







	1983	1982
Financial		
Revenue	\$2,641,000	\$2,454,000
Capital Expenditures	2,827,000	7,361,000
Long Term Debt	9,937,000	11,730,000
Working Capital	715,000	1,858,000
Land Holdings (Petroleum and Natural Gas Rights)		
Canada Gross Hectares	133,488	117,971
	28,618	24,665
Net Hectares	20,010	24,005
Foreign	881,139	1,008,731
Gross Hectares	69,973	69,584
Net Hectares	09,9/3	09,304

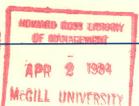
Reserves (1): Canada and United States

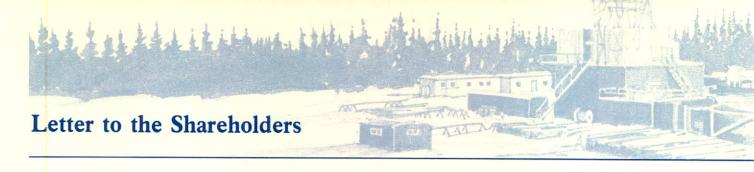
	1983 Reserves			
	Company Established Reserves (2)			Fross Reserves
ProvenProbable	Crude Oil (4) (10 ³ m ³) 31.784 2.671 34.455	Natural Gas (10 ⁶ m ³) 554.534 460.790 1,015.324	Crude Oil & Natural Gas	Residue and Solution Gas (10 ⁶ m ³) 298.788 156.324 455.112

- (1) No attempt has been made to evaluate properties outside of Canada and the United States.
- (2) "Company Established Reserves" are defined as the Company's working interest share, excluding any royalty interests, of remaining marketable reserves in place, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at September 1, 1983.
- (3) "Company Gross Reserves" are defined as the Company's working interest and/or royalty interest share of remaining marketable reserves recovered during a twenty-five year forecast period before the deduction of any royalties, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at September 1, 1983.
- (4) Natural gas liquids have been excluded because at reservoir conditions, the natural gas liquids are in a gaseous state.

Metric Conversions

Crude Oil		1	Natural Gas
1 barrel	0.159 m ³ 6.29 barrels	1 cubic foot	0.028 m ³
1 m³		1 m ³	35.315 cubic feet





On behalf of the Board of Directors of Scarboro Resources Limited, we are pleased to present the Annual Report of the Company for the year ended November 30, 1983. The past year was a period of resumed growth for the Company resulting in a more stable financial condition. Exploration was vigorous with major farmouts of Scarboro prospects being concluded offshore Italy and the foothills of Alberta, resulting in continued success at Strachan-Ricinus.

During fiscal 1983, funds generated by operations rose to \$427,261 from a negative \$11,716 in fiscal 1982. This was achieved through an increase of petroleum and natural gas sales, reduced general and administrative costs and reduced interest charges attributable to the reduction of long term debt. In August 1983, Scarboro completed a private equity placement of 24 units, totalling 1,320,000 common shares and 1,320,000 common share purchase warrants. After deducting the costs of the issue, the Company received \$2.3 million which was applied to the reduction of the Company's production loan.

During the past year, Scarboro and its various exploration and land funds have been able to utilize a significant exploratory land inventory totalling in excess of 950,000 hectares to allow an aggressive exploration program by way of farmout. The total value of farmouts for Scarboro and its funds was \$7.7 million during 1983. Scarboro with the 1982 Landfund increased exploratory land holdings by 15,872 hectares in Canada. In the U.K. two onshore exploration licences were granted resulting in an additional 17,594 net hectares to the Company.

Scarboro has continued to concentrate its Western Canadian drilling activities in the foothills area of West Central Alberta. At Strachan-Ricinus where the Company holds interests ranging from 2.5% to 50.0% in 47,872 gross hectares, Scarboro participated in the drilling of five successful gas condensate wells in 1983 with one additional well currently testing. Two of these wells began production in January 1984 and at least one further well is expected on stream during 1984,

significantly enhancing production revenue. In the Phoenix area, located approximately 20 miles north west of Strachan-Ricinus, Scarboro holds an interest in two licences totaling 29 sections (7,424 hectares). The Company has completed an agreement jointly with two major oil companies whereby the companies have agreed to pay Scarboro's share in the drilling of a 4,745 metre Devonian test to earn 50% of Scarboro's interest in 8 surrounding sections with an option to drill a second well to earn a like interest in another 8 sections. After the companies have drilled and earned this interest, Scarboro will hold a net 7.14% working interest.

Scarboro's international exploration activity will sharply increase during 1984. In Abu Dhabi, U.A.E. Scarboro has a 5% working interest in 589,728 hectares over which 3,000 kilometers of seismic has been shot and one well, Sweihan #1, has been drilled. Interpretation of seismic and drilling results indicates several drillable features. and a well has been budgeted for the second half of 1984. Onshore Italy at Basentello, the Company holds a 25% working interest in 34,800 hectares. Scarboro, as operator, will drill a 950 metre exploratory well commencing in April 1984. A recent Pliocene discovery located adjacent to the concession flowed gas at the rate of 70.0 thousand cubic meters per day (2.5MM cu.ft./day) at 10,100 kPa, from a depth of 1,200 metres. Natural gas discovered in Italy has an immediate market under favourable pricing and royalty conditions. Offshore Brindisi in the Adriatic. Scarboro and its partners drilled a 2,000 metre Jurassic test - Rosaria Mare 1, which commenced drilling in January 1984 and was dry and abandoned in early February. Scarboro farmed out its share of the well costs to a third party.

