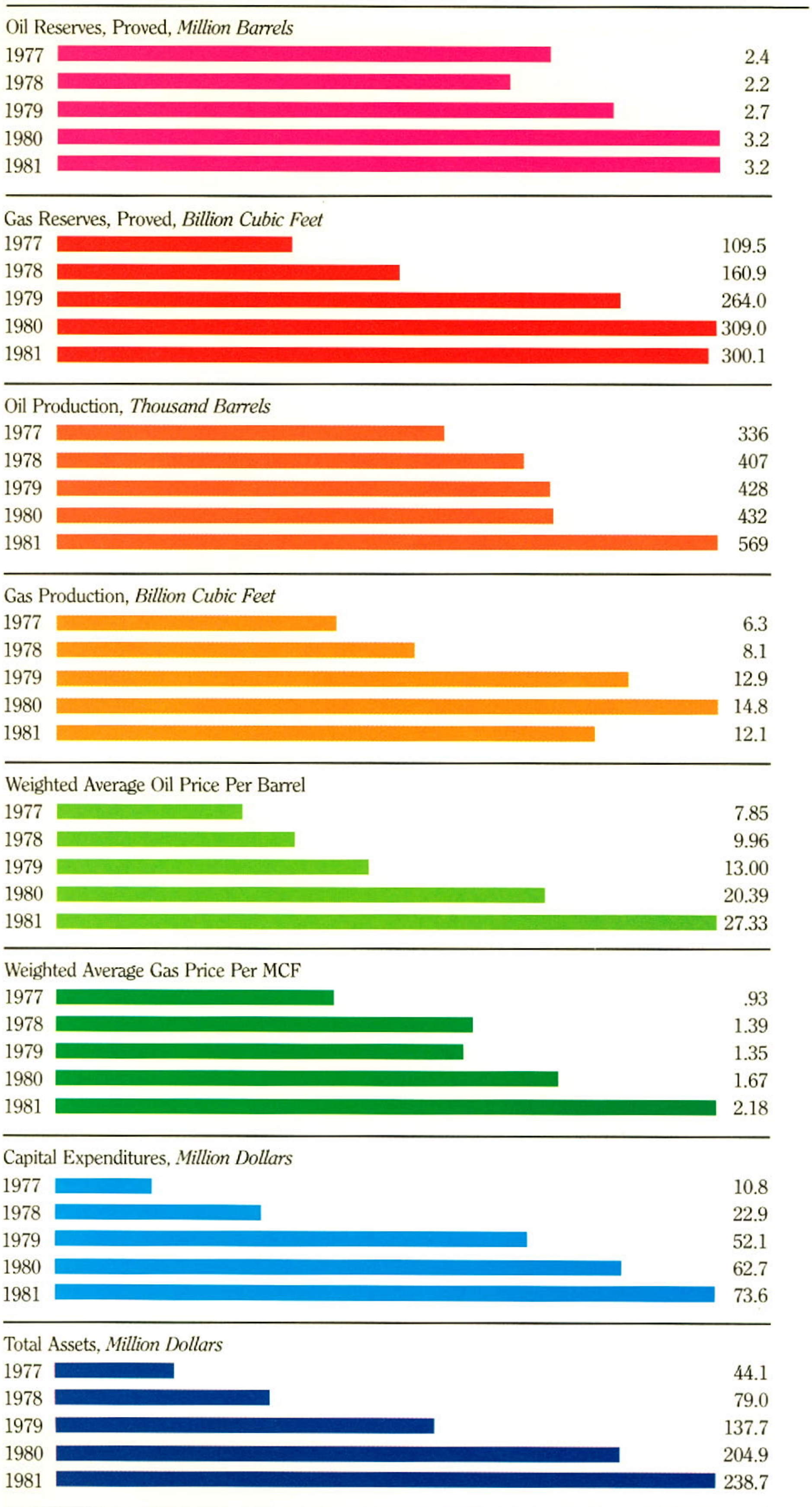
Wainoco Oil & Gas Company signed a loan agreement with Morgan Guaranty Trust Company of New York and First City National Bank of Houston for a revolving line of credit of $50 million. The signing of this agreement represented the largest bank financing the domestic subsidiary has ever negotiated. The borrowing rates, relative to prime, were the most favorable that Wainoco has received, and it marked the first time in the Company's history that financing was obtained on an unsecured basis. The Canadian loan agreement with The Bank of Montreal is currently under renegotiation.



The past year was the first year the Company has not formed public limited partnerships. Exploration funds were supplied primarily by a $50 million joint venture with Texaco which allowed for the testing of some 80 prospects in the U.S. This joint venture will not be extended in 1982, but the Company again was successful in obtaining outside funds for drilling and arranged for a $64 million drilling program in northwestern Pennsylvania, $54 million of which will be supplied by institutional investors.

In management's opinion, a portion of the $2 million of costs attributable to uncollected partners' accounts on the Colombian venture may be collected in the future, at which time it would be applied towards earnings. The Company has good properties, a healthy cash flow, and a strong balance sheet, and Wainoco looks forward to a return to profitability in 1982.

Pictured in the photograph above (left to right) are James R. Gibbs, Vice President-Finance; Darcy D. Schindewolf, Vice President-Secretary and Treasurer; Porter Farrell, II, Director of Financial Relations; and Ronald F. Wilson, Vice President-Controller.



Oil Reserves, Proved, *Million Barrels*
1977 2.4
1978 2.2
1979 2.7
1980 3.2
1981 3.2
Gas Reserves, Proved, *Billion Cubic Feet*
1977 109.5
1978 160.9
1979 264.0
1980 309.0
1981 300.1
Oil Production, *Thousand Barrels*
1977 336
1978 407
1979 428
1980 432
1981 569
Gas Production, *Billion Cubic Feet*
1977 6.3
1978 8.1
1979 12.9
1980 14.8
1981 12.1
Weighted Average Oil Price Per Barrel
1977 7.85
1978 9.96
1979 13.00
1980 20.39
1981 27.33
Weighted Average Gas Price Per MCF
1977 .93
1978 1.39
1979 1.35
1980 1.67
1981 2.18
Capital Expenditures, *Million Dollars*
1977 10.8
1978 22.9
1979 52.1
1980 62.7
1981 73.6
Total Assets, *Million Dollars*
1977 44.1
1978 79.0
1979 137.7
1980 204.9
1981 238.7

1981 Financial Statements

Results of Operations

Revenues and production costs

Oil and gas sales increased 46% in 1980 due to increases in both sales volumes and prices and 25% in 1981 due primarily to increases in prices. Of these increases, 68% in 1980 was attributable to gas sales alone, whereas, 80% of the 1981 increase was in oil sales. Gas sales increased primarily due to production volume increases of 15% in 1980 and a 30% improvement in the weighted average price in 1981. In 1980, gas production increased by 1,926 MMCF of which 94% was attributable to the United States production, whereas, in 1981, gas production decreased by 2,668 MMCF of which 80% was located in Canada. Oil volumes increased 1% and 31% in 1980 and 1981, respectively, while weighted average prices improved 57% in 1980 and 34% in 1981 primarily due to the effects of deregulation in the United States. The increases in production were primarily due to new production coming on line in excess of the normal decline of existing production.

