



# SCEPTRE RESOURCES LIMITED

1983 ANNUAL REPORT

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**S**ceptre Resources Limited is an independent oil and gas exploration and production company headquartered in Calgary, Alberta. Founded in 1976, Sceptre today has an interest in approximately 2,000 crude oil and natural gas wells from which the Company generated average daily production in 1983 of approximately 3,800 barrels of oil and liquids and 43 million cubic feet of natural gas. Current proven reserves, which are primarily located in Western Canada, are estimated at 11.7 million barrels of crude oil and liquids and 276 billion cubic feet of natural gas.

Sceptre is engaged in an active search for new reserves, with efforts being concentrated in Canada, Abu Dhabi, Indonesia and the United States. United States activities are conducted entirely through a 78.7-percent-owned affiliate, High Plains Oil Corporation, a public company based in Denver, Colorado. Sceptre has an established exploratory land position totalling over three million net undeveloped acres.

Sceptre Resources Limited common shares, which are registered in the names of over 8,400 shareholders, are listed on the Toronto and Montreal stock exchanges; dealings are permitted on The Stock Exchange, London, England and they are also quoted in the United States on NASDAQ.

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*Sceptre's operations were combined with the Canadian operations of Francana Oil & Gas Ltd. on May 14, 1982. On January 27, 1983, Sceptre acquired Willowdale Resources (1981) Ltd. The Company's results reflect the combined entities subsequent to their acquisition dates. On June 13, 1983, Sceptre transferred its United States operations to High Plains Oil Corporation. Sceptre reports the assets, liabilities and operating and financial results of High Plains on a consolidated basis.*



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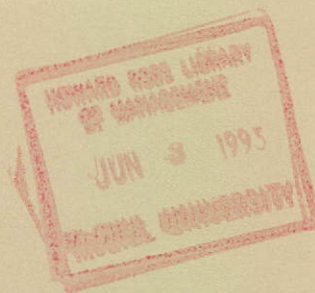


## SUMMARY OF RESULTS

		1983	1982
<b>Operating</b>	Production		
	Crude Oil and Liquids, barrels per day	3,789	2,028
	Natural Gas, MMcf per day	42.7	21.9
	Proven Reserves		
	Oil and Liquids — millions of barrels	11.7	9.8
	Natural Gas — Bcf	276	220
	Proven and Probable Reserves		
	Oil and Liquids — millions of barrels	20.8	20.1
	Natural Gas — Bcf	370	283
	Undeveloped Net Acreage Holdings		
	Canada	718,000	895,000
	United States	254,000	397,000
	International	2,051,000	6,057,000
<b>Financial</b> (in thousands of dollars except for share data)		1983	1982
	Oil and Gas Revenue	\$ 88,558	\$ 42,477
	Loss before Extraordinary Item	\$ 53,941	\$ 20,303
	Loss after Extraordinary Item	\$ 48,381	\$ 20,303
	Per Common Share	\$ 2.45	\$ 1.52
	Funds Generated from Operations	\$ 19,919	\$ 7,225
	Per Common Share	\$ 0.94	\$ 0.49
	Capital Expenditures (excluding acquisitions)	\$ 22,631	\$ 53,103
	Working Capital (Deficiency)	\$ 43,219	\$ (22,669)
	Long-term Debt (Note 1)	\$ 208,250	\$ 144,449
	Total Assets	\$ 430,095	\$ 372,317
	Shareholders' Equity	\$ 128,629	\$ 109,451
	Common Shares Outstanding at Year End	25,994,588	17,443,486

**Note 1:**

Early in 1984, the Company sold the balance of its investment in the shares of Candecca Resources PLC for total proceeds of \$32,014,408, which have been utilized to repay bank loans. This transaction is not reflected in the Company's financial statements at December 31, 1983.









## Report to the Shareholders

In last year's Report to the Shareholders, we stated certain corporate objectives for 1983 and 1984 primarily related to strengthening the financial and operating position of Sceptre. We are pleased to report that, during a difficult year for oil and natural gas producers, we achieved those objectives. Sceptre is now in a position to experience improved financial and operating results and profitability in 1984 and subsequent years.

### Financial Restructuring

The acquisitions of Francana in 1982 and Willowdale in early 1983 secured a long-term source of domestic cash flow for the Company. These acquisitions, financed in both cases with debt and equity, left Sceptre with approximately \$234 million of indebtedness in early 1983. Through the combination of two equity private placements, the sale of a portion of its shares of Candecca and cost-control measures, the Company reduced its indebtedness to \$208.5 million at December 31, 1983. Subsequent to year end, Sceptre sold the remainder of its shares of Candecca and, primarily from the proceeds of that sale, further reduced indebtedness to approximately \$166 million at February 29, 1984. Sceptre's working capital position also significantly improved from a deficit of \$22.7 million at year-end 1982 to \$43.2 million, including \$33.8 million in cash and equivalents, at December 31, 1983.

In early 1984, Sceptre renegotiated its banking facilities and has established credit lines totalling \$187 million with its principal bankers. The Company currently has unused lines of credit of approximately \$21 million and amortization of principal does not commence until 1985. Your Company has the cash balances and projected cash flow sufficient to conduct active exploration and development programs while meeting all of its financial obligations.

### Alignment of Capital Spending and Cash Flow

During 1983, Sceptre strived to maintain its capital spending within available cash flow. The level of cash flow was difficult to predict during the year as natural gas nominations declined significantly. The capital budget was adjusted to reflect a reduced level of cash flow. Net capital expenditures during 1983 amounted to \$15.6 million, after adjusting for a reclassification of U.S. leases held for resale in the amount of \$7.0 million. Cash flow, after the deduction of preferred dividends, was \$15.9 million. Thus, your Company achieved its objective of self-sufficiency in 1983 and expects to be self-sufficient in 1984. In order to supplement capital spending and reduce its financial exposure, Sceptre adopted a prudent farmout policy in Canada and the U.S. and attracted industry partners to participate in its Indonesian concessions.

In 1984, Sceptre anticipates capital expenditures of approximately \$30 million in Canada, the U.S. and internationally. This budget contemplates Canadian expenditures of \$21 million (including capitalized overhead of \$6 million), U.S. expenditures of \$3 million and \$6 million internationally.

In early 1984, agreement was reached to sell the Company's interests in the Dutch Sector of the North Sea for \$5 U.S. million plus accrued interest. This sale is expected to be completed in the second quarter of 1984 resulting in a gain to Sceptre of approximately \$2 million. Funds originally budgeted for 1984 drilling activity in the Dutch Sector of approximately \$2 million will be redeployed in other areas, while the sales proceeds will initially be used to further reduce bank indebtedness.

### United States Reorganization

In June, 1983, the Company's U.S. subsidiaries and affiliates were realigned, resulting in the creation of High Plains Oil Corporation, a Delaware company whose shares are listed on the Alberta Stock Exchange. Sceptre owns a 78.7 percent interest in High Plains and the remainder is owned by High Plains' management and public shareholders. As a result of the reorganization, Sceptre has effectively capped its financial commitment in the U.S. while retaining a significant equity interest in a financially-strong company. High Plains has attractive exploratory acreage in Valley County, Montana, the Williston Basin, the Frost Ridge area of Wyoming and in Michigan and plans a capital-spending program of approximately \$2 U.S. million. We have confidence in the new management group which was installed at the time of the reorganization and believe the adoption of a conservative exploration, development and property-acquisition program will permit Sceptre to eventually recover the losses which have been recorded in its U.S. operations.

### Cost-Control Measures

Sceptre engaged in a program to evaluate and implement certain cost-control measures during 1983. Through staff reductions and office closings, this objective was accomplished. During 1984, general and administrative expenses are expected to decline despite an increased level of activity. Further reductions are anticipated in 1985 as various commitments expire. Additional cost-control measures are continually being analyzed.



### **An Established Reserve Base**

During 1983, proved reserves of crude oil and natural gas liquids increased 19 percent to 11.7 million barrels. Proved and probable oil and liquids reserves were 20.8 million barrels at December 31, 1983. Proved natural gas reserves increased 26 percent during 1983 to 275.8 Bcf. Proved and probable natural gas reserves were 370.4 Bcf at year end. These increases reflect the Willowdale purchase and are net of 1983 production of 1.4 million barrels of oil and natural gas liquids and 15.6 billion cubic feet of natural gas. Independent consultants estimate Sceptre's reserves will generate future net revenue of \$1.8 billion and have a value of \$432 million, discounted at 15 percent.

During 1983, daily crude oil and natural gas liquids production increased 87 percent over 1982 levels to 3,789 barrels per day and in February, 1984 production exceeded 4,500 barrels per day. Natural gas production increased 95 percent in 1983 to 42.7 MMcf per day and, during the months of December, 1983 and January, 1984, averaged 73.7 MMcf per day and 81.3 MMcf per day respectively. Peak daily gas production during this period exceeded 90 MMcf per day. While these rates of production are not indicative of expected full-year 1984 results, they do reflect the existing underlying productive capacity of Sceptre's properties as demand improves. Nearly 90 percent of Sceptre's proved natural gas reserves are contracted and developed, enabling the Company to deliver additional volumes with minimal capital investment.

### **Exploration and Development Projects**

In addition to its Canadian and U.S. exploration and development activities, Sceptre has significant interests in high-potential projects in Indonesia and Abu Dhabi.

#### *Canada*

Despite a curtailment in the level of capital spending, Sceptre enjoyed considerable drilling success during 1983. The most exciting discovery was made at Sawn Lake, Alberta which is among the more significant discoveries made in Alberta during the past several years. Sceptre holds a 15 percent interest in this play and anticipates 22 wells will be completed by year-end 1984.

An active drilling program is planned in Canada for 1984. In addition to the aforementioned Sawn Lake activity, the Company will emphasize the continued development of the oil discoveries made in 1982 and 1983 in such areas as Taber and Crystal in Alberta and Tangleflags and Colgate in Saskatchewan.



#### *Indonesia*

Sceptre has a 20 percent interest in two offshore exploratory concessions in Indonesia. During 1983, efforts were concentrated on the completion of seismic programs and the interpretation of data acquired on both concessions. Results have been encouraging and Sceptre expects to participate in a six-well exploration program during the summer of 1984. The prospects to be tested are estimated to have reserve potential ranging from 15 to 50 million barrels.

#### *Abu Dhabi*

Sceptre is continuing to evaluate prospects on its 1.5-million-acre concession onshore Abu Dhabi. Sceptre, as operator of this concession, holds a 25 percent interest and anticipates drilling a well in late 1984. Prospects on the concession have reserve potential of between 45 and 75 million barrels.

### **Write-down of Book Values**

During 1983, Sceptre wrote down the book value of its investment in U.S. properties and certain other foreign assets. These write-downs totalled \$57 million (approximately \$50 million after tax) and primarily related to expenditures incurred during the period 1978-1982. They do not affect the Company's cash flow or its ability to conduct its future business. We are confident that the U.S. and international properties are carried at conservative book values and any further significant impairment is unlikely. The Company has a considerable surplus of fair market value over book value with respect to its Canadian properties, which underscores the attractiveness of the acquisitions made during 1982 and 1983.