The Company continues to pursue a salt cavern storage project in Southern Italy through its 50% owned subsidiary, Scanzano Idrocarburi S.p.A. Local authorities in the area have been unable to approve the project as yet and the Company is now evaluating alternate methods of obtaining the necessary approvals. Additional equity has been added to the treasury of Scanzano Idrocarburi



S.p.A. by the issuance of shares to a local Italian LPG marketing company and plans are to proceed into the LPG trading business.

Following two years of worldwide recession, the fortunes of the energy industry and Scarboro Resources seem to be entering a period of resumed growth and activity. During 1984, revenue from petroleum and natural gas sales will increase from new production at Strachan-Ricinus and at Sounding Lake where Scarboro has a 7% interest in 576 hectares and participated in a recent oil discovery. Opportunities exist during 1984 to add significantly to reserves from wells to be drilled or drilling at Phoenix in Alberta, Basentello in Italy and in Abu Dhabi, U.A.E.

Furthermore, the Company plans to drill several low risk oil prospects at Swan Hills, Mitsue and Vulcan which could further enhance production revenue. Scarboro will continue an aggressive land acquisition program in Alberta through its land funds and internationally where exploration lands may be acquired for relatively low cost work commitments.

On behalf of the Board of Directors, we take this opportunity to thank the staff for its loyalty and effort over the last year and to thank the shareholders for their continued support.

Norman J. Mackenzie

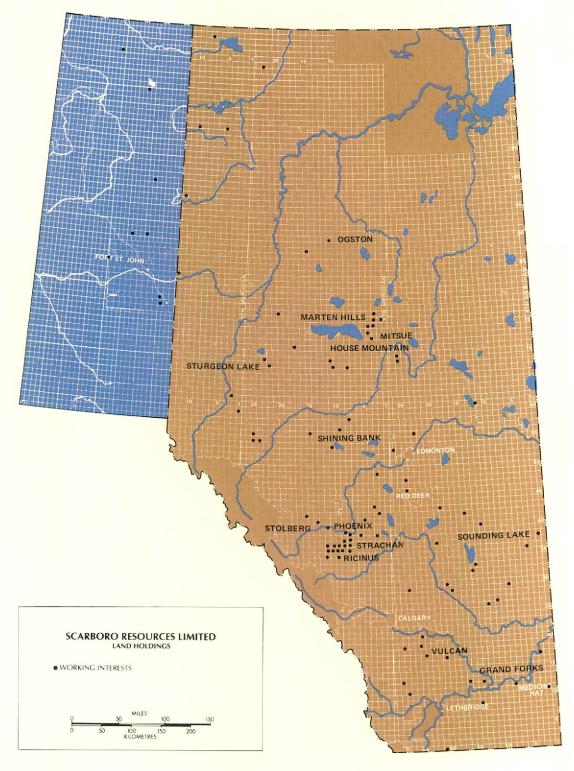
President

Robert P. McBean

Executive Vice-President

March 1, 1984







During the year, the Company's exploration and development activities were conducted primarily in Alberta with participation in 14 gross wells, resulting in 7 gas wells, 2 oil wells, 3 dry holes and 2 wells currently testing or suspended for an overall Canadian success rate of 79%. In the United States the Company participated in 1 well, which resulted in a dry hole.

In 1983 the Company acquired 15, 872 gross hectares (3,145 net) of Petroleum and Natural Gas

exploratory lands in Alberta. In the U.K., two onshore licences (XL 189 and XL 206) were granted resulting in an additional 17,594 net hectares to the Company. In October, 1983, the Company reduced its gross land holdings in Abu Dhabi by 25% in accordance with the terms of the Exploration and Production Sharing Agreement with the government of Abu Dhabi. In addition the Company surrendered its exploration licence in Serre Alte, Italy.

LAND HOLDINGS

as at November 30, 1983

	1983		1982	
	Gross Hectares (1)	Net Hectares (2)	Gross Hectares	Net Hectares
Oil and Gas Properties				
Canada				
Alberta	127,704	27,344	113,898	23,852
British Columbia	5,337	1,093	3,626	632
Saskatchewan	447	181	447	181
	133,488	28,618	117,971	24,665
Foreign				
United States	108,392	10,884	121,542	13,306
Italy	95,822	11,937	104,790	17,271
Abu Dhabi	589,728	29,486	777,902	38,895
U.K. (4)	87,197	17,706	4,497	112
	881,139	69,973	1,008,731	69,584
Total	1,014,627	98,591	1,126,702	94,249
Mining Properties				
Northwest Territories	14,570	10,927	14,570	10,927
Coal Properties (3)	8,828	2,108	8,828	2,108