Production costs were relatively constant in relation to gross oil and gas sales (17%, 16% and 17% of gross sales in 1979, 1980 and 1981, respectively). Federal excise taxes aggregated $3,491,000 in 1981 and $811,000 in 1980, after being instituted in 1980.

Interest income increased in 1980 due to higher levels of short-term investments and increased interest rates, but decreased in 1981 due to lower levels of short-term investments. Other income increased steadily over the three years as operational activity generating management and overhead fees increased yearly.

Normal depreciation, depletion and amortization, expressed as a percent of oil and gas sales, was 27%, 29% and 33% in 1979, 1980 and 1981, 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. The additional provision for depreciation, depletion and amortization in 1981 was due to a write off of a Colombian well (See Footnote 2 to the Consolidated Financial Statements for more discussion).

General and administrative expenses, net of allocations to partnerships, increased 54% in 1980 due to a 12% increase in personnel and inflationary cost increases. The 43% increase in 1981 was due to a 7% increase in personnel, inflationary cost increases and a reduced portion of overhead allocated to partnerships.

Net interest expense increased 118% in 1980 and 106% in 1981. 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 in 1980 and 1979. These gains or losses are generally unrealized. In 1981, the foreign currency loss is a result of foreign currency transactions between the United States and Canada due to the adoption of Financial Accounting Standard No. 52 which is discussed in Note 1 to the Consolidated Financial Statements.

The combined United States-Canadian tax rate was 29% and 27% in 1979 and 1980, respectively. The combined United States-Canadian tax benefit was 32% in 1981.

Wainoco considers, and uses for internal management purposes, a number of measures of liquidity. These measures include working capital, unused lines of credit, debt to equity ratio and current ratio, all of which are set forth below.

Working capital synopsis (in thousands)

	1981	1980	1979
Working capital provided by:			
Operations	$ 16,000	$ 20,300	$ 15,700
Long-term debt, net	46,800	5,300	41,400
Issuance of common stock	1,500	42,200	600
Sale of tax benefits	1,500	—	—
Unsecured note receivable	—	—	1,500
Working capital applied to:			
Property and equipment, net	(73,600)	(62,700)	(52,100)
Purchase of treasury stock	(5,200)	—	—
Noncurrent advances to associated partnerships	(2,600)	(300)	(3,900)
Other, net	(900)	300	500
Increase (decrease) in working capital	$(16,500)	$ 5,100	$ 3,700
Working capital, beginning of year	26,200	21,100	17,400
Working capital, end of year	$ 9,700	$ 26,200	$ 21,100

Unused lines of credit (in thousands)

During 1979 the Company finalized committed bank credit lines which were available to finance operations; the United States line was renegotiated and increased during 1981.

	December 31,		
	1981	1980	1979
Total lines of credit	$104,800	$79,400	$61,700
Outstanding	94,200	46,300	44,600
Unused line of credit	$ 10,600	$33,100	$17,100
Ratios:			
Debt to Equity	1.8	.9	2.0
Current Ratio	1.3	1.9	2.0

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 generally 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 77% 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 produced.

In the United States, sales prices have generally risen at a higher rate than 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. However, in Canada, the pricing and tax structures imposed by the proposed National Energy Program in 1980 and the Provincial-Federal agreements in late 1981 deteriorated the profit potential from the Company's Canadian reserves. The impact of these programs is quantified in the price changes section of Footnote 10 to the Consolidated Financial Statements. While the Company feels that the economic situation in Canada can and should turn around, it has no assurances that it will.

Liquidity and Capital Resources

Wainoco has managed capital expenditures for its own account and on behalf of its partnerships, and a joint venture, aggregating $95.1 million in 1979, $98.6 million in 1980 and $114.7 million in 1981, primarily for oil and gas exploration and development activities. Of these funds, limited partners (other than Wainoco) contributed $43.4 million in 1979, $36.4 million in 1980 and $41.9 million in 1981 while Wainoco, both for its own account and as general and limited partner in its partnerships, contributed $51.7 million in 1979, $62.2 million in 1980 and $72.7 million in 1981. Funds provided by operations have been a significant source of Wainoco's capital resources providing $15.7, $20.3 and $16.0 million in 1979, 1980 and 1981 respectively.

In 1981, Wainoco ceased 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 1981 the Company entered into a $50 million joint drilling venture with Texaco U.S.A. which is operated by the Company. In February 1982, the Company entered into a $64 million development drilling program with a group of institutional investors which will be operated by the Company. Approximately 140 wells will be drilled in 1982 and approximately 160 additional wells are expected to be drilled in 1983 on Wainoco's Appalachian Basin acreage in northwestern Pennsylvania. Wainoco will contribute $10 million of the $64 million total. It is anticipated that similar joint ventures, funds provided by operations, and additional debt will be utilized to finance future operations.

Additional sources of funds for exploration and development were provided 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 United States banks aggregating $61.7, $79.4 and $104.8 million in 1979, 1980 and 1981 respectively, of which $17.1 million in 1979, $33.1 million in 1980 and $10.6 million in 1981 were unused.