## Corporate

During 1983 and early 1984, the following appointments were made within Sceptre's senior management group. In May, 1983, Mr. Norman D. Knowles was appointed Senior Vice-President, Operations and Engineering; Mr. Thomas W. Dickson was appointed Vice-President, Engineering; and Mr. Ken R. Stan was appointed Vice-President, Operations. In November, 1983, Mr. Ronald W. Ambrose was appointed Senior Vice-President, Exploration and Land and Mr. Gerald L. Fletcher was appointed President of Sceptre Resources Indonesia, a division of Sceptre. In early 1984, Mr. Allen F. Emes was appointed Senior Vice-President, Finance and Administration; Ms. Mary Leahy was appointed Vice-President, Administration; and Mr. Stephen N. Inbusch was appointed Vice-President, Corporate Development and Planning. With these appointments, Sceptre has completed the reorganization of its management group. We are confident that this group is fully capable of managing your Company's assets and future growth.

During 1983, Sceptre entered into a property-acquisition and management agreement with Pencor Petroleum Limited, a company owned by Canadian pension funds. Pencor's initial subscribed capital is \$27.8 million. Sceptre will act as Pencor's agent in identifying, acquiring and managing oil and gas properties and will also participate directly in any acquisitions made by Pencor.

Sceptre intends to register its common shares with the Securities and Exchange Commission in the U.S. during 1984. This will enable the Company to maintain its NASDAQ quotation and to broaden its investor interest in the U.S.

## Outlook for 1984 and 1985

As a result of the measures taken during 1983 and in early 1984:

- Our financial position has never been stronger and we have sufficient working capital to support future growth;
- We have a reserve base which, without relying on new discoveries or a significant improvement in natural gas markets, is capable of generating funds available for new activities of \$25 - \$35 million per year;
- We hold significant undeveloped acreage concentrated in Canada, the U.S., Indonesia and Abu Dhabi; and
- We have experienced people capable of managing your Company's asset base and future growth effectively.

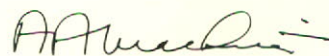
We look forward optimistically to 1984 and beyond.

During 1983, the Company welcomed two of Canada's preeminent financial institutions, the Caisse de Dépôt et Placement du Québec and the Ontario Municipal Employees Retirement Board, as significant new shareholders.

Subsequent to the year end, Mr. H. Stuart McColl resigned as a Director of Sceptre and Mr. Stuart R. Horne elected not to stand for re-election as a Director. On behalf of the Board of Directors and the shareholders, we would like to thank these gentlemen for their contribution to the Company.

Finally, we wish to recognize the hard work and dedication of our employees during the year and to thank them for their contribution.

Respectfully submitted on behalf  
of the Board of Directors



A. A. Mackenzie  
*Chairman*



R. A. Gusella  
*President and Chief  
Executive Officer*

April 12, 1984



Richard A. Gusella  
*President and Chief Executive Officer*



# CONSOLIDATED HOLDINGS OF UNDEVELOPED LAND

December 31, 1983

*(thousands of acres)*

	Petroleum and Natural Gas Leases		Concessions, Permits, Licences, and Reservations		Total	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
<b>Canada (1)</b>						
Alberta	1,585	498	57	15	1,642	513
B.C.	295	60	11	1	306	61
Saskatchewan	221	101	17	8	238	109
Manitoba	20	11	—	—	20	11
NWT, Beaufort Sea and Arctic Islands	—	—	306	24	306	24
	2,121	670	391	48	2,512	718
<b>United States (2)</b>						
Williston Basin	218	87	—	—	218	87
Kansas and Nebraska	132	72	—	—	132	72
Michigan Basin	170	49	—	—	170	49
Rocky Mountain Region	60	26	—	—	60	26
Appalachian Overthrust	68	17	—	—	68	17
Gulf Coast, Onshore	32	3	—	—	32	3
	680	254	—	—	680	254
<b>International (3)</b>						
Abu Dhabi, U.A.E.	—	—	1,457	364	1,457	364
Indonesia, Block A	—	—	3,282	656	3,282	656
Indonesia, Block B	—	—	4,384	877	4,384	877
Philippines	—	—	3,583	107	3,583	107
Other	—	—	1,009	47	1,009	47
	—	—	13,715	2,051	13,715	2,051
<b>TOTAL</b>	<b>2,801</b>	<b>924</b>	<b>14,106</b>	<b>2,099</b>	<b>16,907</b>	<b>3,023</b>

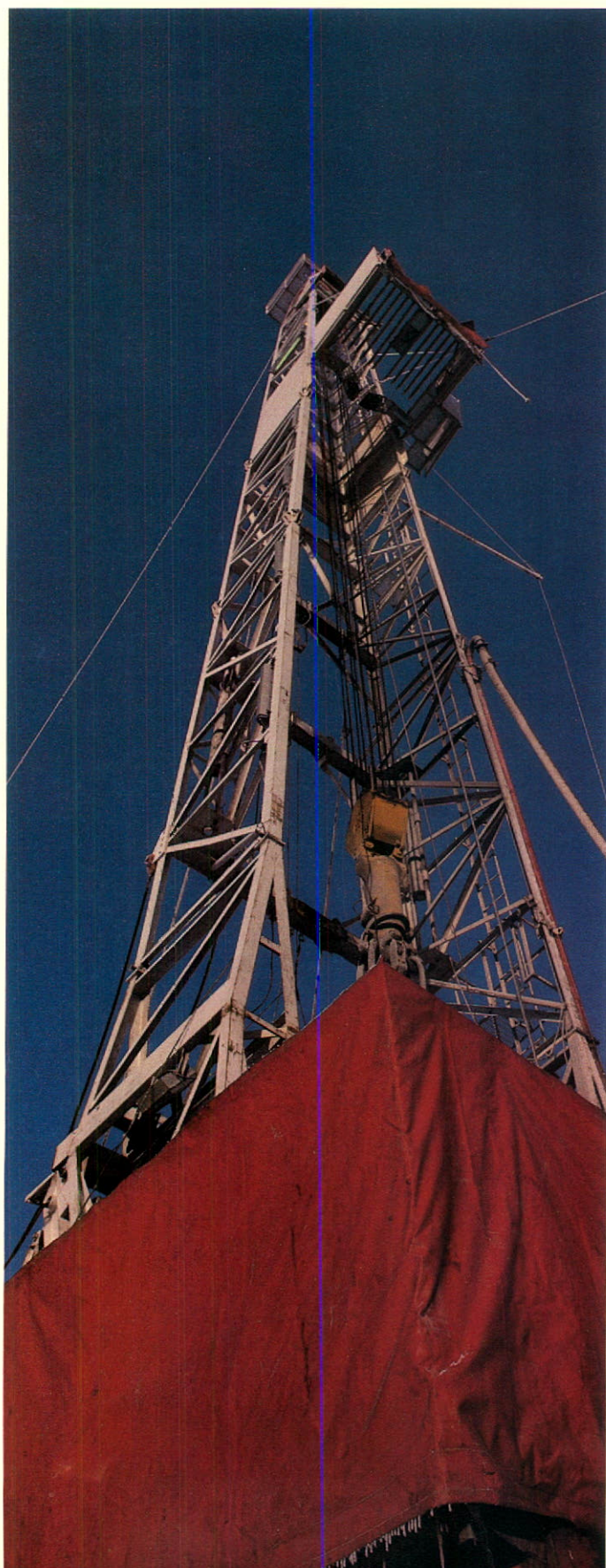
(1) The Company also holds royalty and other interests in an additional 735,000 gross undeveloped acres in Canada of which 637,000 acres are situated in the frontier regions.

(2) Represents the undeveloped land holdings of High Plains Oil Corporation.

(3) Excluded from the table are 227,000 gross acres (13,000 net acres) in the Dutch North Sea which, subsequent to year end, Sceptre reached agreement to sell.



## Report on Exploration and Development Activities



**D**uring 1983, Sceptre participated directly in the drilling of 67 wells of which 60 were drilled in Western Canada, one in the Netherlands Sector of the North Sea and six in the United States by High Plains and its predecessor companies. In Canada, drilling resulted in 39 oil wells, six natural gas wells and 15 dry or suspended wells. Drilling in the United States resulted in three oil wells, and three dry or suspended wells. Internationally, the Company participated in a successful natural gas well in the Dutch Sector of the North Sea.

In addition to direct participation drilling, Sceptre maintained a substantial farmout program during 1983, primarily on exploratory lands in both Canada and the United States, thereby providing the Company with exposure to drilling activity with a minimum commitment of capital. Sceptre normally retains approximately 50 percent of its original interest, after payout, in each well farmed out. This activity resulted in an additional 69 wells being drilled at no cost to the Company and yielded 28 oil wells, 17 natural gas wells and 24 dry or suspended wells.

Combined participation and farmout wells totalled 136 in 1983 as compared to 128 wells in 1982. The Company expects a similar level of activity during 1984.

### 1983 DRILLING ACTIVITY

#### Exploratory Wells

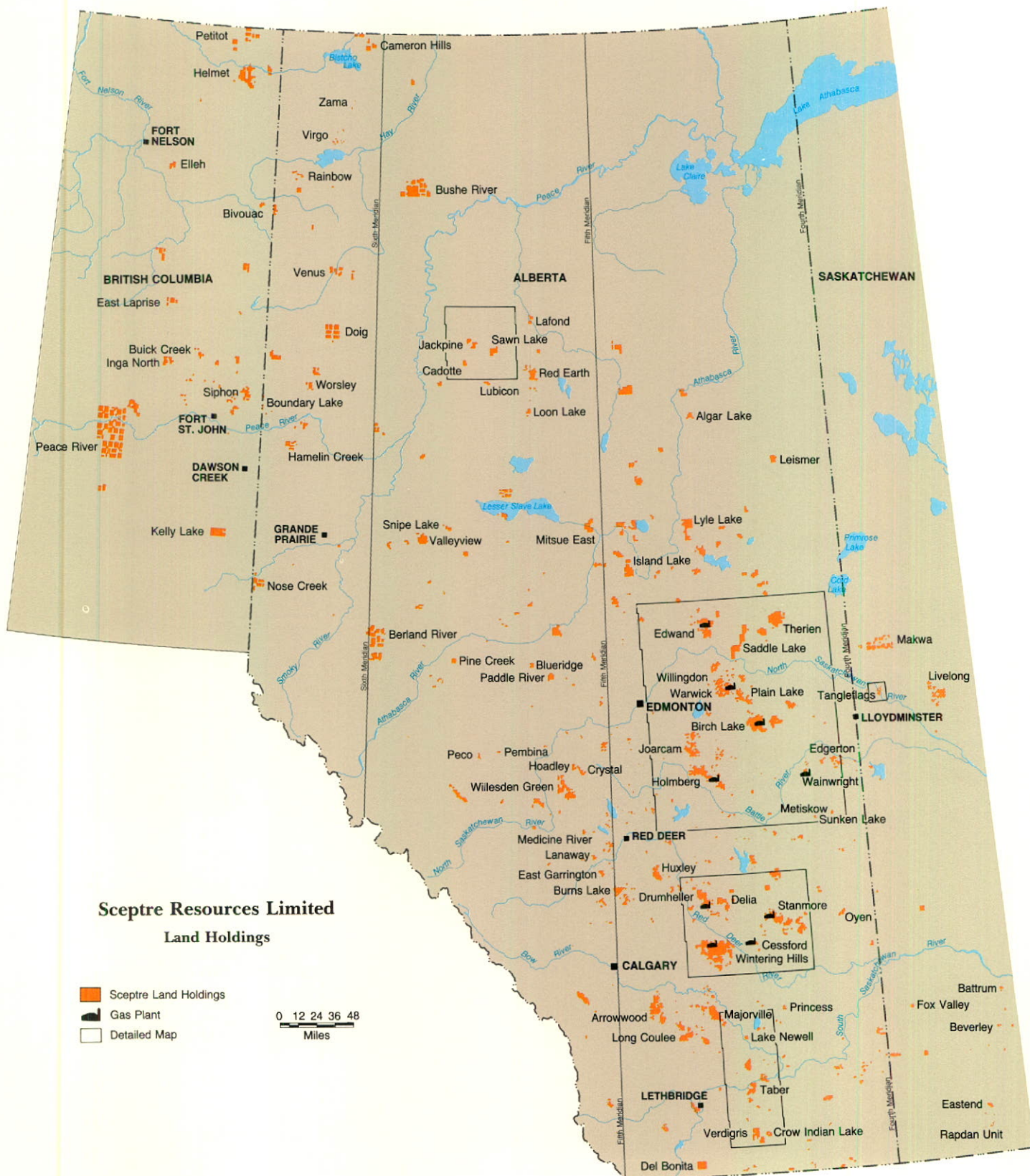
		1983	
		Gross	Net
<b>Canada</b>	Oil	17	3.53
	Gas	8	1.24
	Dry/Suspended	21	4.00
		46	8.77
<b>United States and International</b>	Oil	2	0.41
	Gas	1	0.04
	Dry/Suspended	2	0.19
		5	0.64
<b>Total</b>		<b>51</b>	<b>9.41</b>