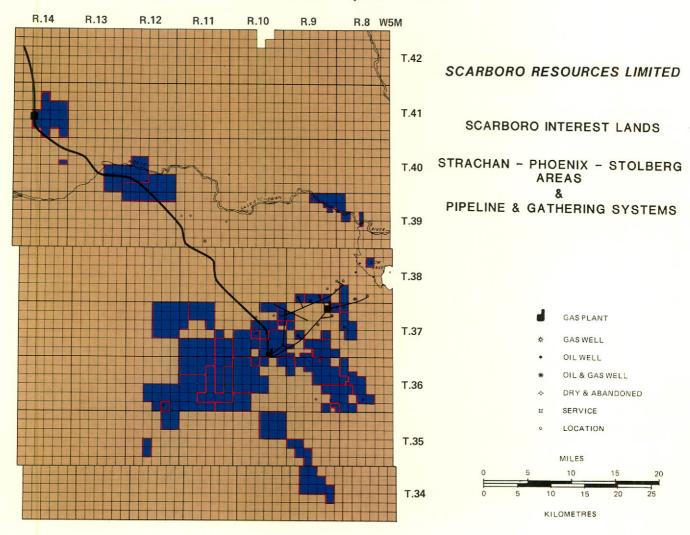
- (1) In addition the company holds varying royalty interests in 19,726 gross hectares.
- (2) The Company also holds a 7% gross overriding royalty convertible to a 35% working interest in 16,122 net hectares in Canada and the United States held by the Limited Partners of the former Scarboro Resources 1980 Landfund.
- (3) The Company also holds a .375% royalty interest in 3,352 gross hectares.
- (4) Held through Harlech Exploration (U.K.) Limited.

Canadian Exploration

Strachan-Ricinus

Scarboro holds net working interests varying from 2.5% to 50% in 47,872 gross hectares, in the Strachan-Ricinus area of West Central Alberta. Subsequent to the 10-31-37-8 W5M discovery well drilled by Scarboro in late 1981, which tested 219.8 10³ m³/day and 30.2 m³/day of condensate at 20,951 kPa, eight (8) wells have been drilled on Company lands resulting in six (6) commercial gas condensate discoveries. Scarboro directly participated in four (4) wells, two (2) of which were drilled on acreage held by the Company and two (2) on acreage held by others. The remaining four (4) wells were drilled on Scarboro acreage at no cost to the Company. The most recent of these

wells, Gulf et al Ricinus West 7-33-36-10 W5M has recently reached total depth, with encouraging preliminary results. Production testing commenced in January 1984. This well is particularly significant to the Company as it continues to extend the trend discovered by the 10-31 well. Scarboro holds a substantial interests in all the acreage along the continuance of this trend, and has granted a drilling option to two companies on the Clearwater Licence, where the Company holds a 45% interest. This acreage is located three miles south-west of the 7-33 well and the optionees may elect to drill a 4,000 metre test well with such election expected in the first quarter of 1984.





Phoenix

Scarboro is entitled to a 14.27% working interest in two contiguous P&NG Licences comprising 7424 hectares in West Central Alberta. Scarboro's interest, together with that of its fund participants, has been farmed out to third parties, who will drill a 4745 metre Devonian test to earn one half of the combined interest in 2048 hectares (8 sections), with the option of drilling a like well to earn a similar interest in an additional 8 sections. Scarboro will retain a 7.14% working interest in the farmout lands after payout and 14.27% in the remainder. The initial well commenced drilling December 29, 1983.

Sounding Lake

Scarboro has a 7% working interest after payout in 576 hectares in South Eastern Alberta. In November 1983, two (2) wells were drilled resulting in one (1) oil well and one (1) gas well. Flow rates are currently being established through production testing. It is anticipated that additional wells will be drilled in 1984.

Shiningbank

Scarboro holds a 11.25% working interest in a 3,136 hectare P and NG Licence, in Central Alberta, and has entered into a farmout agreement which will result in at least one 2,700 metre Mississippian test being drilled in the first quarter of 1984, at no cost to the Company. Upon completion of the well, Scarboro's interest will reduce to 5.625% in 1,920 hectares around and including the well. An option is provided for the farmee to earn a like interest in the remaining 1,216 hectares by drilling a second well, also at the farmee's sole cost.

Sturgeon Lake

Scarboro holds a 45% working interest in a 512 hectare lease adjacent to the producing Sturgeon Lake Leduc oilfield. A major integrated oil company has been granted a seismic option over the lands and may elect prior to April 1, 1984 to drill a well to earn 50% of the Company's interest.

House Mountain (Swan Hills)

Scarboro holds a 25% working interest in 1,184 hectares in Central Alberta, where geological studies have indicated Swan Hills oil potential. The Company expects a well to be drilled on this prospect in 1984.

Vulcan

Scarboro holds a 60% working interest in 256 hectares in South Eastern Alberta, with Glauconite, Basal Quartz and Ostracod potential. The drilling of a well is anticipated during 1984.

West Ferrier

Scarboro holds a 10% working interest in 1,984 hectares, offsetting the Ferrier field, on which a Cardium oil well and a Mississippian gas well have been drilled to date. Scarboro has approached the operator to consider further development of the property.



Marten Hills

Scarboro holds varying interests in 10,240 gross hectares in North Central Alberta where geophysical and geological studies indicate a potential Keg River oil play as well as several potential shallow gas zones. The Company has offered these lands for farmout to industry.