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 1981, 1980 and 1979

Wainoco Oil Corporation and Subsidiaries

	1981	1980	1979
Revenues:			
Oil and gas sales	$42,018,000	$33,485,000	$22,972,000
Interest income	646,000	1,112,000	1,036,000
Other	1,590,000	1,412,000	976,000
	$44,254,000	$36,009,000	$24,984,000
Expenses:			
Production costs	$ 6,967,000	$ 5,354,000	$ 3,951,000
Federal excise taxes	3,491,000	811,000	—
Depreciation, depletion and amortization:			
Normal	14,163,000	10,005,000	6,502,000
Additional	9,406,000	—	—
General and administrative, net	6,237,000	4,375,000	2,839,000
Interest expense	16,998,000	10,402,000	6,038,000
Less:			
Interest capitalized	(1,682,000)	(1,989,000)	(689,000)
Charged to associated partnerships	(2,356,000)	(2,128,000)	(2,471,000)
Loss (gain) on foreign currency	198,000	(422,000)	305,000
	$53,422,000	$26,408,000	$16,475,000
Income (Loss) Before Income Taxes	$ (9,168,000)	$ 9,601,000	$ 8,509,000
Provision (Credit) for Income Taxes	(2,956,000)	2,550,000	2,494,000
Net Income (Loss)	$ (6,212,000)	$ 7,051,000	$ 6,015,000
Earnings (Loss) Per Share:			
Primary	$ (.58)	$ .71	$ .64
Fully diluted	$ (.58)	$ .71	$ .63

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

CONSOLIDATED BALANCE SHEETS
December 31, 1981 and 1980

Wainoco Oil Corporation and Subsidiaries

	1981	1980
ASSETS		
Current Assets:		
Cash, including temporary investments of $566,000 in 1981 and $7,418,000 in 1980	$ 881,000	$ 9,224,000
Accounts receivable —		
Joint operators	14,858,000	17,678,000
Oil and gas sales	9,008,000	11,323,000
Other	4,387,000	1,039,000
Current portion of advances to associated partnerships	2,262,000	12,843,000
Equipment inventory, at average cost	9,301,000	2,752,000
Other	348,000	1,169,000
Total current assets	$ 41,045,000	$ 56,028,000
Property and Equipment, at cost:		
Oil and gas properties, on a full-cost basis, partially pledged		
Cost of properties being amortized	$220,981,000	$160,167,000
Cost of properties not being amortized	4,415,000	6,690,000
Furniture, fixtures and other equipment	2,337,000	1,695,000
	$227,733,000	$168,552,000
Less — Accumulated depreciation, depletion and amortization	42,391,000	29,387,000
	$185,342,000	$139,165,000
Other Assets:		
Noncurrent advances to associated partnerships	$ 10,919,000	$ 8,351,000
Debenture issue expense, net of amortization	881,000	953,000
Other	532,000	413,000
	$ 12,332,000	$ 9,717,000
	$238,719,000	$204,910,000

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

	1981	1980
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings	$ 7,598,000	$ 419,000
Accounts payable and accrued liabilities	14,935,000	22,532,000
Oil and gas proceeds payable	8,870,000	6,925,000
Total current liabilities	$ 31,403,000	$ 29,876,000
Long-Term Debt:		
Notes payable to banks	$ 98,014,000	$ 50,953,000
10-3/4% Subordinated Debentures, less unamortized discount of $2,468,000 in 1981 and $2,671,000 in 1980	27,532,000	27,329,000
	$125,546,000	$ 78,282,000
Deferred Revenue	$ 2,485,000	$ 1,844,000
Deferred Income Taxes	$ 8,738,000	$ 10,698,000
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, no par, 25,000,000 shares authorized, 10,818,507 shares issued in 1981 and 10,630,140 in 1980	$ 58,918,000	$ 57,459,000
Paid-in capital	2,872,000	2,872,000
Retained earnings	16,180,000	23,879,000
Less:		
Cumulative translation adjustment	(2,186,000)	—
Treasury stock; 262,900 shares, at cost	(5,237,000)	—
	$ 70,547,000	$ 84,210,000
	$238,719,000	$204,910,000

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1981, 1980 and 1979

Wainoco Oil Corporation and Subsidiaries

	Common Stock	
	Number of Shares	Amount
Balance,		
December 31, 1978	9,018,846	$14,617,000
Exercise of stock options	132,060	438,000
Issuance of shares under stock purchase plan	22,442	166,000
Net income	—	—
Cash dividends	—	—
Other	—	—
Balance,		
December 31, 1979	9,173,348	$15,221,000
Exercise of stock options	175,134	860,000
Issuance of shares under stock purchase plan	31,658	294,000
Issuance of common stock	1,250,000	41,084,000
Net income	—	—
Cash dividends	—	—
Balance,		
December 31, 1980	10,630,140	$57,459,000
Cumulative translation adjustment as of January 1, 1981	—	—
Exercise of stock options	172,936	1,168,000
Issuance of shares under stock purchase plan	15,431	291,000
Purchase of treasury stock	—	—
Net change in cumulative translation adjustment in 1981	—	—
Net loss	—	—
Cash dividends	—	—
Balance,		
December 31, 1981	10,818,507	$58,918,000

Paid-In Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock	Total
$2,814,000	$12,710,000	$ —	$ —	$30,141,000
—	—	—	—	438,000
—	—	—	—	166,000
—	6,015,000	—	—	6,015,000
—	(685,000)	—	—	(685,000)
58,000	—	—	—	58,000
$2,872,000	$18,040,000	$ —	$ —	$36,133,000
—	—	—	—	860,000
—	—	—	—	294,000
—	—	—	—	41,084,000
—	7,051,000	—	—	7,051,000
—	(1,212,000)	—	—	(1,212,000)
$2,872,000	$23,879,000	$ —	$ —	$84,210,000
—	—	(2,267,000)	—	(2,267,000)
—	—	—	—	1,168,000
—	—	—	—	291,000
—	—	—	(5,237,000)	(5,237,000)
—	—	81,000	—	81,000
—	(6,212,000)	—	—	(6,212,000)
—	(1,487,000)	—	—	(1,487,000)
$2,872,000	$16,180,000	$ (2,186,000)	$ (5,237,000)	$70,547,000