#### Development Wells

<b>Canada</b>	Oil	48	12.32
	Gas	12	1.94
	Dry/Suspended	17	5.61
		77	19.87
<b>United States</b>	Oil	3	0.42
	Gas	3	0.47
	Dry/Suspended	2	0.88
		8	1.77
<b>Total</b>		<b>85</b>	<b>21.64</b>
<b>Total Wells</b>		<b>136</b>	<b>31.05</b>



Western Canada





# Canada

## Southern Alberta Region

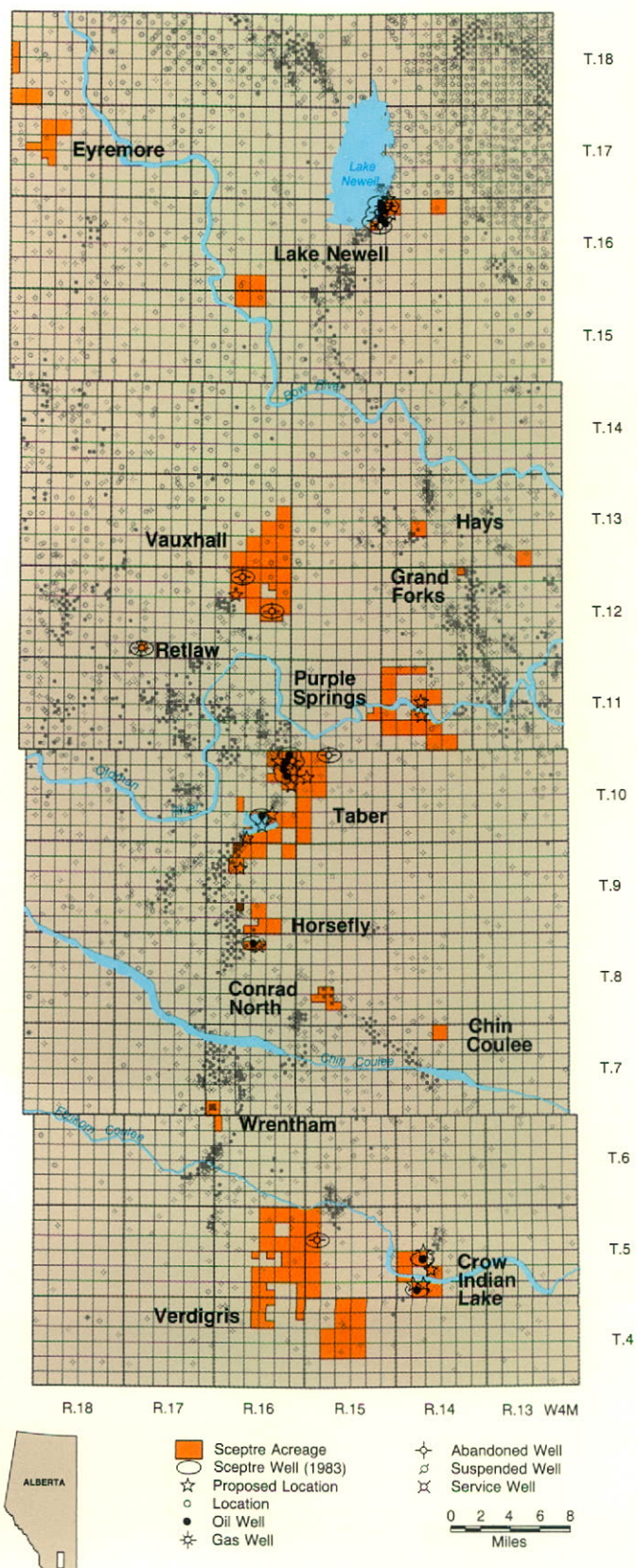
Sceptre was able to maintain an active and successful exploration and development drilling program in western Canada during 1983, while at the same time keeping its level of capital expenditures in line with internal cash flow. This was accomplished by arranging for industry partners to farm in on the Company's extensive acreage holdings while using cash balances to participate in follow-up drilling. Drilling efforts were concentrated on exploring for NORP oil and on maintaining natural gas contract deliverability rates.

### Southern Alberta Region

Sceptre holds 79,195 gross (22,880 net) acres in this oil-prone region of Alberta. In 1983, the Company participated directly in drilling eight wells resulting in seven oil wells and one dry hole. Additionally, a total of 15 farmout wells were drilled on Company lands at no direct cost to Sceptre, resulting in five oil wells, two natural gas wells and eight dry or suspended wells.

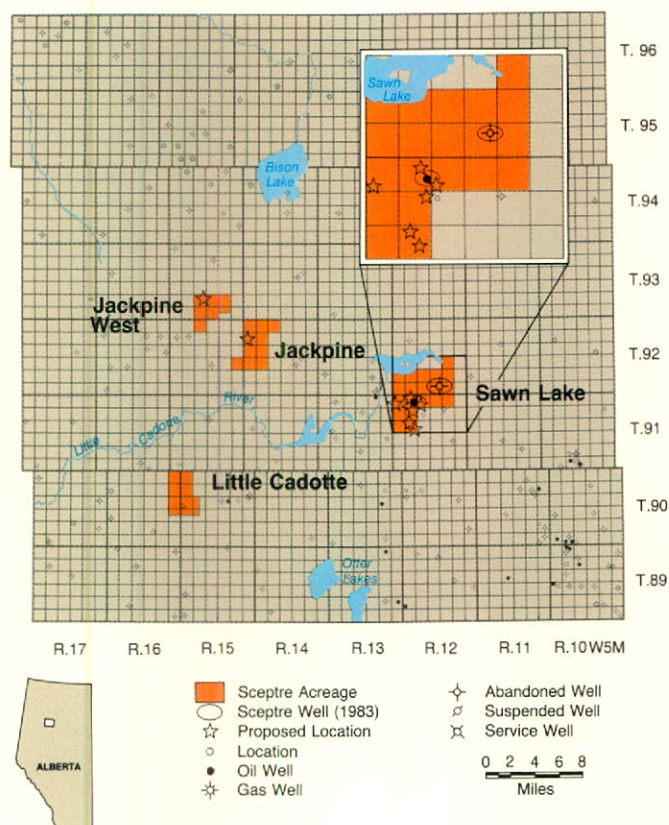
At *Taber*, Sceptre holds a 25 - 45 percent interest in almost 15,000 acres along a major Glauconite channel sand trend. Five successful oil wells were drilled on this acreage during 1983 and a total of eight wells are now on production, generating 240 barrels of oil per day, net to the Company. A minimum of eight additional wells are anticipated to be drilled at Taber during 1984.

Additional success was encountered during 1983 at *Lake Newell* where Sceptre participated in four Glauconite oil wells, one natural gas well and four dry holes and at *Crow Indian Lake* where two Sawtooth oil wells were drilled at no cost to Sceptre. The Company holds a 25 - 50 percent interest in 1,920 acres at Lake Newell and a 45 percent interest in 3,840 acres at Crow Indian Lake. Six development wells (two at Lake Newell and four at Crow Indian Lake) are planned for 1984. Wells are also planned during the year at *Purple Springs* and *Vauxhall*.





## Sawn Lake — Jackpine Region



## Sawn Lake - Jackpine Region, Alberta

Sceptre holds an approximate 15 percent interest in a 12,160-acre block in the Sawn Lake region of north central Alberta where a major NORP oil discovery well, the Roxy et al Sawn Lake 8-32-91-12 W5M, was drilled in March, 1983. The well, which penetrated a 60-foot gross section of Devonian Slave Point reef development, was placed on sustained production in November, 1983 at an allowable rate, granted by the Energy Resources Conservation Board, of 372 barrels per day. Recoverable reserves of 1,260,000 barrels have been assigned to the discovery well by the Board. Production from the well qualifies for a five-year, royalty-free period under Alberta regulations. Four successful follow-up wells, at 14-20, 16-29, 4-31 and 10-32, were also drilled at Sawn Lake during 1983 and early 1984 and have been placed on production. Sceptre and its partners plan an active drilling program on the acreage, aimed at delineating the areal extent of the discovery. As many as 17 additional wells could be drilled during the year at Sawn Lake.

At Jackpine and Jackpine West, both northwest of Sawn Lake and along the same Slave Point reef trend, Sceptre holds a 33 1/3 percent interest in a total of 10,240 acres. Two unsuccessful exploratory wells were drilled on the acreage at no cost to the Company during early 1984. A high level of industry activity continues in the Jackpine region and the Company's large acreage spread is well positioned relative to this activity.

## Crystal (Hoadley), Alberta

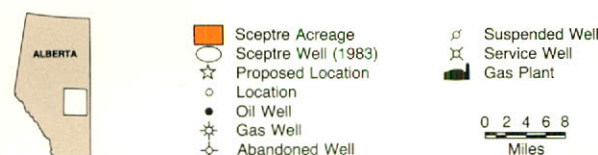
At Crystal (Hoadley) in central Alberta, where Sceptre holds interests ranging from 33 1/3 percent to 50 percent in 9,600 acres, a total of six successful Viking Channel oil wells have been drilled since October, 1982. These wells produced at a combined rate of 250 barrels of oil per day (86 barrels net to Sceptre) during 1983 through battery and pipeline facilities installed during the year. Five additional wells are being considered for 1984, all on acreage held 50 percent by Sceptre. The anticipated implementation of a secondary recovery scheme at Crystal should substantially improve both the daily production rates and ultimate recovery factor.