Ogston

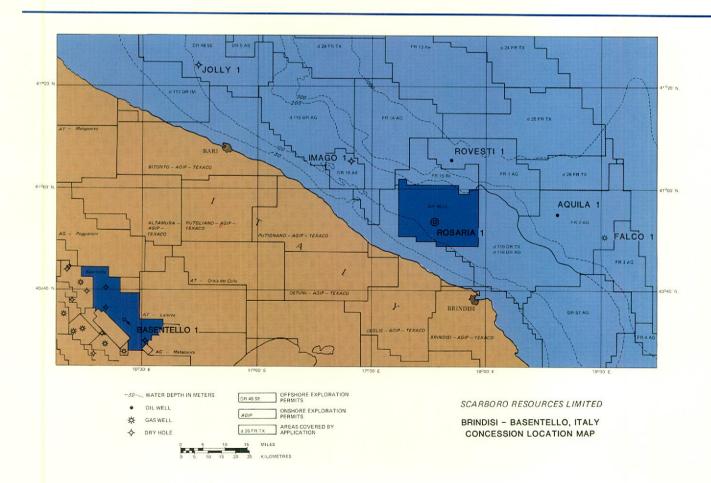
Scarboro holds a 45% working interest in a 256 hectare lease in Northern Alberta, on which a seismic option has been granted to a third party

who retain the right to elect to drill a 1,700 metre Precambrian test well. Such election is to be made prior to March 31, 1984 with the well to commence prior to December 31, 1984.

Amigo

Scarboro holds a 50% working interest in 192 hectares in the Shekilie region of North Western Alberta. A seismic option has been granted whereby, the optionee will conduct seismic and may elect prior to April 1 1984 to drill a Keg River test to earn one half of the Company's interest.

International Exploration





Italy

Offshore Brindisi (see map)

During 1983 Scarboro increased, at no additional cost to the Company, its holding from 5% to 10% in Licence DR 56 CL comprising 60,054 hectares, located in the Adriatic Sea offshore Italy. A third party assumed Scarboro's costs of the Rosaria Mare 1 well, which was drilled in the first quarter of 1984 and subsequently abandoned.

Onshore - Basentello (see map)

The Company holds a 25% working interest in a 34,800 hectare concession. Scarboro as operator will commence drilling a 950 metre evaluation well in April 1984. A recent Pliocene discovery well, located adjacent to the concession, flowed 70.0 10³m³ per day (2.5 mmcf) at 10,100 kPa, from a depth of 1,200 metres. Natural gas discovered in Italy has an immediate market under favourable economic conditions.

France

Cherbourg (La Manche)

An application has been made for a 198,800 hectare concession in the English Channel immediately north of Cherbourg. If granted, the

operator, will perform a marine seismic program and upon completion of this program a decision will be made to drill or relinquish. Scarboro's interest in the initial seismic gathering phase will be 10%. The concession is located 70 kilometres south of the Wytch Farm oil field onshore Great Britain.

U.K. (England)

Scarboro through Harlech Exploration (U.K.) Limited holds a 2½% interest in Production Licence PL 165 A, in Glouchester, comprising 4,497 gross hectares. The first well, on this Licence was drilled in 1981 and subsequently abandoned.

In addition the Company holds an interest in two recently awarded permits; an 18.75% interest in XL 206 comprising 49,300 hectares, located west of Swindon, and a 25% interest in XL 189 totalling 33,400 hectares in Oxford.

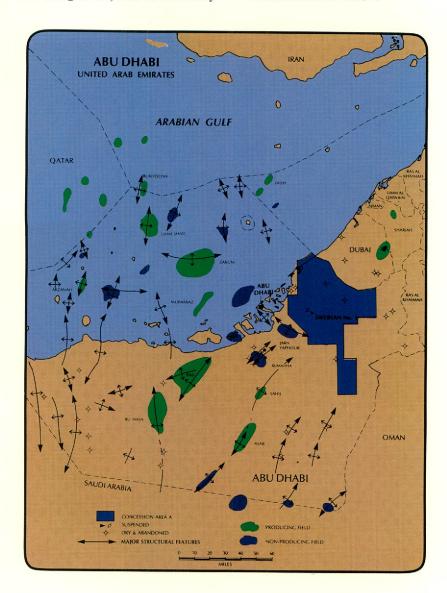
Negotiations are currently underway with Harlech to have Scarboro's interest recognized directly by the Crown, through its recently formed subsidiary, Scarboro Resources (U.K.) Ltd.



Abu Dhabi, U.A.E.

Scarboro holds a 5% working interest in a 589,728 hectare concession in Abu Dhabi, U.A.E. A 3,000 kilometre seismic program on the Area "A" Concession was completed in April 1983. The first well was drilled during 1981, and is currently

suspended. The group is now finalizing the interpretation of the seismic and reprocessing select lines. Several high quality prospects have now been delineated and pending final evaluations a well will be drilled by the consortium in the second half of 1984.