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1981, 1980 and 1979

Wainoco Oil Corporation and Subsidiaries

Source of Funds:	1981	1980	1979
Funds provided by operations —			
Net income (loss)	$ (6,212,000)	$ 7,051,000	$ 6,015,000
Expenses not requiring current outlay of funds-			
Depreciation, depletion and amortization	23,569,000	10,005,000	6,502,000
Deferred income taxes	(1,542,000)	3,083,000	2,949,000
Amortization of debenture discount	203,000	203,000	203,000
Total from operations	$ 16,018,000	$20,342,000	$15,669,000
Long-term borrowings	48,792,000	21,805,000	45,648,000
Issuance of common stock	1,459,000	42,238,000	604,000
Sale of tax benefits	1,468,000	—	—
Deferred revenue	650,000	1,128,000	419,000
Unsecured note receivable	—	—	1,487,000
Management fees from associated partnerships included in oil and gas properties	7,000	308,000	728,000
Effect of exchange rate changes on working capital	80,000	—	—
Other, net	(66,000)	9,000	77,000
Total source of funds	$ 68,408,000	$85,830,000	$64,632,000
Application of Funds:			
Additions to property and equipment	$ 73,644,000	$62,721,000	$ 52,095,000
Payments on long-term debt and change in current maturities	2,000,000	16,500,000	4,218,000
Increase in noncurrent advances to associated partnerships	2,550,000	331,000	3,912,000
Purchase of treasury stock	5,237,000	—	—
Cash dividends	1,487,000	1,212,000	685,000
Total application of funds	$ 84,918,000	$80,764,000	$60,910,000
Increase (Decrease) In Working Capital	$ (16,510,000)	$ 5,066,000	$ 3,722,000
Increase (Decrease) in Components of Working Capital:			
Cash and temporary investments	$ (8,343,000)	$ 6,126,000	$ (5,628,000)
Accounts receivable	(1,787,000)	6,685,000	11,556,000
Current portion of advances	(10,581,000)	4,896,000	2,940,000
Equipment inventory	6,549,000	(1,813,000)	1,478,000
Unsecured note receivable	—	(1,487,000)	1,487,000
Other current assets	(821,000)	33,000	(596,000)
Short-term borrowings	(7,179,000)	207,000	2,028,000
Accounts payable and accrued liabilities	7,597,000	(9,470,000)	(5,684,000)
Oil and gas proceeds payable	(1,945,000)	(111,000)	(3,883,000)
Income taxes payable	—	—	24,000
Increase (Decrease) In Working Capital	$ (16,510,000)	$ 5,066,000	$ 3,722,000
Working Capital, beginning of year	26,152,000	21,086,000	17,364,000
Working Capital, end of year	$ 9,642,000	$26,152,000	$21,086,000

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

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), Wainoco Oil & Gas Limited (Wainoco Limited) and Wainoco Colombia, Inc. (Wainoco Colombia) (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 currency transactions are included in the consolidated statements of income currently, and translation adjustments are included in the consolidated statements of shareholders' equity.

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.

Wainoco computes the provision for depreciation, depletion and amortization of oil and gas properties, by country, 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.

An additional depletion provision is made if the costs incurred on oil and gas properties, by country, exceeds the limitation on capitalized costs, which is defined as the sum of (1) the present value of future net revenues from estimated production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements and/or governmental regulations) and a discount factor of ten percent, (2) the cost of significant investments in unproved and unevaluated properties excluded from the costs being amortized and (3) the lower of cost or estimated fair market value of unproved properties included in the costs being amortized.

Costs incurred in the acquistion and exploration of interests in Australia and Indonesia have been excluded from the cost of properties being amortized because of the preliminary status of their evaluation. These costs will be included in the amortization base of the respective country when sufficient work has been completed to determine the extent, if any, of proved reserves. The Company presently cannot determine when the evaluations and results thereof will be completed.

Income taxes

The Parent, Wainoco Company and the non-Canadian subsidiaries file a consolidated United States federal income tax return. The Parent charges each of these subsidiaries 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 whereby the credits available each year are applied as a reduction of the tax provision.

During 1981, Wainoco entered into a sale-leaseback agreement whereby certain tax benefits were transferred in exchange for cash. The proceeds from the sale-leaseback attributable to investment tax credits were treated as a reduction of current year taxes. The proceeds attributable to future deductions under the Accelerated Cost Recovery System were credited to property and equipment of the Company and serve to reduce future amortization expense.

Common stock

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 on the weighted average number of common shares outstanding and assuming exercise of stock option shares in 1980 and 1979. No effect was given to the exercise of option shares in 1981 as a loss was incurred. The average common and common equivalent shares outstanding were 10,641,943 in 1981, 9,981,477 in 1980 and 9,439,472 in 1979.

Fully diluted earnings per share assume the addition of dilutive stock options in 1980 and 1979. No addition of dilutive stock options was assumed in 1981 as a loss was incurred. The fully diluted weighted average shares outstanding were 10,641,943 in 1981, 9,990,151 in 1980 and 9,492,268 in 1979.

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 December, 1981, the Financial Accounting Standard Board (FASB) issued Statement No. 52 which established revised standards of financial accounting and reporting for foreign currency transactions and translating foreign currency financial statements for consolidation. This statement is to be applied for reporting periods beginning after December 15, 1982. In the fourth quarter of 1981, Wainoco elected early adoption of Statement No. 52 retroactive to January 1, 1981, which reduced the net loss by $104,000 or $.01 per share for 1981.

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, 1981, and the capitalized costs and related accumulated depreciation, depletion and amortization (DD&A) at December 31, 1981 and 1980.

Capitalized Costs Incurred		Property Acquisition	Exploration	Development	Purchase of Reserves-In-Place	Total
1981	United States	$ 8,280	$18,379	$27,101	$ 67	$53,827
	Canada	745	2,820	5,172	—	8,737
	Other	2,746	7,452	—	—	10,198
		$11,771	$28,651	$32,273	$ 67	$72,762
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

Production Costs Incurred, DD&A and Net Oil and Gas Sales	United States	Canada	Total
1981			
Operating Costs	$ 3,518	$ 1,876	$ 5,394
Production Taxes	1,573	—	1,573
	$ 5,091	$ 1,876	$ 6,967
Provision for DD&A	$12,450	$ 1,322	$13,772
DD&A per Dollar of Oil and Gas Sales	$ .42	$ .11	$ .33
Oil and Gas Sales, Net of Production Costs	$24,590	$10,461	$35,051
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 Costs	$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 Costs	$ 9,946	$ 9,075	$19,021

Capitalized Costs and Accumulated DD&A	United States	Canada	Other	Total
1981				
Unproved Properties	$ 20,620	$ 8,946	$4,415	$ 33,981
Proved Properties	127,743	63,672	—	191,415
	$148,363	$72,618	$4,415	$225,396
Accumulated DD&A	$ 33,750	$ 8,035	$ —	$ 41,785
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

At September 30, 1981, Wainoco Colombia had completed its evaluation of its exploration activities in Colombia, S.A. and determined that its prospects were uneconomic. Accordingly, an additional provision for depreciation, depletion and amortization of $7,400,000 was provided in September, 1981 to write off its estimated investment in its Colombian concession. Subsequently Wainoco Colombia proceeded to wind up its affairs related to these operations, including the collection of receivables from joint owners in the concession. Wainoco Colombia has essentially completed its withdrawal, resulting in an additional provision during the fourth quarter of $2,000,000 for an unanticipated problem in collecting partners' costs related thereto.