## Birch Wavy, Alberta Region

Sceptre operates eight gas plants and compressor stations and is part owner in three non-operated facilities within the general Birch Wavy region of eastern Alberta, which accounted for approximately 25 percent of the Company's natural gas sales during 1983. Major producing properties include Edward, Birch Lake, Warwick, Plain Lake, Therien and Holmberg. The gas is primarily sold to TransCanada PipeLines Limited with the exception of Holmberg, which is contracted to Alberta and Southern Gas Company Limited, and Therien, which is contracted to Pan Alberta Gas Limited. The region, particularly in the southern portion, is also prospective for NORP oil.

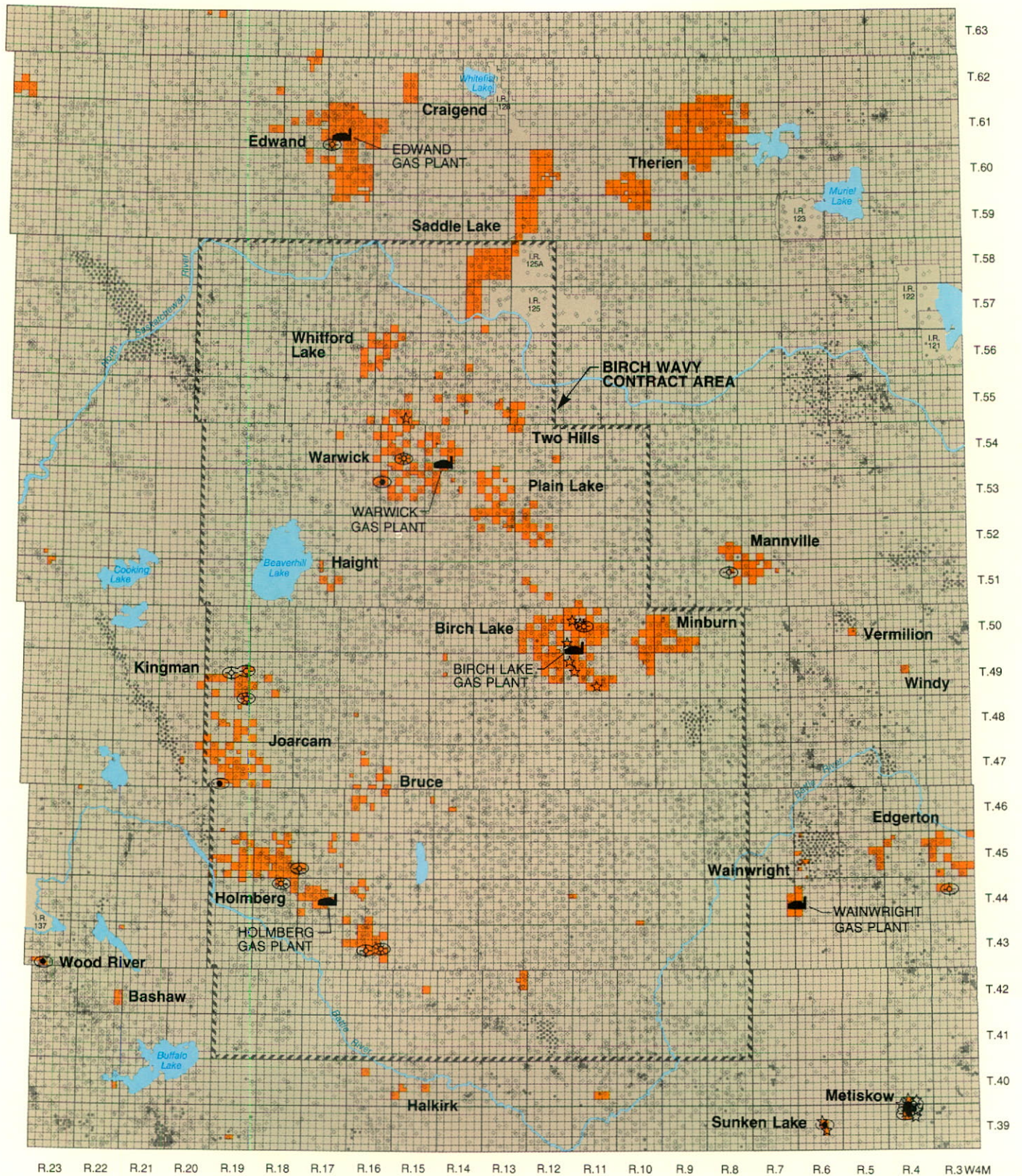
During 1983, Sceptre participated in the drilling of 24 wells within, or immediately adjacent to, the Birch Wavy gas contract area. This drilling program resulted in ten potential oil wells, six natural gas wells and eight wells which were dry or suspended.

At Metiskow, six oil wells were drilled in 1983 extending the existing Dina channel sand oil pool. Production during the year from this pool averaged 350 barrels of oil per day with Sceptre holding an average seven percent interest. Several wells are planned to delineate the limits of this pool. Additionally, along this same Dina channel sand trend, two wells are planned at Sunken Lake to evaluate the potential of the oil-bearing sand encountered in two wells drilled previously on the acreage, including the 7-22-39-6 W4 well drilled late in 1983. The Company has interests varying from 11.25 percent to 100 percent on 960 acres at Sunken Lake. The planned wells at Sunken Lake and Metiskow are part of a 14-well program slated for the Birch Wavy region in 1984.