Reserves (1): Canada and United States

			1983	Reserves		
	Company Established Reserves (2)		Company Gross Reserves (3)		Company Net Reserves (4)	
	Crude Oil	Natural Gas	Crude Oil & Natural Gas Liquids	Residue and Solution Gas	Crude Oil & Natural Gas Liquids	Residue and Solution Gas
Proven Probable	2 671	(10 ⁶ m ³) 554.534 460.790	(10 ³ m ³) 36.252 5.788	(10 ⁶ m ³) 298.788 156.324	(10 ³ m ³) 23.135 3.784	(10 ⁶ m ³) 217.700 117.684
1 100a01c		Control Carton Control Cartagories				

42.040

455.112

26.919

335.384

No attempt has been made to evaluate properties outside of Canada and the United States. (1)

1,015.324

34.455

- "Company Established Reserves" are defined as the Company's working interest share, excluding (2)any royalty interests, of remaining marketable reserves in place, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at September 1, 1983.
- "Company Gross Reserves" are defined as the Company's working interest and/or royalty interest (3)share of remaining marketable reserves recovered during a twenty-five year forecast period before the deduction of any royalties, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at September 1, 1983.
- "Company Net Reserves" are defined as the remaining reserves of the properties in which the (4) Company has an interest recovered during a twenty-five year forecast period less all royalties and interests owned by others, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at September 1, 1983.
- Natural gas liquids have been excluded because at reservoir conditions, the natural gas liquids are in a gaseous state.

Analysis of Cash Flow (6): Canada and United States

	1983			
	Undis- counted	10%	Discounted at 15%	20%
	(000's)	(000's)	(000's)	(000's)
Proven	71,799.1	27,034.9	19,749.7	15,434.5
Probable	34,226.3	10,694.7	6,848.9	4,669.7
Total	106,025.4	37,729.6	26,598.6	20,104.2

The term "Cash Flow" means income derived from the sale of reserves of oil, gas and gas byproducts, less all royalties, capital, P.G.R.T., I.O.R.T. and operating costs, but before provision for income taxes and after receiving the benefit of the Alberta royalty tax credit and the P.G.R.T. credit during a twenty-five year forecast period.



Stolberg Pipeline

Scarboro owns a net 6.6% interest in the Stolberg 40.6 centimetre sour gas transmission line which transports gas from the Stolberg/Nordegg/
Saunders field to the Canterra operated Ram River gas processing plant. The deemed capacity of the transmission line is currently 3.9 106m³ per day and the present owner throughput is approximately 1.0 106m³ per day. The owners of the transmission line are determining a throughput tariff for use of the spare capacity in the system and will present the tariff to the producers in the Brown Creek/Hanlan/Blackstone/Peco fields.

Scarboro has a net 0.2 106m³ per day spare capacity available to producers who will pay a throughput tariff and net income generated is expected to total \$3,500,000 having a value discounted at 15% of \$1,400,000. The throughput of tariff gas commenced September 1983.

Scanzano Idrocarburi S.p.A.

Scarboro continues to hold a 50% interest in Scanzano Idrocarburi S.p.A., a company formed to develop an LPG import, storage and transshipment facility in Southern Italy. The Company has recently entered into an agreement with a local Italian LPG marketing organization to begin importing product into Italy through existing terminal facilities.

To date, US\$2,000,000 has been spent on the project which expenditures have included a preliminary feasibility and design study and the preparation and submission of various applications to government ministries at both the federal and provincial levels for approval. All departments in both senior levels of government have approved the project either in writing or in principle. The one agency where approval has not been given is the local town council where ecological and environmental concerns have been such that the local administration has yet to make a firm decision. Recent television and press coverage has shown that such concerns are unfounded and the Company is now concentrating its entire effort into obtaining the final approval.

Financial Review 1997

Revenue from petroleum and natural gas sales in 1983 increased by 10% over 1982, from \$2,377,195 to \$2,606,747. Cash flow from operations increased from a deficiency of \$11,716 (\$.01 per share) to a positive cash flow of \$427,261 (\$.05 per share). This improvement in cash flow from operations should be further enhanced in 1984 with production commencing from two wells in the Strachan-Ricinus area. Revenue from these wells is anticipated to be \$425,000 on an annualized basis. In addition the Company received during the year \$508,000 in petroleum incentive grants. These funds are not included in the Company's cash flow operations. The loss for the year increased to \$1,435,871 (\$.18 per share) from \$1,380,799 (\$.17 per share) in 1982. This was principally due to the increase in the recognition of dry hole and abandonments expensed which amounted to \$547,963.

Interest expense for the year was \$953,762. This should be reduced in the forthcoming fiscal period as a result of two measures. The interest

rate attached to \$4,600,000 of the outstanding convertible debentures was reduced from 12% to 8% in April 1983, and bank indebtedness decreased by \$1,493,122 during the period.

In September 1983, the Company through a private placement issued 1,320,000 common shares and 1,320,000 share purchase warrants for a consideration of \$2,400,000. The share purchase warrants entitle the holder to acquire one (1) common share of the Company at a price of \$2.00 per common share until December 1984 and \$2.50 per common share until September 1985. Proceeds from this issue were primarily used to reduce bank indebtedness.

In summary, the Companys' cash flow from operations in 1984 should improve as a result of production coming on stream in Strachan Ricinus, a reduction in interest rates on the convertible debentures, a reduction in bank indebtedness and the continued maintenance of general and administrative expenses.