Reserves and future net revenues (unaudited)

The following table identifies Wainoco's proved oil and gas reserves as of December 31, 1981, 1980 and 1979, 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
1981						
Proved developed and undeveloped reserves:						
Beginning of year	1,725	44,087	1,508	264,715	3,233	308,802
Revisions to previous estimates	107	(530)	(4)	(5,692)	103	(6,222)
Extensions, discoveries and other additions	209	3,696	183	5,531	392	9,227
Purchase of minerals-in-place	1	38	2	350	3	388
Production	(376)	(5,203)	(193)	(6,939)	(569)	(12,142)
End of year	1,666	42,088	1,496	257,965	3,162	300,053
Proved developed reserves:						
Beginning of year	1,698	31,016	1,278	170,982	2,976	201,998
End of year	1,648	32,693	1,170	211,430	2,818	244,123

	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	United States Oil	United States Gas	Canada Oil	Canada Gas	Total Oil	Total Gas
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

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, 1981, 1980 and 1979. This information is based on the respective prices in effect as of December 31, 1981, 1980 and 1979 (considering possible future price escalations only to the extent provided by fixed determinable contractual arrangements and/or government regulations) and future development costs. Canadian reserves have been priced using prices allowed under the National Energy Program (NEP), as modified by the Provincial - Federal Agreements signed in September, 1981. These agreements reduced prices previously contemplated under the NEP, in that conventional hydrocarbons will be priced at only 75% of World Price, as opposed to the previously proposed 85%. The agreements also provide for new and increased excise taxes. Current costs used in the computations assumed a continuation of existing economic conditions.

	Estimated Future Net Revenues					
	Proved Developed and Undeveloped			Proved Developed		
1981	United States	Canada	Total	United States	Canada	Total
1982	$ 28,133	$ 9,680	$ 37,813	$ 28,221	$ 11,614	$ 39,835
1983	8,625	15,447	24,072	19,228	15,270	34,498
1984	20,853	18,699	39,552	13,600	17,925	31,525
Remainder	130,384	346,912	477,296	94,986	289,417	384,403
	$187,995	$390,738	$578,733	$156,035	$334,226	$490,261
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

	Estimated Present Value of Future Net Revenues		
	United States	Canada	Total
Proved developed and undeveloped reserves			
1981	$104,171	$163,101	$267,272
1980	$ 84,449	$287,135	$371,584
1979	$ 68,918	$100,564	$169,482
Proved developed reserves			
1981	$ 93,476	$151,633	$245,109
1980	$ 75,944	$198,690	$274,634
1979	$ 61,311	$ 83,557	$144,868

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

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 each of 1981, 1980 and 1979. 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, 1981.

Long-term debt

Long-term debt at December 31, 1981 and 1980, consisted of the following:

	1981	1980
	(In thousands)	
Note payable by Wainoco Company to two United States banks; due December, 1989 (see discussion below)	$50,000	$ —
Demand note payable by Wainoco Limited to a Canadian bank of $52,400,000 (Canadian) at December 31, 1981 and $52,300,000 (Canadian) at December 31, 1980; secured by substantially all Canadian oil and gas properties; due July, 1983; guaranteed by the Parent (see discussion below)	44,199	43,859
Note payable by Wainoco Company to a United States bank; paid in December, 1981	—	2,000
Wainoco's proportionate share of notes payable by associated partnerships, secured by the partnerships' oil and gas properties	3,638	5,094
Long-term debt, other	177	—
	$98,014	$50,953

A Canadian bank has provided Wainoco Limited with a revolving line of credit of $65,000,000 (U.S. dollar equivalent of approximately $54,828,000 at December 31, 1981) with interest at the bank's prime rate plus one-half of one 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 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.

Two United States banks have provided Wainoco Company with a revolving line of credit of $50,000,000 with interest at the bank's prime rate to prime plus one quarter of one 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 up to 110% of the borrowing base, (2) will not sell or otherwise dispose of a substantial portion of its properties, (3) will maintain a current ratio of at least one to one and (4) will pledge substantially all of Wainoco Company's assets to the banks if it defaults on the loan. During the term of the agreement, the bank will review the oil and gas properties and at least annually make a determination of the credit to be made available to Wainoco Company (the borrowing base). If the bank determines that the unpaid balance exceeds 110% of the borrowing base, then Wainoco Company will be required to repay this excess out of cash flow from operations on a monthly basis, until such excess is less than the borrowing base. Beginning in March, 1985, 1/20 of the aggregate principal amount of the loan outstanding at the end of the revolving credit period (December 31, 1984), shall become due and payble quarterly, provided that the outstanding loan shall be repaid in full on December 31, 1989.

Short-term borrowings

Included in short-term borrowings at December 31, 1981, are outstanding checks in excess of book balances, for financial reporting purposes, of $7,176,000 which were paid in January, 1982.

The Canadian bank has agreed to provide Wainoco Limited with a demand loan of up to $425,000 for working capital purposes. This loan bears interest at the bank's prime rate plus one half of one percent. Wainoco Limited had drawn $425,000 on this line of credit as of December 31, 1981 and paid off the loan in January, 1982. The maximum amount of short-term borrowings outstanding as of any month-end was approximately $425,000 in 1981 and $437,000 in 1980. The average amount outstanding was approximately $418,000 in 1981 and $427,000 in 1980, and the average interest rate paid was approximately 19.8 percent in 1981 and 14.9 percent in 1980.

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 partially reimbursed for direct, administrative and overhead costs incurred in conducting the business of the partnerships.

In 1981, the Company ceased forming public limited partnerships for any of its drilling programs. Also in 1981, Wainoco Company entered into a joint venture arrangement with a major oil company, through which the majority of its exploration and development was conducted. In 1982, the Company entered into a drilling program with a group of institutional investors to drill development wells on Wainoco Company's acreage in the Appalachian Basin of northwestern Pennsylvania.

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 the limited partners in certain of the partnerships exceeded the estimated fair market value of their oil and gas properties by approximately $9,700,000 and $6,300,000 at December 31, 1981 and 1980, 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 limited partners' share of the partnerships' oil and gas properties.