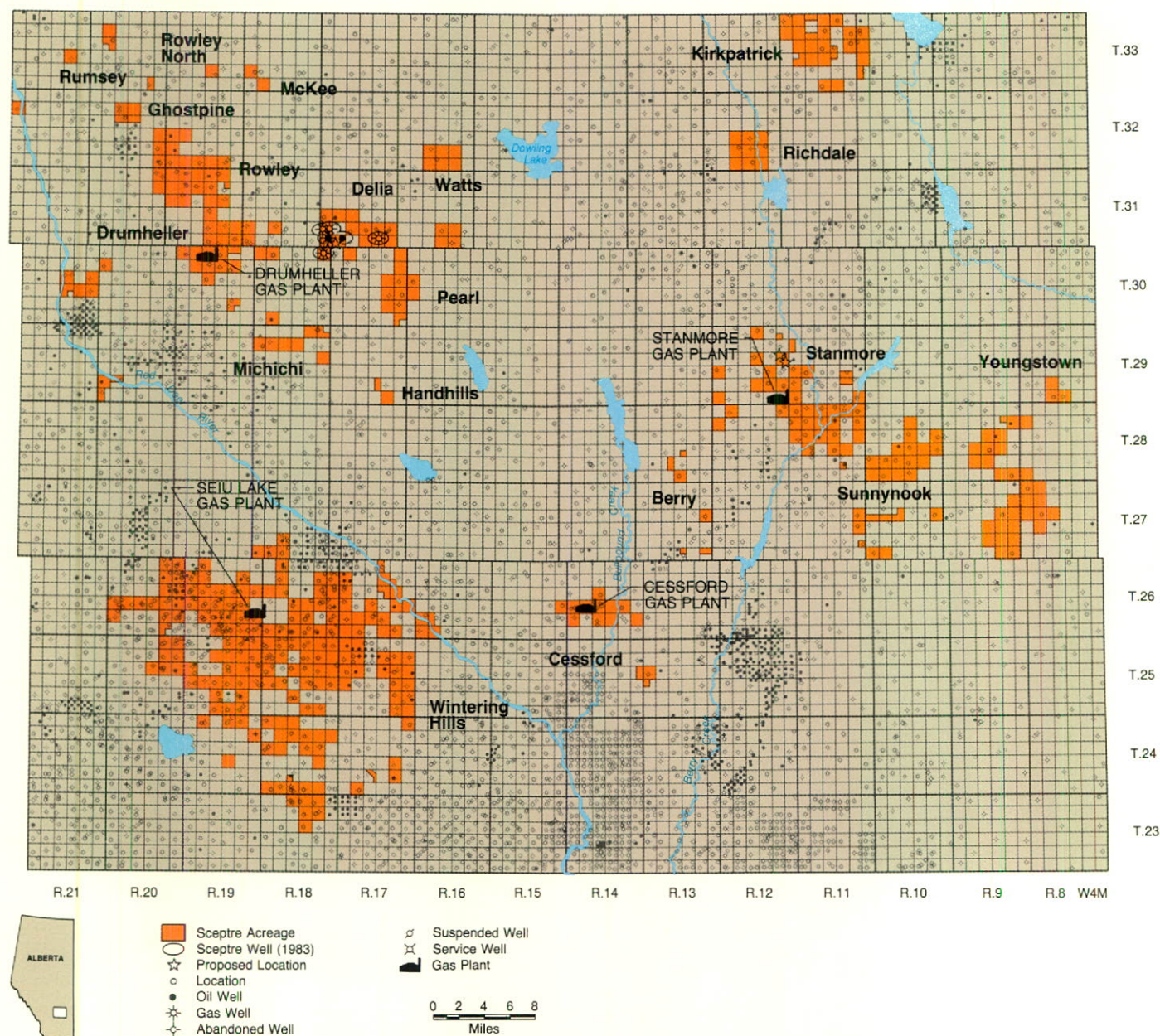


## Birch Wavy Contract Region





## East-Central Alberta Region



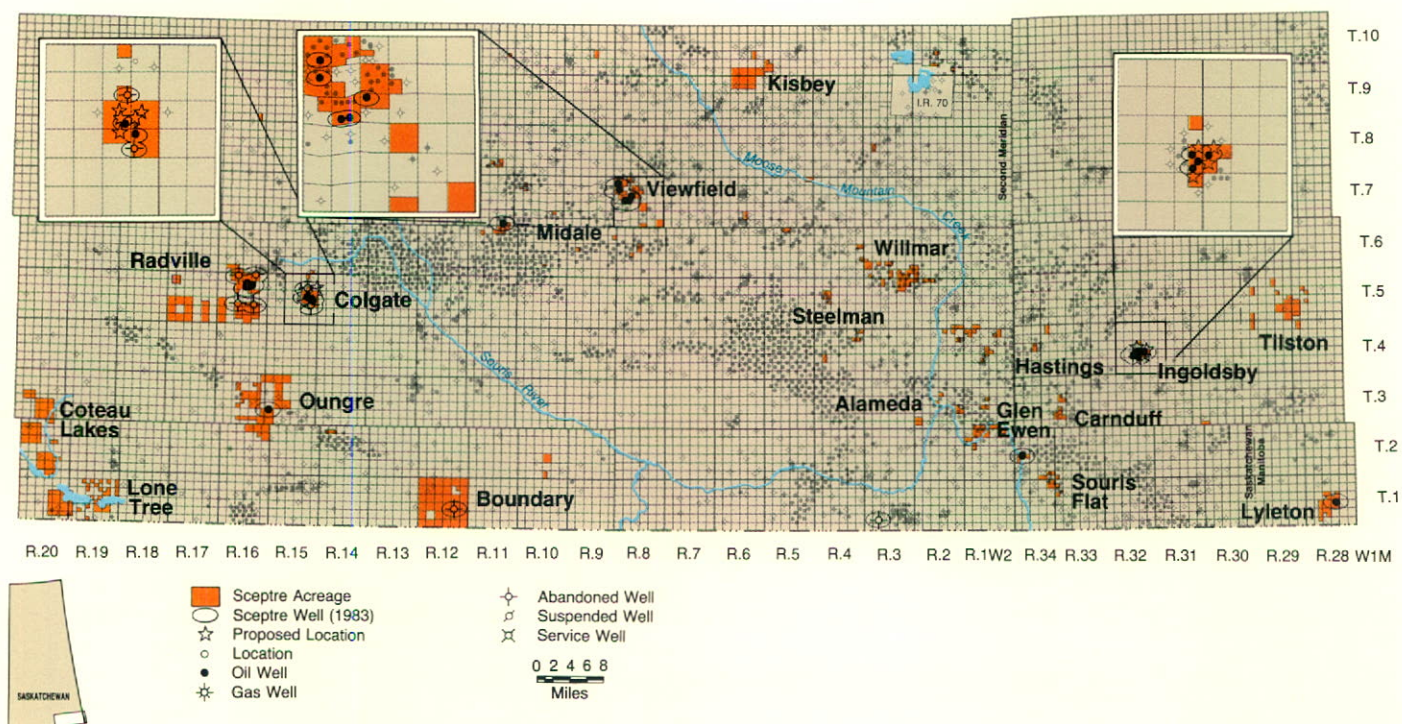
## East Central Alberta Region

Sceptre owns an interest in seven gas plants or compression facilities within the east central Alberta area from which 40 percent of the Company's natural gas sales are generated. Significant producing fields include *Wintering Hills*, *Stanmore*, *Drumheller-Rowley* and *Cessford*. All gas is sold to TransCanada PipeLines Limited, primarily under reserve-base contracts, with the exception of Stanmore which is under a deliverability contract. A small amount of gas was sold during 1983 to an industrial user during off-peak periods. In addition to being a gas-prone region, the area is prospective for NORP oil.

In the *Della* area, six wells were drilled in which the Company has interests varying from 3.13 percent to 8.33 percent, resulting in four multi-zone gas wells and two potential oil wells in a Basal Mannville reservoir. An additional well is planned in 1984 to evaluate the extent of the oil reservoir. The four gas wells, together with one well drilled in 1982, were tied in and placed on production in November, 1983 under a TransCanada PipeLines Limited area contract. At *Stanmore*, two wells (Sceptre 85 percent interest) are planned for 1984 to evaluate an Ostracod oil play which is developing in the region.



## Southeastern Saskatchewan Region



## Southeastern Saskatchewan Region

Sceptre generates approximately 35 percent of its oil production from the general southeastern Saskatchewan region, with major production facilities located at *Willmar*, *Viewfield* and *Souris Flats*. From an industry viewpoint, this region was one of the most active in Canada during 1983, primarily because of its potential for NORP oil. Sceptre was also active in the region, participating in 26 wells during the year (11 at no cost to the Company) which resulted in 18 oil wells and eight dry or suspended wells.

At *Colgate*, where the Company holds interests ranging from 12.5 percent to 50 percent in 2,560 gross acres, two successful oil wells were drilled during the year to follow up on the 1982 new pool discovery well at 4-24-5-15 W2M. All three wells are on a royalty-free status and producing at a combined daily rate of 415 barrels. Sceptre has an average 12.5 percent interest in the discovery and a number of additional locations are planned for 1984.

At *Ingoldsby*, the Company participated as to a 40 percent interest in four successful NORP oil wells on its 1,413-acre parcel. Sceptre's net production from the wells is averaging 70 barrels per day and four additional wells are planned for 1984.

At *Viewfield*, five successful Mississippian oil wells were drilled during 1983 (three at no cost to the Company), with Sceptre retaining interests ranging from 7½ percent to 50 percent. The wells are royalty free for one year and qualify for NORP pricing. Company net production from the wells is presently 200 barrels per day. Additionally, Sceptre holds an interest in 31 existing oil wells at *Viewfield* which generated net production of approximately 300 barrels of oil per day during 1983. Further drilling is anticipated.

Sceptre also participated in successful oil wells at *Radville*, *Glen Ewen* and *Midale* during 1983.

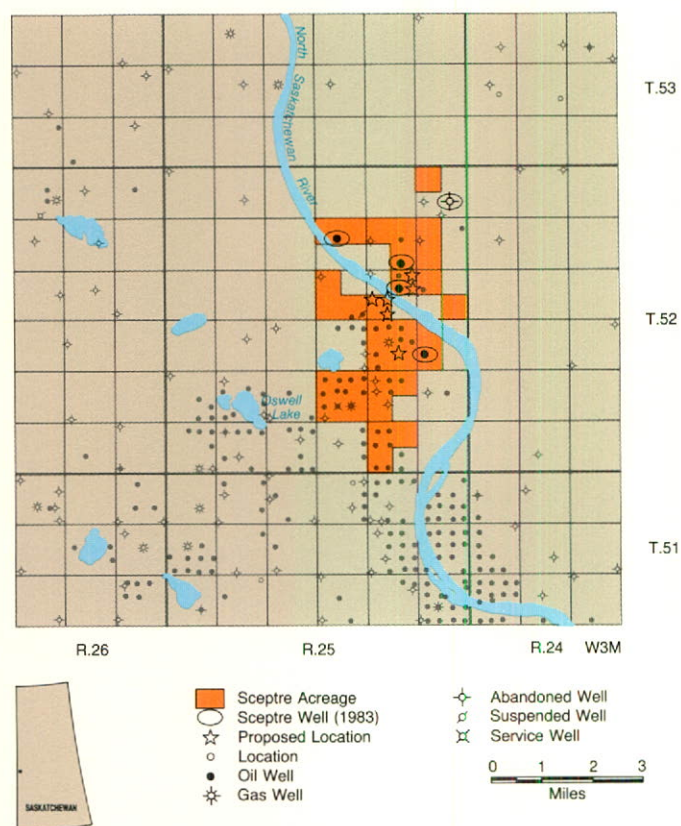


*Rig at Sawn Lake*





## Tangleflags North



### Tangleflags North, Saskatchewan

Sceptre holds a 50 percent interest in 4,960 gross acres within the limits of the *Tangleflags Field* in western Saskatchewan. The region is prospective for heavy oil production (14° gravity) from a number of lower Cretaceous sandstones. During 1983, Sceptre drilled five wells at Tangleflags, resulting in four Lower Lloydminster Channel oil wells and one abandoned well. A similar level of activity is anticipated in 1984. The Company currently has a total of 19 wells on production at Tangleflags generating net production, on primary recovery, of 240 barrels of oil per day. Sceptre and its partner are examining the feasibility of an enhanced recovery program in order to significantly increase the recovery factor.

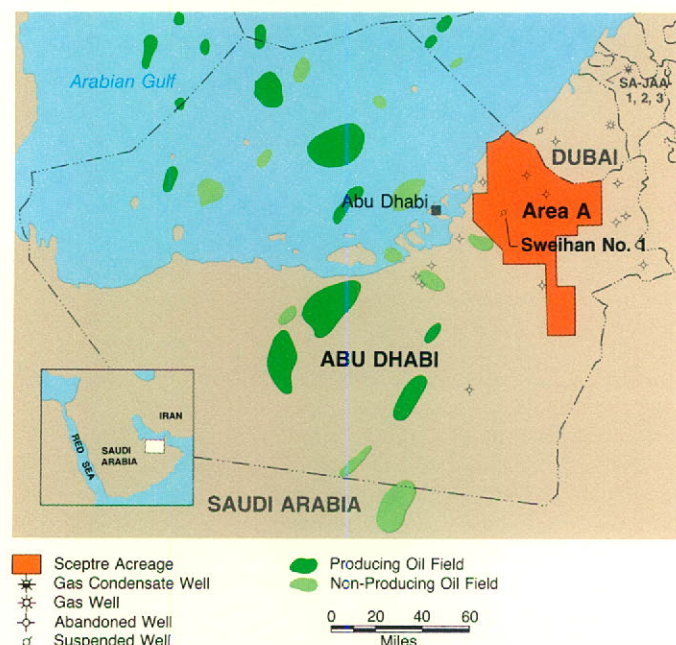
### Batrum, Saskatchewan

Sceptre holds a 75 percent interest in, and is operator of, the *Batrum Unit No. 4* located in southwest Saskatchewan, approximately 20 miles northwest of Swift Current. During 1983, an active upgrading program was conducted, which included the drilling of four infill wells. Current production rates for the Unit exceed 800 barrels of oil per day as compared to 600 barrels per day previously. Also as a result of this upgrading program, Unit production now qualifies for the Saskatchewan new oil royalty rate and one-half of production qualifies for NORP pricing. The oil is medium gravity crude (18° gravity) and sells for a blended price of approximately \$29.40 per barrel.



## International

### Abu Dhabi, United Arab Emirates

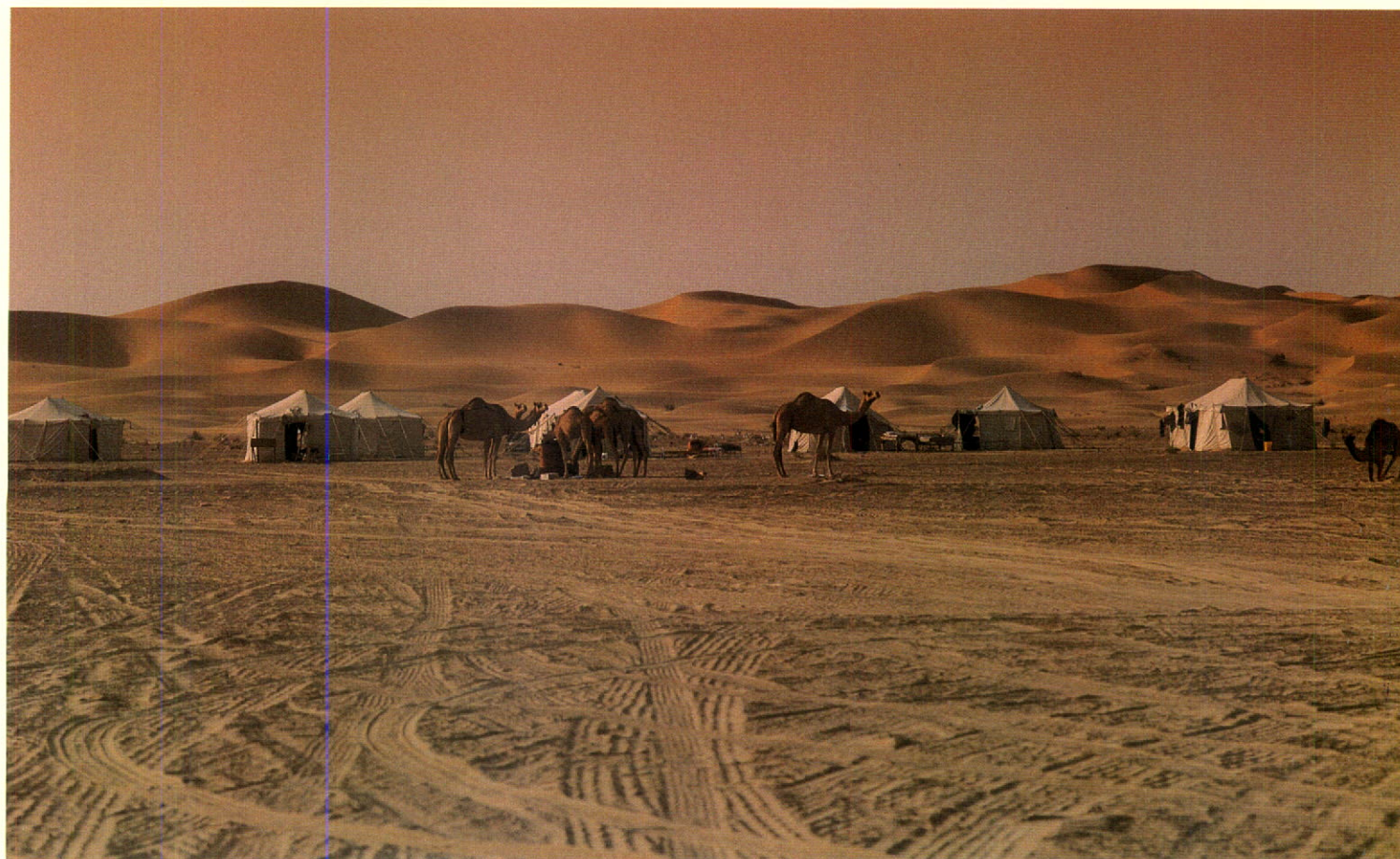


Sceptre's international activities are primarily concentrated in Abu Dhabi and Indonesia, which offer significant geological potential combined with attractive fiscal systems and ready access to markets.