Petroleum and Natural Gas Production

The Company's interest in production of crude oil, natural gas liquids and natural gas (before royalties) is summarized below:

	1983	1982
Natural Gas (10 ³ m ³)	8179.0	12854.4
Daily Average (10 ³ m ³)	22.4	35.2
Crude Oil & Natural Gas Liquids (m³)	8291.3	7250.3
Daily Average (m ³)	22.7	19.9

Consolidated Balance Sheet

as at November 30, 1983

	1983	1982 \$
Assets		
Current Assets		
Cash and short-term deposits	11,568	93,003
Accounts receivable (Note 6)	1,326,537	2,684,049
Operating advances to affiliates	155,143	130,430
	1,493,248	2,907,482
Property, plant and equipment (Note 2 & 6)	27,352,758	26,307,264
Investments (Note 3)	186,762	635,846
Employee share purchase loan receivable (Note 4)		2,461,058
Deferred charges (Note 5)	240,502	322,332
	29,273,270	32,633,982
Liabilities Current Liabilities Accounts payable	446,567 173,958 157,800 778,325 5,137,000 4,800,000 639,580 45,900 11,400,805	713,811 270,175 65,000 1,048,986 6,630,122 5,100,000 639,580 45,900 13,464,588
Commitments (Note 8) Shareholders' Equity		
Share capital (Note 9)	21,247,585	21,108,643
Deficit	3,375,120	1,939,249
	17,872,465	19,169,394
	29,273,270	
	=======================================	32,633,982

Approved on behalf of the Directors

Norman J. Mackenzie Director

Robert P. McBean Director

See accompanying notes

Consolidated Statement of Operations

for the year ended November 30, 1983

	1983	1982
Revenue	\$	\$
Petroleum and natural gas sales	2,606,742	2,377,195
Interest and other income	34,579	76,716
	2,641,321	2,453,911
Expenses	1 127 957	1 196 440
Royalties and production costs Interest on long-term debt	1,137,857 953,762	1,186,440 804,963
General and administrative	626,756	862,280
	2,718,375	2,853,683
Funds used by operations before taxes	77,054	399,772
Alberta Royalty Tax Credit	504,315	438,716
Petroleum Gas Revenue Tax		(50,660)
Funds generated (used) by operations	427,261	(11,716)
Charges not requiring funds	1 122 260	1 075 772
Depletion, depreciation and amortization	1,132,269 182,900	1,075,772 210,256
Dry holes and abandonments	547,963	167,471
Share of (gain) loss in limited partnership		(72,700)
	1,863,132	1,380,799
Net loss	1,435,871	1,392,515
Loss per common share	.18	
Consolidated Statement of Deficit		
for the year ended November 30, 1983		
	1983	1982 \$
Deficit — beginning of year	1,939,249	546,734
Loss for the year	1,435,871	1,392,515
Deficit — end of year	3,375,120	1,939,249

Consolidated Statement of Changes in Financial Position

for the year ended November 30, 1983

	1983 \$	1982 \$
Source of Funds		
Funds generated (used) by operations	427,261	(11,716)
loan receivable	2,461,058	
Issuance of common shares net of commissions	2,600,000	
Decrease (increase) in investments	449,083	(159,875)
Issuance of convertible debentures		5,100,000
Increase in deferred revenue		549,580
Capital distribution from Limited Partnership		155,280
Proceeds on disposal of U.S. properties		927,600
	5,937,402	6,560,869
Use of Funds		
Additions to petroleum and natural gas		
properties and other costs	2,826,795	7,630,535
Reacquisition of shares from employee share		
purchase plan	2,461,058	
Decrease (increase) in bank loans	1,493,122	(2,383,707)
Retirement of convertible debentures	300,000	
Reclassification of employee shares		
purchase loan receivable		739,659
Increase in deferred charges		373,282
	7,080,975	6,359,769
(Decrease) Increase in working capital	(1,143,573)	201,100
Working capital — beginning of year	1,858,496	1,657,396
Working capital — end of year	714,923	1,858,496
Represented by:		
Current assets	1,493,248	2,907,482
Current liabilities	778,325	1,048,986
	714,923	1,858,496

Notes to Consolidated Financial Statements

for the year ended November 30, 1983

- 1. Accounting Policies
- (a) Principles of consolidation

The consolidated financial statements include the accounts of Scarboro Resources Limited, its wholly-owned Subsidiaries: Scarboro Oils, Inc., Scarboro Resources International Ltd., Scarboro Exploration Ltd. and its proportionate share (73%) of the Scarboro Oils 79 Program.

The Company's investment in Scanzano Idrocarburi S.p.A. (50%) is accounted for on the equity basis.