The general partners may be required to purchase the limited partners' interests 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. As of December 31, 1981, the maximum annual non-cumulative purchase commitments for all partnerships (assuming no prior purchases of the partnership interests) have been calculated as approximately $18,000,000 for 1982 through 1985, $15,000,000 for 1986 through 1990 and decreasing amounts through 2001, the year in which all partnerships will have terminated. The total of all these future purchase commitments is calculated to be approximately $45,000,000, of which Wainoco believes that approximately $30,000,000 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 (loss) and the provisions (benefits) for income taxes (in thousands) for each of the three years in the period ended December 31, 1981, consisted of the following:

Pretax income (loss) —	1981	1980	1979
United States	$(8,383)	$3,579	$2,970
Canada	(785)	6,022	5,539
Total	$(9,168)	$9,601	$8,509
Provision (benefit) for income taxes —			
United States			
Current	$ (701)	$ —	$ —
Deferred	(2,068)	418	882
	$(2,769)	$ 418	$ 882
Canada			
Current	$ (713)	$ (533)	$ (455)
Deferred	526	2,665	2,067
	$ (187)	$2,132	$1,612
Total	$(2,956)	$2,550	$2,494

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 for 1980 and 1979 are primarily attributable to exploration and development expenditures capitalized for financial reporting purposes and expensed for income tax reporting purposes, while the benefit in 1981 primarily gives current recognition to the operating loss in 1981.

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

	1981	1980	1979
Provision for United States and Canadian income taxes at statutory rates	$ —	$ 4,731	$ 4,010
Increase (decrease) in provision resulting from:			
United States			
Statutory depletion in excess of tax basis	$ —	$ (532)	$ (575)
Investment tax credits	—	(698)	(315)
Sale of tax benefits — investment tax credits	(701)	—	—
Reversal of prior years' deferred income taxes	(2,068)	—	—
Other, net	—	118	54
	$(2,769)	$(1,112)	$ (836)
Canada			
Royalties, rentals and similar payments deducted currently for financial reporting purposes which are not deductible for income tax reporting purposes	$ 3,451	$ 3,776	$ 2,578
Resource and depletion allowances	(2,201)	(3,501)	(2,404)
Provincial tax credits and rebates	(933)	(908)	(684)
Gain on foreign currency translation	—	(310)	—
Investment tax credits	(111)	(135)	(172)
Reversal of prior years' deferred income taxes	(393)	—	—
Other, net	—	9	2
	$ (187)	$(1,069)	$ (680)
Provision (benefit) for income taxes, as reported	$(2,956)	$ 2,550	$ 2,494

Wainoco has a United States tax depletion carry-forward of approximately $5,900,000 indefinitely available to reduce future United States income taxes payable, of which $4,300,000 has been recognized as a reduction of deferred income taxes for financial reporting purposes. Wainoco also has a United States net operating loss carry-forward of approximately $49,000,000 which is available to reduce future United States income taxes payable, of which $3,900,000 is also available to reduce future income tax expense for financial reporting purposes. The net operating loss will expire as follows: $108,000 in 1993, $7,400,000 in 1994, $16,200,000 in 1995 and $25,300,000 in 1996. In addition, Wainoco has approximately $2,600,000 of investment tax credit carry-forwards available to reduce future United States and Canadian federal income taxes payable, of which $2,200,000 has been recognized as a reduction of deferred income taxes for financial reporting purposes through December 31, 1981 and will expire as follows:

United States		Canada	
Year	Amount	Year	Amount
1990	$ 27,000	1982	$ 57,000
1991	45,000	1983	81,000
1992	174,000	1984	195,000
1993	245,000	1985	257,000
1994	264,000	1986	111,000
1995	835,000		
1996	282,000		

Deferred taxes which were reduced by depletion and investment tax credit carry-forwards will be reinstated when such deductions are utilized. Wainoco Limited has an earned depletion base carry-forward of approximately $10,200,000 for Canadian income tax purposes of which $5,000,000 has been recognized for financial reporting purposes through December 31, 1981.

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 for United States employees 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. On June 2, 1981 and on September 1, 1981 the Company granted options covering an aggregate of 550,335 shares of common stock at exercise prices of $20.00 and $15.00, respectively, in replacement for options with higher exercise prices which the holders thereof had permitted to expire in accordance with the terms of the 1977 Option Plan and the 1973 Plan. On the same dates the Company granted options covering an aggregate of 141,500 shares of common stock at exercise prices of $18.00 and $13.50, respectively, in the same circumstances in accordance with the terms of the 1968 Plan. Options to purchase 172,515 shares as of December 31, 1981, and 181,480 as of December 31, 1980, were available to be granted under the plans.

A summary of the 1981 stock option activity is as follows:

	Number of Shares Under Option	Option Price Range Per Share
Outstanding — December 31, 1980	767,226	$ 1.07 to $34.88
Granted	713,715	13.50 to 29.63
Exercised	172,936	1.07 to 24.51
Lapsed	154,615	3.15 to 32.00
Terminated	550,335	18.07 to 34.88
Outstanding — December 31, 1981	603,055	2.75 to 18.75
Exercisable — December 31, 1981	218,573	2.75 to 18.75

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 outrstanding 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 93,969 shares purchased through the plan as of December 31, 1981.

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 $261,000 in 1981, $300,000 in 1980 and $165,000 in 1979. 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 in both 1981 and 1980. A comparison of accumulated plan benefits and plan net assets for Wainoco Company's pension plan is presented below:

	January 1,	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$ 471,000	$ 342,000
Nonvested	2,755,000	2,097,000
	$3,226,000	$2,439,000
Net assets available for benefits	$1,076,000	$ 674,000

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 $70,000 in 1981, $46,000 in 1980 and $84,000 in 1979 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 $1,060,000, $816,000 and $456,000 for 1981, 1980 and 1979, respectively.

Wainoco has entered into five noncapitalized building lease agreements which expire from 1982 through 1990. The following is a summary of Wainoco's minimum annual rental payments as of December 31, 1981, under these agreements:

1982	$1,054,000
1983	1,090,000
1984	1,056,000
1985	1,019,000
1986-1990	3,098,000

Gas prices

During 1981, Wainoco Company has recorded additional revenues and receivables of approximately $1,900,000 related to gas production from a major field which had initially been considered as Section 102 gas under the Natural Gas Policy Act of 1978 (the Gas Act). Wainoco Company believes it is entitled to higher Section 107 prices under the Gas Act for the affected production. The Company has complied with the regulatory procedures to qualify this production for the higher prices and is currently working to satisfy certain requirements of the purchaser in order to receive the higher prices. It is the opinion of the management of Wainoco that it will be able to satisfactorily accomplish the purchaser's request and therefore begin to collect the higher prices for current and prior production during 1982.