#### ABU DHABI, UNITED ARAB EMIRATES

Sceptre is operator and holds a 25 percent working interest in the 1.5-million-acre Concession Area "A", situated onshore Abu Dhabi. In October, 1983, 25 percent of the original block was relinquished under the provisions of the concession agreement. One well, the Sweihan No. 1, has been drilled on the concession by Sceptre and its partners. The well was suspended as non-commercial in 1982.

A total of 3,500 miles of new and previously existing seismic has been gathered and interpreted over the three years since the concession was awarded. The combination of regional and detailed seismic has permitted a thorough technical assessment of the acreage and a number of promising leads have been generated covering a variety of potential geological horizons, including the Thamama, Mishrif and Asmari formations. Work is continuing towards defining drillable locations and current plans anticipate the drilling of a well late in the year.





## Northwest Java Sea, Indonesia



## INDONESIA

Sceptre has a 20 percent working interest in two adjacent offshore production-sharing contracts, designated Blocks A and B, in the Northwest Java Sea. Block A covers 5,126 square miles and Block B, operated by Sceptre, covers 6,848 square miles, totalling over 7.6 million acres in all. During 1983, extensive seismic surveys totalling approximately 5,000 miles were acquired and interpreted over both blocks and several prospective geological areas have been defined. The multiple-zone prospects being assessed are believed similar to those in the producing fields of the nearby Arjuna Basin which currently generates approximately 200,000 barrels of oil per day. Estimated recoverable reserve potential ranges from 15 to 50 million barrels per prospect.

Active drilling programs are planned for 1984 on both blocks, with three or more wells anticipated on Block A and a similar number on Block B. The wells will be 4,000 to 5,000 feet in depth and are situated in approximately 150 feet of water.

Sceptre and three U.S.-based exploration companies have formed a joint venture to identify new opportunities in Indonesia. Drawing on the Company's experience and knowledge of this region, Sceptre, as operator of the joint venture, will evaluate prospective new areas for assessment by the group with a view towards securing additional exploration rights in the future.

## OTHER AREAS

Sceptre recently announced an agreement to sell the Company's entire interest in four blocks in the *Dutch North Sea* for a total of \$5 U.S. million. The sale is expected to close in the second quarter of 1984. The Company continues to hold interests varying from 2.5 to 2.9 percent in six blocks in the *German Sector of the North Sea*. No significant seismic or drilling activities are planned for 1984. In the *Sulu Sea, Philippines*, Sceptre holds a 7.5 percent interest in a 3.6-million-acre geophysical contract area. The acreage has been farmed out to Union Texas which has the option of drilling a well during 1984 to earn a 60 percent interest in the block.





## United States

### United States

#### HIGH PLAINS OIL CORPORATION

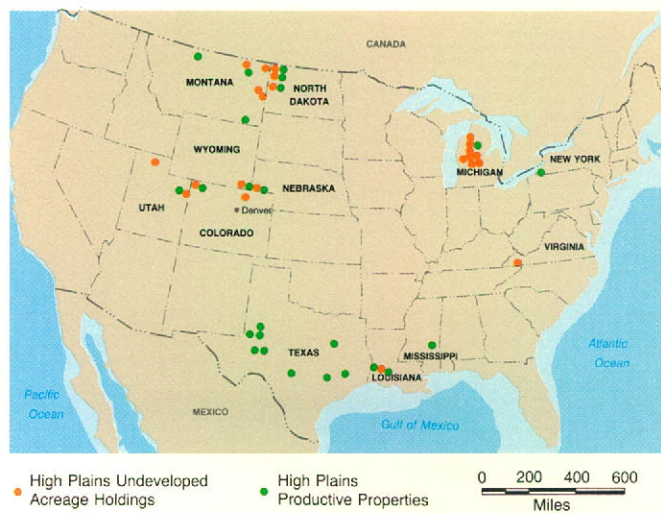
On June 13, 1983, Sceptre completed the reorganization of its United States operations through the formation of a new public company, High Plains Oil Corporation, located in Denver, Colorado. Sceptre owns 2,654,046 of the outstanding shares of High Plains (78.7 percent) with 506,000 shares (15.0 percent) held by the public and the remaining 213,687 shares (6.3 percent) held by the management of High Plains. The shares are listed for trading on the Alberta Stock Exchange under the symbol HPO. During the period from October 28, 1983, when the shares were initially listed, to December 31, 1983, they traded in the range of (Cdn.) \$8.00 to \$9.75. Sceptre reports the financial and operating activities of High Plains on a consolidated basis.

High Plains has a strong financial position, consisting of working capital at the end of the reporting period of \$6.4 U.S. million and virtually no debt. Proved reserves of oil and gas at December 31, 1983 were estimated by Ryder Scott Company, independent petroleum engineers, to be 238,000 barrels of oil and liquids and two billion cubic feet of natural gas. These reserves are primarily located in Michigan, North Dakota, the Gulf Coast Region and the Rocky Mountain Region. In January, 1984, High Plains completed the acquisition for \$2.25 U.S. million of net overriding royalty and working-interest reserves in Texas totalling 245,000 barrels of oil and 419 million cubic feet of natural gas. On a combined basis, including this recent acquisition, High Plains proved reserves are expected to generate revenue in excess of \$20 U.S. million over the useful life of the properties and have been assigned a net present value of \$9 U.S. million discounted at 15 percent. Daily production in 1984 from these reserves is forecast to be 170 barrels of oil and liquids and 800,000 cubic feet of natural gas.

High Plains will continue to identify and examine potential merger or acquisition candidates in order to broaden the reserve and acreage base of the Company.

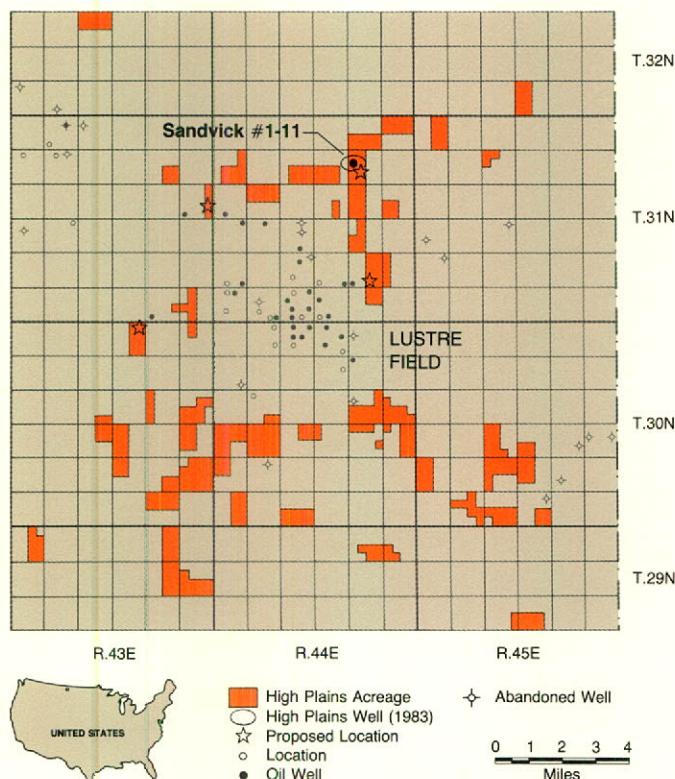
#### Exploration and Development Activities

High Plains holds approximately 254,000 net undeveloped acres situated in a number of prospective geological basins, including the Williston Basin, the Rocky Mountain region, the Michigan Basin and the Appalachian Overthrust region. During 1983 and 1984, High Plains is concentrating on identifying potential drillable prospects on its acreage. Where prospects have been identified, High Plains attempts to reduce the dry-hole risk and attendant financial exposure by inviting industry partners to participate in the higher-risk wildcat wells in return for earning a portion of High Plains' working interest in the acreage.





## Valley County, Montana



## Valley County, Montana

High Plains holds approximately 61,700 net undeveloped acres in Valley County, Montana, including acreage in the Lustre area offsetting a Mississippian Charles formation oil field established in 1982. High Plains has entered into an agreement with two independent oil companies in relation to approximately 29,700 of its acres in the Lustre region, which will result in the shooting or acquisition of new seismic and the drilling of up to three wells within 18 months, at no cost to High Plains. During the year, High Plains participated in a Mississippian discovery, the Sandvick 1-11, situated three miles northeast of the Lustre Field. The well was completed on pump at an initial daily production rate of 90 barrels of oil per day and 100 barrels of water from the Charles "D" zone at approximately 6,000 feet. High Plains holds a 12.5 percent working interest in the well. A confirmation well, the Sandvick 2-11, which was drilled in early 1984, was dry. Additional drilling will depend upon the results of the initial discovery well. With its extensive and well-located acreage in Valley County, High Plains is in a position to benefit from the increased industry activity.

## Central Williston Basin

High Plains holds 21,909 net undeveloped acres in the Central Williston Basin, where an ongoing geological, geophysical and drilling program is being conducted. Drilling since the beginning of 1982 by High Plains and its predecessor companies, primarily in Divide and Williams Counties of North Dakota, has resulted in five successful oil wells, including the Henning #1 well (High Plains 12.1 percent interest) in Divide County which was completed as a Red River oil well in November, 1983. Production from the well is expected to exceed 140 barrels per day during 1984. Subsequent to the year end, High Plains participated as to a 12.5 percent interest in a Red River discovery on the North Clear Lake Prospect in Sheridan County, Montana. Testing of the well has commenced and results should be known in April, 1984.

## Michigan Basin

In Michigan, where High Plains holds a total of almost 50,000 net undeveloped acres, ongoing seismic programs in Isabella, Missaukee and Osceola Counties have identified a number of prospects for possible future exploratory activity. High Plains also holds a 6.25 percent working interest in the Gilde No.1-25 Prairie du Chien gas discovery, drilled in 1982. Production from the well during 1983 averaged 2.55 million cubic feet per day.