(b) Oil and gas operations

The company follows a form of full cost accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses and interest charges on non-producing properties and equipment. In addition, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities are capitalized. The costs are accumulated in cost centers as follows:

- i) Canada
- ii) United States
- iii) Other Areas

The costs accumulated in the cost centers, together with estimated future capital costs associated with proven reserves, are depleted by the unit of production method which is based on production and estimated proven reserves of oil and gas as determined by independent consultants. The costs of significant investments in unproved properties and major development projects are excluded from the depletion computation until such time as it is determined whether or not proven reserves are attributable to the properties, the project is completed, or impairment in value has occurred. No gains or losses are recognized upon the sale or disposition of oil and gas properties, except in significant transactions. If exploration activities within a prospect prove unsuccessful and the prospect is abandoned, the net accumulated costs are charged to earnings.

c) Depreciation

Depreciation of tangible well and other equipment is as follows:

Well and production
Pipeline
Other equipment

10% straight line
5% straight line
20% declining balance

Leasehold improvements are being amortized on a straight line basis over the life of the lease.



d) Joint venture accounting

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

e) Deferred revenue

Deferred revenue represents amounts received in respect of take or pay contracts. Such amounts have been deferred pending ultimate gas delivery or expiration of the contractual delivery period.

f) Foreign currency translation

Current assets and current liabilities of foreign subsidiaries are translated to Canadian dollars using the exchange rates in effect at the dates of the balance sheets. Other assets and liabilities are translated at the rate in effect at the date the original transactions took place. Revenue and expense items are translated using average rates of exchange prevailing throughout the year. The aggregate exchange gain or loss included in the Consolidated Statement of Operations was not significant.

g) Income taxes

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Operations.

2. Property, Plant and Equipment

	1983		1982
Assets at Cost	Accumulated Depletion, Depreciation	Net Investment	Net Investment
\$	and Amortization \$	\$	\$
17,224,497	2,404,831	14,819,666	13,714,962
4,025,118	909,295	3,115,823	3,331,800
772 120	144,000	400 421	455 500
			465,600
21,822,044	3,478,134	18,343,910	17,512,362
	Cost \$ 17,224,497	Assets at Cost Depletion, Depreciation and Amortization \$ 17,224,497	Assets at Cost Depletion, Depreciation and Amortization \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$

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Petroleum and natural gas properties including exploration and development costs	1,589,172 33,150	56,067 4,786	1,533,105 28,364	1,864,139 101,890
	1,622,322	60,853	1,561,469	1,966,029
Other Areas Petroleum and natural gas properties including exploration and				
development costs*	6,193,897		6,193,897	5,711,829
Other costs**	1,253,482		1,253,482	1,117,044
	7,447,379		7,447,379	6,828,873
	30,891,745	3,538,987	27,352,758	26,307,264

- * The petroleum and natural gas properties including exploration costs are comprised of \$5,425,600 in Abu Dhabi and \$768,297 in other areas. The recovery of these costs is dependent upon the discovery of hydrocarbons in commercial quantities.
- ** Other costs represent charges relating to feasibility studies and associated costs for projects of which the outcome is not determinable at this time. Of this amount, \$1,068,400 relates to the Scanzano LPG storage facility. The Company is negotiating with the appropriate authorities for their approval.

3. Investments	The Scarboro Resources 80 Landfund	Scanzano Idrocarburi S.p.A.	Harlech Exploration U.K. Ltd.	Total
Balance November 30, 1982	\$ 449,084	\$ 170,145	\$ 16,617	\$ 635,846
Distribution of assets*	(449,084) Nil	170,145	16,617	(449,084) 186,762

^{*} The Scarboro Resources 80 Landfund was dissolved during the year. The assets and liabilities were distributed according to the percentage ownership.



4. Employee Share Purchase Loan Receivable

Upon receiving regulatory and shareholders approval, the Company entered into agreements with certain employees to re-purchase those remaining issued and outstanding common shares pursuant to Employee Share Purchase Agreements. A total of 709,468 common shares were re-purchased by the Company and the non-interest bearing loans of \$2,461,058 were cancelled (See Note 9).

5. Deferred Charges

Deferred charges are comprised of finance and commission charges incurred by the Company in 1982. Deferred charges are amortized on a straight line basis (\$81,830 in 1983) over the life of the related charges.

6. Bank Loans

The Bank Production Loan amounting to \$4,900,000 at November 30, 1983 bears interest at the rate of prime plus ½%. The loan is secured by a general assignment of accounts receivable and a specific assignment of certain petroleum and natural gas properties and production proceeds. The Bank Production Loan has not been classified as a current liability as it is secured by, and repayable from, future production proceeds and will not require the use of existing current assets.

A portion of the Term Loan is secured by an unacknowledged assignment of rentals due to the Company by its subtenants at its principal business address. The loan bears interest at a rate of prime plus 34% and is repayable over a three year period by way of monthly instalments. The current portion of the loan is \$157,800.

7. Convertible Debentures

On April 27, 1983, shareholders voted in favour of reducing the interest rate on the Series A convertible debentures from 12% to 8%, changing the maturity date to December 31, 1986, and changing the conversion price from \$4.00 per common share to \$1.60 per common share. The Series A convertible debentures, amounting to \$2.0 million are convertible into common shares of the Company until December 30, 1986.

The Series C convertible debentures issued pursuant to a trust indenture dated April 28, 1983, are similar in all respects to the aforementioned Series A convertible debentures. In July, 1983, two holders of the Series C convertible debentures converted the principal amount of \$300,000 into 187,500 common shares of the Company. After giving effect to this transaction, the Series C convertible debentures amount to \$2.3 million.

The Series B convertible debentures amounting to \$500,000 bear interest at a rate of 12% per annum, are convertible into common shares of the Company at a price of \$4.00 per common share until December 30, 1986, and are due and payable in full on December 31, 1986.