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 $2,000,000 at December 31, 1981, which is secured by substantially all of the partnerships' assets. In connection with the sale-leaseback agreement discussed in Footnote 1, the Company executed a $3,451,000 irrevocable letter of credit.

8 Segment information

Wainoco is engaged in one industry segment – 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 1981, 1980 and 1979 and identifiable assets as of December 31, 1981, 1980 and 1979, by country:

	United States	Canada	Other	Consolidated
1981*				
Revenues	$ 30,705	$13,547	$ 2	$ 44,254
Net income (loss)	3,123	(598)	(8,737)	(6,212)
Identifiable assets	157,814	75,792	5,113	238,719
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

*The United States income of $3,123,000 consisted of a pretax income of $354,000 and a tax benefit of $2,769,000, of which $2,068,000 results from the filing of a consolidated tax return which includes losses arising from other foreign operations.

During 1981, Wainoco made sales to two major customers of $5,900,000 and $4,700,000 which accounted for 24 percent of consolidated revenues. 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.

9 Selected quarterly financial data (unaudited)

Summarized below is Wainoco's quarterly unaudited financial data for 1981 and 1980. The first, second and third quarters of 1981 have been restated to reflect the adoption of FASB No. 52 discussed in Footnote 1.

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
1981				
Revenues	$10,301	$9,905	$12,486	$11,562
Income (loss) before income taxes	$ 1,450	$ (235)	$ (6,883)	$ (3,500)
Provision (credit) for income taxes	437	(360)	(2,938)	(95)
Net income (loss)	$ 1,013	$ 125	$ (3,945)	$ (3,405)
Earnings (loss) per share — Primary and fully diluted	$ .09	$ .01	$ (.37)	$ (.31)
Dividends per share	$ .035	$ .035	$ .035	$ .035
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 and fully diluted	$ .30	$ .07	$ .15	$ .19
Dividends per share	$ .03	$ .03	$ .03	$ .035

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 (Loss) 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 each of the three years in the period ended December 31, 1981.

CONSOLIDATED SUPPLEMENTAL EARNINGS (LOSS) SUMMARY

For the years ended December 31, 1981, 1980 and 1979
Prepared on the Basis of Reserve Recognition Accounting (RRA) (Unaudited)

Wainoco Oil Corporation and Subsidiaries

	1981	1980	1979
		(In thousands)	
Additions to Proved Reserves:			
New field discoveries and extensions	$ 31,288	$ 99,981	$ 87,509
Revisions to reserves proved in prior years:			
Changes in price*	$(135,608)	$153,076	$ 27,300
Other	(1,857)	(28,238)	(4,694)
Interest factor — accretion of discount	37,158	16,948	7,148
Total revisions to proved reserves	$(100,307)	$141,786	$ 29,754
Total additions to proved reserves	$ (69,019)	$241,767	$117,263
Exploration and development costs:			
Costs incurred during the year —			
Acquisition of properties	$ 11,771	$ 15,724	$ 15,616
Exploration	28,651	20,453	6,255
Development, net	32,273	26,030	18,801
	$ 72,695	$ 62,207	$ 40,672
Changes in deferred costs	(7,315)	(10,047)	(9,409)
Future development costs considered in valuation of new field discoveries and extensions	10,893	19,692	14,628
Future development costs incurred	(6,820)	(6,780)	(4,524)
Total acquisition, exploration and development costs	$ 69,453	$ 65,072	$ 41,367
RRA income (loss) before other revenues (and expenses) and income taxes	$(138,472)	$176,695	$ 75,896
Other revenues (expenses)			
Interest and other income	2,243	2,832	2,740
General and administrative expenses including depreciation on fixed assets	(6,554)	(4,668)	(2,839)
Interest expense, net	(12,960)	(6,285)	(2,878)
Gain (loss) on translation of foreign currency	(198)	422	(305)
RRA income (loss) before income taxes**	$(155,941)	$168,996	$ 72,614
Provision (benefit) for income taxes	(78,320)	118,162	24,000
RRA net income (loss)	$ (77,621)	$ 50,834	$48,614
Earnings (loss) per share:			
Primary	$ (7.29)	$ 5.09	$ 5.15
Fully diluted	$ (7.29)	$ 5.09	$ 5.12

*Price changes in 1981 and 1980 are substantially due to pricing and excise tax changes in Canada. In 1980 pricing under the proposed National Energy Program resulted in higher sales prices and taxes for oil and gas producers; however, this program was modified by Provincial-Federal agreements in late 1981, resulting in reduced prices and additional excise taxes. By country, the pricing revisions are as follows:

	1981	1980	1979
United States	$ 10,725	$ 15,069	$14,850
Canada	(146,333)	138,007	12,450
Total	$(135,608)	$153,076	$27,300

**Income (loss) before income taxes under the full-cost method followed by Wainoco as reported on the Consolidated Statements of Income is $(9,168) for 1981, $9,601 for 1980 and $8,509 for 1979.

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

For the Years Ended December 31, 1981, 1980 and 1979 (Unaudited)

Wainoco Oil Corporation and Subsidiaries

	1981	1980	1979
		(In thousands)	
Balance — beginning of year	$ 371,584	$169,482	$ 71,477
Revisions to reserves proved in prior years	(100,307)	141,786	29,754
New field discoveries and extensions	31,288	99,981	87,509
Less related future development costs	(10,893)	(19,692)	(14,628)
Purchases of reserves-in-place	340	567	9,867
Future development costs from prior years valuation incurred	6,820	6,780	4,524
Production, net of production costs and excise taxes	(31,560)	(27,320)	(19,021)
Balance — end of year	$ 267,272	$371,584	$169,482

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 petroleum engineers in accordance with the Securities and Exchange Commission (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 vary substantially from 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 changes 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 $34,000,000 in 1981, $26,700,000 in 1980 and $16,600,000 in 1979. 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.

11 Financial data adjusted for changing prices (unaudited)

Inflation has increased at a rapid rate in recent years, eroding the purchasing power of the dollar and distorting the conventional measures of financial performance. Historical dollar accounting (as reflected in the Consolidated Financial Statements) during times of significant and continued inflation does not reflect the cumulative effects of increasing prices and changes in the purchasing power of the dollar.

To assist users of financial statements, the FASB has issued Standards requiring supplemental data providing information regarding the impact of changing prices on the economic resources of an enterprise on a constant dollar basis and on a current cost basis.