## Report on Production and Reserves



### PRODUCTION

Sceptre's 1983 operations were highlighted by record production rates for both oil and natural gas. Crude oil, condensate and NGL production during 1983 was 1,383,032 barrels (3,789 barrels per day), an increase from 740,345 barrels (2,028 barrels per day) in 1982.

Natural gas production also nearly doubled to 15.6 billion cubic feet (42.7 million cubic feet per day) in 1983 from 8.0 billion cubic feet (21.9 million cubic feet per day) in 1982. The accompanying table presents Sceptre's production for 1983 on a geographical basis.

#### Production of Crude Oil, Liquids and Natural Gas

*Year ended December 31, 1983*

	Crude Oil and Liquids (barrels)		Natural Gas (million cubic feet)	
	Total	Daily Average	Total	Daily Average
<b>Canada</b>				
Alberta	589,254	1,614	14,227.8	39.0
Saskatchewan	750,986	2,058	194.4	0.5
British Columbia	2,544	7	935.1	2.6
Manitoba	2,977	8	—	—
<b>U.S.A.</b>	37,271	102	224.9	0.6
<b>Total</b>	1,383,032	3,789	15,582.2	42.7

Production increases reflect a full year's inclusion of the Francana properties acquired on May 14, 1982 and slightly over 11 months' production from the Willowdale properties acquired on January 27, 1983. Oil production in 1983 was also influenced by a variety of other developments, including a number of new discoveries made during the year, by the upgrading and secondary recovery programs initiated on a number of properties and by a return to almost full production rates during the year after a removal of the market restrictions which existed in 1982 for both Alberta and Saskatchewan crude oil. On the other hand, continued weak demand for Alberta natural gas, coupled with excess industry capacity, combined to depress Sceptre's gas sales during most of 1983 to less than one-half of daily contracted quantities.



Daily production for the year on a quarterly basis, including Willowdale production from January 27, 1983, was as follows:

	Crude Oil and Liquids (Bbls) Daily Average		Natural Gas (MMcf) Daily Average	
	1983	1982	1983	1982
First Quarter	3,540	232	45.1	8.7
Second Quarter	3,576	1,341	37.0	16.7
Third Quarter	3,954	3,092	36.8	24.2
Fourth Quarter	4,078	3,402	51.9	37.8
Twelve-month Daily Average	3,789	2,028	42.7	21.9

### Crude Oil and Liquids

The accompanying table shows the average daily oil and liquids production rates for 1983 for those properties generating in excess of 50 barrels per day, net to the Company. For comparative purposes, on a pro forma basis, the Sceptre, Francana and Willowdale properties generated total combined production of 3,225 barrels per day during 1982.

### Crude Oil and Liquids Production

<i>Daily Production in Barrels</i>	1983
<b>Saskatchewan</b>	
Battrum	493
Willmar	481
Viewfield	383
Tangleflags	194
Souris Flat	126
Rapdan	55
Others	326
	2,058
<b>Alberta</b>	
Taber	195
Peco	186
Princess	169
Wintering Hills	168
Virgo	90
Crystal	86
Pembina	75
Boundary Lake	70
Others	575
	1,614
<b>British Columbia and Manitoba</b>	15
<b>United States</b>	102
<b>Total Daily Production</b>	3,789

Fifty-four percent of 1983 production was from the province of Saskatchewan, 43 percent from Alberta and the remainder primarily from British Columbia and the United States. The major producing properties for the Company are located at Battrum, Willmar, Viewfield and Tangleflags in Saskatchewan and at Taber, Peco, Princess and Wintering Hills (primarily natural gas liquids) in Alberta. Sceptre operates 31 out of a total 94 oil properties; however, operated properties generate almost 61 percent of total Company daily production. Production is generated from approximately 1,200 gross wells in which Sceptre holds an average working interest of 15 percent.

The action of the National Energy Board in permitting short-term exports of light and medium crude oil was effective in resolving, for the most part, the significant problem of shut-in crude that was experienced during 1982. On July 1, 1983, all oil in Canada formerly granted the Special Old Oil Price (SOOP) was reclassified to the New Oil Reference Price (NORP). Also during 1983, Sceptre completed a major work program at its major producing property, Battrum, Saskatchewan, which resulted in the reclassification of 50 percent of the production from the lowest price category, designated Conventional Old Oil Price (COOP), to NORP. As a result, 48 percent of Sceptre's Canadian oil production now qualifies as NORP which essentially commands world price, compared to approximately 13 percent which qualified at year-end 1982. The December, 1983 reference prices in Canadian dollars for average-quality crude are as follows:

COOP	\$29.53 per barrel
NORP	\$37.90 per barrel

Ongoing exploration and development efforts at Sawn Lake, Ingoldsby, Crystal, Colgate and other areas are expected to contribute to increases in Company oil production for 1984. Oil exploration and development in Alberta and Saskatchewan will remain one of Sceptre's top priorities.

### Natural Gas

The accompanying table shows the average daily natural gas production rates for those properties generating in excess of one million cubic feet per day, net to the Company. For comparative purposes, on a pro forma basis, the Sceptre, Francana and Willowdale properties generated combined production of approximately 51.3 million cubic feet per day during 1982.



**Natural Gas Sales**

<i>Daily Sales in Millions of Cubic Feet</i>	1983
<b>Alberta</b>	
Wintering Hills	9.2
Edward	4.3
Birch	3.2
Stanmore	2.8
Warwick/Willingdon	2.4
Holmberg	2.0
Arrowwood	1.8
Edgerton	1.2
Long Coulee	1.1
Trochu	1.0
Cessford	1.0
Others	9.0
	39.0
<b>British Columbia and Saskatchewan</b>	
Inga, B.C.	1.1
Others	2.0
	3.1
<b>United States</b>	0.6
<b>Total Daily Sales</b>	42.7

During 1983, natural gas production in Alberta accounted for 91 percent of the total, with British Columbia contributing six percent and Saskatchewan and the United States the remainder. Major producing properties are located at Wintering Hills, Edward, Birch and Stanmore, all in Alberta. Forty-six percent of total gas production is from Company-operated properties. Production is generated from 800 gross wells in which Sceptre's average working interest is 37 percent.

Natural gas nominations and sales experienced an unprecedented decline in 1983 totalling only 47 percent of minimum contract quantities. This loss of natural gas markets was due to the interaction of recessionary conditions, interfuel competition, unseasonably warm weather and uncertainty in United States gas markets. In response to declining markets and prices in the United States, the NEB reduced the border export price and introduced a volume-related incentive pricing scheme on incremental sales over 50 percent of previously authorized volumes. Further reductions in gas prices to meet market competition appear likely.

The average 1983 Alberta regulated field price for natural gas of \$2.61 per Mcf compared to an average of \$2.67 per Mcf during 1982. However, the price throughout 1983 demonstrated considerable volatility, declining from a peak of \$3.00 per Mcf in February to a low of \$2.26 per Mcf in July and recovering to \$2.94 per Mcf in December. The midyear decline reflected an increased cost of service per unit of gas sold combined with lower volumes of natural gas sales and a reduced border price adjustment. The reduced border price resulted from a lower natural gas export price and lower export volumes. These complex and primarily negative factors influencing price were partially offset by a 25-cent-per-MMbtu price increase granted in August, 1983.

During the period December, 1983 to February, 1984, a period of cold weather created a dramatic but short-lived demand for gas. Sceptre's peak production during that period exceeded 90 MMcf per day. As long-term gas markets improve, Sceptre is in a position to deliver significant additional gas volumes from its contracted reserves, which will provide increased revenue and cash flow. Additionally, an estimated 11-MMcf-per-day potential exists from shut-in and uncontracted gas reserves.

TransCanada PipeLines introduced the Topgas Two program during the year to accommodate take-or-pay advances for gas volumes not taken below the previously established base of 60 percent for Topgas One. This program also lowered the base under which take-or-pay advances will be made in future contract years to between 50 and 60 percent of the minimum daily contract quantities in effect in the 1981/82 contract year. Recoveries of take-or-pay advances are scheduled to commence at the beginning of the 1984/85 contract year at an annual rate of 10 percent of the balance per year.





## RESERVES

Sceptre's oil and natural gas reserve volumes and the forecast of future cash flow to be derived from these reserves, based on the Company's interests as of December 31, 1983, are shown on the accompanying tables. The Canadian properties were evaluated by McDaniel & Associates Consultants Ltd., Grant Trimble Engineering Ltd. and Coles Nikiforuk Pennell Associates Ltd., all of Calgary. The United States properties were evaluated in 1983 by Ryder Scott Company of Denver, Colorado.

The combined Canadian (before Crown and other royalties) and United States (after royalties) proven reserves as of December 31, 1983 are estimated to be 11.7 million barrels of oil and natural gas liquids and 275.8 billion cubic feet of natural gas, an increase over the previous year of 19 percent and 26 percent respectively. These significant increases reflect the Willowdale purchase in early 1983 and also are net of 1983 production totalling 1.4 million barrels of oil and liquids and 15.6 billion cubic feet of natural gas. Proven and probable reserves of oil and liquids at the end of 1983 were 20.8 million barrels as compared to 20.1 million barrels last year. Natural gas, on a combined proven and probable basis, increased from 283.3 billion cubic feet last year to 370.4 billion cubic feet at December 31, 1983. Also associated with the natural gas reserves are 37,000 long tons of sulphur.

Significant oil reserve additions were made at Ingoldsby, Battum, Viewfield and Tangleflags in Saskatchewan and at Crystal, Lake Newell and Taber in Alberta. Modest reserve additions were booked at Sawn Lake, Alberta where information is being held confidential pending the results of ongoing drilling and production-testing programs. A 3.2-million-barrel reduction in probable oil reserves reflects the combination of a downward revision of the expected recovery factor for heavy oil at Tangleflags, as well as a reclassification of probable oil to the proven category for a number of Company properties.

The increase in gas reserves is primarily due to the Willowdale acquisition, with exploration and development

efforts being directed to oil-prone areas due to the current gas-deliverability surplus. Approximately 90 percent of the Company's gas reserves are contracted, primarily on a long-term basis. Currently, 73 percent of Sceptre's total gas production is dedicated to TransCanada Pipelines Limited. The remainder is contracted primarily to Alberta & Southern Gas Co. Ltd., the British Columbia Petroleum Commission and Pan Alberta Gas Ltd.

## Estimated Present Worth of Reserves

The accompanying table outlines the present worth of the Company's oil and gas reserves at December 31, 1983 as estimated by the independent consultants, employing escalated pricing and, after deductions for Crown and other royalties, all revenue taxes including Federal Incremental Oil Revenue Tax (IORT) and Petroleum and Gas Revenue Tax (PGRT), Topgas repayments, future capital costs and operating costs. The values also reflect the impact of the Alberta royalty credit and PGRT credit.