The holders of the convertible debentures have no fixed claim on the assets on the Company. Under the terms of the trust indenture the Company represents that it will maintain a 2:1 ratio of appraised value of net tangible assets to the amount of outstanding indebtedness.



8. Commitments

The Company has exploration commitments in the Middle East for approximately \$.75 million U.S. over a six year period.

- 9. Share Capital
- a) Authorized

The authorized capital stock of the Company is 20,000,000 common shares with no par value and 5,000,000 preferred shares with a nominal or par value of \$10 per share.

	-	
b)	Issue	а
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b) Issued	Number of Shares	Consideration
Balance November 30, 1982	8,130,839 187,500	21,108,643 300,000
Cancellation of employee share purchase plan Issuance of common shares (1)	(709,468) 1,320,000	(2,461,058) 2,300,000
Balance November 30, 1983	8,928,871	21,247,585

(1) In September, 1983, the Company issued, through a private placement, 24 units at a price of \$100,000 per unit. Each unit consisted of 55,000 common shares and 55,000 common share purchase warrants. Each warrant entitles the holder to acquire one common share of the Company at a price of \$2.00 per common share until December, 1984 and \$2.50 per common share until September, 1985. The proceeds received are shown net of offering expense commissions of \$100,000.

- c) Shares Reserved
- i) The Company has reserved 1,320,000 common shares in respect of the common share purchase warrants.
- ii) The Company has reserved 2,812,500 common shares in respect of the Series A, B, and C convertible debentures.
- iii) On April 27, 1983, the shareholders approved granting of employee incentive stock options. Pursuant to terms of the stock option agreements, the employees have the option of purchasing 50% of the common shares referred to in the agreement until February, 1984 and equal amounts in the remaining two years of the agreement. A total of 648,501 common shares at a price of \$1.14 per common share have been reserved pursuant to the aforementioned agreements.

Under a separate agreement, an employee was granted an option to acquire 30,000 common shares of the Company at a price of \$.83 per common share.



10. Related Party Transactions

As per agreement, the company as General Partner of the Scarboro Resources 82 Landfund, received \$45,000 as management fees on the capital contribution of the limited partners in the year.

Pursuant to the partnership agreements, the Company as General Partner participated with the Scarboro Resources — 82 Landfund and 80 Program, whereby the Company expended \$373,000 on land acquisitions and \$696,000 on drilling costs in the year.

During the year, certain Directors of the Company were paid \$31,000 and \$354,000 for consulting fees and interest on the convertible debentures, respectively.

During the year, an oil and gas company in which a Director of the Company is associated, converted its royalty into an undivided working interest, in a producing property of the Company.

11. Statutory Information

During the year, \$382,000 was paid to the officers (including the five highest paid employees) for services rendered. No remuneration was paid to any individual acting in the capacity of a director.

12. Segmented Information

The Company is engaged in one industry, exploration and development of oil and gas properties, and operates in three geographic areas. The majority, (over 90%), of the Company's revenue and operating results are generated in Canada. The geographic areas and identifiable asssets are as follows:

	Canada	United States	Other Areas	Total
	\$	\$	\$	\$
November 30, 1983	<u>19,988,818</u>	1,837,073	7,447,379	29,273,270
November 30, 1982	22,899,515	2,905,594	6,828,873	32,633,982



We have examined the consolidated balance sheet of Scarboro Resources Limited as at November 30, 1983 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada February 10, 1984 Vennard Johannesen & Co. Chartered Accountants

Corporate Information Fig. 1997

Head Office

1800 Sunlife Plaza 144 4th Avenue S.W. Calgary, Alberta T2P 3N4 Telephone: (403) 261-0844 Telex 03-826587 (Scarboro CGY)

Subsidiaries

Scarboro Exploration Ltd.
Scarboro Oils Inc.
Scarboro Resources International Ltd.

Auditors

Vennard Johannesen & Co. 1700, 801 - 6th Avenue S.W. Calgary, Alberta

Banker

Bank of Montreal First Canadian Centre 340 - 7th Avenue S.W. Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer 425 - 1st Street S.W. Calgary, Alberta

Registrar and Transfer Agent

The Canada Trust Company 505 - 3rd Street S.W. Calgary, Alberta

Shares Listed (Symbol SRO)

Toronto Stock Exchange Alberta Stock Exchange

Conversion Factor

1 mile = 1.609 kilometres 1 foot = 0.305 metres

1 cubic foot = 0.028 cubic metres (natural gas) 1 barrel = 0.159 cubic metres (petroleum liquids)

1 acre = 0.4 hectares

Directors

Angus A. Mackenzie London, England

Norman J. Mackenzie Calgary, Alberta

Robert P. McBean Calgary, Alberta

James S. Palmer, Q.C. Calgary, Alberta

John A. Tessari Calgary, Alberta

Aziz K. Radwan London, England

Ahmed Baker Dubai U.A.E.

Barry C. Kaplan Vancouver, British Columbia

Officers & Senior Management

Norman J. Mackenzie President

Robert P. McBean Executive Vice-President

Norman H. Bartley Vice-President, Land

Bastiaan Groeneweg Exploration Manager

Blaine D. Holstein Chief Engineer

George Crookshank Controller

John A. Barford Senior Landman