The constant dollar basis utilizes the U.S. Department of Labor Consumer Price Index for All Urban Consumers to reflect financial data in dollars of equal purchasing power. The current cost basis employs specific indices for oil field and gas field equipment published in the Oil Field Machinery and Tools Index.

In accordance with FASB requirements, income statement data of "Depreciation, depletion and amortization", and balance sheet data of "Property and equipment" have to be adjusted to reflect the impact of general inflation as well as changes in specific prices. All fixed assets are grouped under oil and gas properties since they represent the majority of the total. The method currently used in calculating depreciation on oil and gas properties carried at historical cost has been used in calculating depreciation on the basis of estimated constant dollar and current cost.

While Wainoco is presenting this information in good faith compliance with FASB requirements and has exercised due care in developing such data, it is necessary to present the data with qualifications and cautions as to their interpretation and usefulness. Management cautions against the simplistic use of these data as a means of precisely measuring the effects of inflation because of imprecisions inherent therein.

The schedule below shows Wainoco's condensed loss for the year 1981 as reported in the Company's Consolidated Financial Statements and as adjusted to reflect the impact of general inflation as well as changes in specific prices.

The schedule also includes a caption "Gain from decline in purchasing power of net amounts owed", which represents estimates of how much Wainoco's purchasing power was effectively increased as a result of having a greater amount of monetary obligations than monetary assets.

Also reported are data concerning the estimated increase in specific prices of property and equipment held during the year. This information indicates that the increases in specific prices affecting the cost of the Company's assets have been greater than the increases in the general price level.

The FASB requires that income tax benefits not be modified for the effects of either constant dollar or specific price adjustments. Therefore, the 32 percent effective tax benefit rate for historical earnings becomes an effective 22 percent for constant dollar results and 19 percent for specific price earnings.

	December 31, 1981		
	Thousands of Dollars	Thousands of Average 1981 Dollars	
	As Reported in the Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Cost)
Revenues	$44,254	$44,254	$44,254
Depreciation, depletion and amortization	23,569	27,821	30,271
Operating expense	16,893	16,893	16,893
Interest expense	12,960	12,960	12,960
Income tax benefits	(2,956)	(2,956)	(2,956)
Net loss	$ 6,212	$10,464	$12,914
Gain from decline in purchasing power of net amounts owed		$ 7,223	$ 7,223
Increase in specific prices (current cost) of property and equipment held during the year			$31,531
Less: Effect of increase in general price level (constant dollar)			16,587
Excess of increase in specific prices over increase in general price level			$14,944

Shown below are selected supplementary financial data on historical basis and adjusted to reflect the effects of changing prices. Historical information are in thousands of historical dollars. All other data except for per share and Consumer Price Index information are in thousands of average 1981 dollars.

	Years Ended December 31,				
	1981	1980	1979	1978	1977
HISTORICAL INFORMATION					
Revenues	$ 44,254	$ 36,009	$ 24,984	$16,861	$ 9,260
Net income (loss)	(6,212)	7,051	6,015	4,256	2,262
Net income (loss) per share	(.58)	.71	.64	.55	.34
Cash dividend declared per share	.140	.125	.075	—	—
Total assets at year-end	238,719	204,910	137,716	78,997	44,013
Net assets at year-end	70,547	84,210	36,133	30,141	13,054
Long-term debt including debentures	125,546	78,282	72,774	31,141	12,900

EFFECTS OF CHANGING PRICES

	Years Ended December 31,				
	1981	1980	1979	1978	1977
Revenues	$ 44,254	$ 39,610	$31,230	$23,437	$13,890
Historical cost information adjusted for general inflation:					
Net income (loss)	(10,464)	6,072			
Net income (loss) per share	(.98)	.61			
Net assets at year-end	109,099	117,791			
Historical cost information adjusted for changes in specific prices:					
Net income (loss)	(12,914)	5,658			
Net income (loss) per share	(1.21)	.57			
Excess of increase in specific prices of net property and equipment over increase due to general inflation	14,944	1,097			
Net assets at year-end	117,777	123,611			
Gain from decline in purchasing power of net amounts owed	7,223	7,555			
Other information adjusted for general inflation:					
Cash dividends declared per share	.14	.138	.094	—	—
Market price per share at year-end	20.25	30.66	36.25	17.90	22.69
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

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, 1981 and 1980, 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, 1981. 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, 1981 and 1980, 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, 1981, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for foreign currency translation as explained in Note 1 to the Consolidated Financial Statements, have been applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Houston, Texas
March 8, 1982

COMMON STOCK

The common stock of Wainoco Oil Corporation is listed for trading on the New York Stock Exchange and the Toronto Stock Exchange under the symbol WOL. The high and low quarterly sales prices for the stock, rounded to the nearest 1/8, are shown below:

	High	Low
1981		
Fourth Quarter	22	12⅞
Third Quarter	26¼	12⅜
Second Quarter	31¼	19¾
First Quarter	30⅞	22⅝
1980		
Fourth Quarter	35⅛	25⅛
Third Quarter	43⅜	26½
Second Quarter	33	21
First Quarter	37⅞	14½

The Indenture covering the 10¾% Subordinated Debentures due 1998 includes a restriction against the payment of cash dividends if such dividends exceed specified levels. At December 31, 1981, the specified levels were substantially in excess of such aggregate amounts of dividends.

The number of holders of record for Wainoco Oil Corporation Common Stock as of February 28, 1982 was 4,109.

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

REGISTRARS AND TRANSFER AGENTS

Common Stock
First City National Bank
Houston, Texas

Montreal Trust Company
Toronto, Ontario

10¾% Subordinated Debentures
First City National Bank
Houston, Texas

DIRECTORS

John B. Ashmun
President - Wainoco Oil Corporation
Houston, Texas

William A. Faubion
Executive Vice President - Wainoco Oil Corporation
Houston, Texas

James S. Palmer
Partner - Burnet, Duckworth & Palmer
(Attorneys at Law)
Calgary, Alberta

Louis Putze
Retired from Rockwell International, Inc.
Ligonier, Pennsylvania

William Scheerer, II
Vice President - Fred Alger & Company, Inc.
(Investment Managers)
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James B. Stockdale
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Darcy D. Schindewolf
Vice President
Secretary and Treasurer

Ronald F. Wilson
Vice President-Controller

AUDITORS

Arthur Andersen & Co.

COUNSEL

Andrews & Kurth
Houston, Texas

Burnet, Duckworth & Palmer
Calgary, Alberta

SUBSIDIARIES

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

Design: Graphic Designer's Group, Houston

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