### Present Worth of Reserves

*As of December 31, 1983*

Reserve Category	Present Worth Discounted At			
	0%	10%	15%	20%
	(000)	(000)	(000)	(000)
<b>Canada</b>				
Proven	\$1,306,996	\$491,379	\$358,861	\$279,880
Probable	450,682	102,702	63,130	42,839
Total	\$1,757,678	\$594,081	\$421,991	\$322,719
<b>United States</b>				
Proven	\$ 13,259	\$ 9,042	\$ 7,782	\$ 6,820
Probable	5,435	2,402	1,773	1,362
Total	\$ 18,694	\$ 11,444	\$ 9,555	\$ 8,182
<b>Company Total</b>				
Proven	\$1,320,255	\$500,421	\$366,643	\$286,700
Probable	456,117	105,104	64,903	44,201
Total	\$1,776,372	\$605,525	\$431,546	\$330,901

## Reserves of Crude Oil and Liquids and Natural Gas

	Crude Oil and Natural Gas Liquids			Natural Gas		
	(millions of barrels)			(billions of cubic feet)		
	Proven	Probable	Total	Proven	Probable	Total
At December 31, 1982	9.8	10.3	20.1	219.5	63.8	283.3
Revisions of previous estimates	0.7	(3.2)	(2.5)	(0.7)	(7.1)	(7.8)
Extensions and discoveries	1.5	1.3	2.8	5.1	1.6	6.7
Acquisitions of reserves	1.1	0.7	1.8	67.5	36.3	103.8
Production during 1983	(1.4)	—	(1.4)	(15.6)	—	(15.6)
At December 31, 1983	11.7	9.1	20.8	275.8	94.6	370.4



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## FINANCIAL REVIEW

### Operations

Gross production revenue for 1983 was \$88.6 million compared to \$42.5 million in 1982. After deduction of royalties and mineral taxes (\$26.1 million or 29.5 percent of gross revenue in 1983; \$13.3 million or 31.4 percent in 1982), net production revenue was \$62.5 million in 1983 and \$29.2 million in 1982. Total net revenue in 1983, after including other income, was \$62.9 million versus \$29.7 million in 1982, an increase of 112 percent.

Cash flow from operations was \$19.9 million in 1983 (\$0.94 per share based on 21.2 million weighted-average shares outstanding) compared to \$7.2 million in 1982 (\$0.49 per share based on 14.8 million weighted-average shares outstanding). The significant increases in revenue and cash flow reflect the impact of the acquisition of Francana in May, 1982 and of Willowdale in January, 1983, as well as increased production levels from recent oil discoveries. The reader is referred to the section of the report entitled Report on Production and Reserves.

During 1983, \$57 million was charged to earnings as a non-cash write-down of non-producing foreign exploration. This compares to \$18.3 million in 1982. The components of the 1983 write-down were: United States — \$35.5 million; Abu Dhabi — \$12.2 million; Arctic and equipment — \$6.1 million; other areas — \$3.2 million. In 1982, charges by geographical area were: United States — \$9.5 million; foreign areas — \$8.8 million. The write-down of approximately \$35 million in the book value of U.S. properties reflects a combination of lower commodity prices for oil and natural gas, a decline in the fair market value of undeveloped acreage and losses on sales, surrenders or expiries of undeveloped land. Internationally, all properties except Abu Dhabi, Indonesia and the Dutch North Sea have been written off. Abu Dhabi has a book value, after write-down, of \$9.1 million, Indonesia \$1 million and the Dutch North Sea \$4.2 million. An agreement has been reached to sell the Dutch properties for \$5 U.S. million, plus accrued interest.

The loss, before extraordinary item and after deducting term preferred dividends and minority interest, was \$53.9 million in 1983 and \$20.3 million in 1982. After provision for a \$5.6 million extraordinary gain on the sale of a portion of the investment in Candecca, the loss for the period was \$48.3 million compared to \$20.3 million in 1982. An extraordinary gain of approximately \$15 million related to the balance of the Candecca sale will be recorded during the first quarter of 1984.

The final loss per share, after provision for dividends paid on outstanding convertible preferred shares, was \$2.45 per share compared to \$1.52 per share in 1982.



## Financial Resources and Liquidity

Fixed-asset additions in 1983 totalled \$22.6 million which included a reclassification of leases held for resale in the amount of \$7 million. These leases were acquired prior to 1983 and previously included in current assets. Additions in 1983, ignoring this reclassification, were \$15.6 million. In 1982, fixed-asset additions totalled \$53.1 million.

During 1983, asset additions in Canada were \$12.4 million, as compared to \$17.9 million in 1982; in the United States outlays were \$10.2 million (including the \$7 million reclassification of leases), compared to \$16.8 million in 1982; and, internationally, outlays in 1983 were completely offset by the recovery from partners of prior sunk costs related to Indonesian activity, compared to total international expenditures of \$18.4 million in 1982. The asset additions include capitalized general and administrative charges and interest of \$9.8 million in each of 1983 and 1982.

Working capital increased \$65.9 million during 1983, with consolidated year-end working capital amounting to \$43.2 million. Over 50 percent of working capital is in the form of cash and short-term investments. Total working capital additions during 1983 were \$162.4 million, including \$19.9 million generated from operations, \$70.4 million on the issuance of shares (of which \$17 million related to the Willowdale share exchange), \$10.7 million from the sale of Candecca shares and rights, \$50.1 million from borrowings and \$11.3 million from other items. Working capital applications totalled \$96.6 million, including \$22.6 million of fixed-asset additions, \$20.6 million to acquire Willowdale, debt reductions of \$30.8 million, an investment in Candecca of \$4.9 million and other items totalled \$17.7 million.

On January 27, 1983, the Company acquired the outstanding common shares of Willowdale Resources (1981) Ltd., a private oil and gas company, by issuing 850,029 of 8½% Convertible Second Preferred Shares Series "B", which have an ascribed value of \$20.00 per share. Sceptre also assumed Willowdale's net debt of approximately \$47.2 million. Willowdale's results have been incorporated with those of Sceptre subsequent to January 27, 1983. This purchase broadened the Company's cash-generating crude oil and natural gas reserve base in Western Canada. Willowdale's properties contributed 20.3 percent of Sceptre's net Canadian production revenue during 1983, despite the severe curtailment of demand for natural gas which occurred during the year. As markets are restored to more normal levels later in the decade, the properties so acquired will generate significant revenue and cash flow while requiring minimal capital expenditures to maintain deliverability.

During the year, both Willowdale and its wholly owned subsidiary, MEC Producing Ltd., were amalgamated into Sceptre Resources Limited as part of an internal consolidation designed to permit the achievement of fiscal and administrative economies. This reorganization will be finalized during 1984 when Francana is also amalgamated into Sceptre.

On February 25, 1983, Sceptre completed the placement with a Canadian institutional investor of 1,920,000 common shares, at a price of \$6.25 per share, and 150,000 8½% Convertible Second Preferred Shares Series "C", at a price of \$20.00 per share, for an aggregate sales price of \$15 million. Proceeds from the sale of equity were utilized to retire short-term bank indebtedness and this was reflected in the financial statements as at December 31, 1982.

On September 7, 1983, Sceptre completed a private placement of common shares with the Caisse de Dépôt et Placement du Québec of Montreal for gross proceeds of \$39 million. The transaction resulted in the issuance to the Caisse of 6.5 million shares from Sceptre's treasury. The Caisse also received warrants to purchase a further one million common shares at a price of \$6.75 per share until August 15, 1986 and, thereafter, at \$7.00 per share until August 15, 1988. Approximately \$29 million of the gross proceeds from the issue have been added to Sceptre's working capital to permit the Company to expand its activity over the next three years. The balance of the proceeds was used to reduce bank indebtedness and to retire the balance of the preferred shares of subsidiaries.

Corporate indebtedness at December 31, 1983 was \$208 million. Subsequent to the year end, Sceptre reduced its total debt to \$166 million primarily through the application of the proceeds from the sale of its remaining Candecca shares. Also in early 1984, the Company established a total credit facility of \$187 million with its principal bankers, which includes unused credit lines of \$21 million. Amortization of principal will begin in 1985.

Both the acquisition of Willowdale and the equity placements have increased Sceptre's Canadian Ownership Rating and will enhance the Company's ability to derive the maximum benefits under the National Energy Program. As a result of these 1983 transactions, Sceptre has a total of 26 million common shares outstanding and 32 million on a fully diluted basis.



# Consolidated Balance Sheet

As at December 31, 1983

Assets		1983	1982
<b>Current Assets</b>			
Cash and term deposits		\$ 523,116	\$ —
Short-term investments, at cost		33,303,708	—
Accounts receivable		26,546,186	17,010,072
Notes receivable from Candecca Resources PLC		—	2,311,580
Inventory of leases held for resale		—	7,049,623
Current amount due from director and officer		256,400	—
		60,629,410	26,371,275
<b>Due from Director and Officer</b> (note 4)		512,800	1,849,200
<b>Investment in S &amp; K Petroleum Ltd.</b> , at cost, quoted market value 1982, \$777,781		—	462,933
<b>Investment in Candecca Resources PLC</b> , quoted market value 1983, \$35,760,619; 1982, \$29,940,518 (note 13)		16,997,750	16,897,875
<b>Fixed Assets</b> (note 5)		351,955,465	326,735,709
		<b>\$430,095,425</b>	<b>\$372,316,992</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank indebtedness, secured		\$ —	\$ 20,655,339
Accounts payable and accrued liabilities		15,266,729	18,251,788
Current maturities on long-term debt		285,501	10,132,811
Current amount of deferred production revenue		1,858,050	—
		17,410,280	49,039,938
<b>Long-Term Debt</b> (note 6)		208,250,001	144,448,818
<b>Deferred Production Revenue</b> (note 7)		37,602,530	24,830,224
<b>Preferred Shares of Subsidiary Companies</b>		—	11,600,000
<b>Deferred Income Taxes</b>		30,236,447	32,947,136
<b>Minority Interest</b>		7,967,128	—
<b>Shareholders' Equity</b>			
<b>Capital Stock</b> (note 9)		209,575,792	139,198,543
<b>Unrealized Foreign Exchange Gain</b>		536,755	—
<b>Deficit</b>		(81,483,508)	(29,747,667)
		128,629,039	109,450,876
		<b>\$430,095,425</b>	<b>\$372,316,992</b>

Approved by the Board

*R. A. Gusella*  
Director

*Jan S. P. ...*  
Director



## Consolidated Statement of Earnings

Year Ended December 31, 1983

	1983	1982
<b>Revenue</b>		
Gross production revenue	\$ 88,558,073	\$ 42,477,390
Crown, freehold and overriding royalties and mineral taxes	26,070,416	13,277,856
Net production revenue	62,487,657	29,199,534
Other income	397,428	466,765
	62,885,085	29,666,299
<b>Expenses</b>		
Production	15,200,909	5,993,492
Petroleum and gas revenue tax	5,822,336	2,897,026
General and administrative	6,750,678	4,452,807
Interest on long-term debt	15,797,499	7,781,647
Other interest	3,025,912	3,686,576
Depletion and depreciation	20,951,717	9,520,750
Write-down of non-productive foreign properties and exploration	56,964,698	18,310,848
Deferred income taxes	(4,301,961)	(1,619,146)
Alberta royalty tax credit	(4,000,000)	(2,370,080)
	116,211,788	48,653,920
Loss before undernoted	(53,326,703)	(18,987,621)
Dividends on preferred shares of subsidiary companies	(623,438)	(1,314,938)
Minority interest	9,063	—
<b>Loss Before Extraordinary Item</b>	<b>(53,941,078)</b>	<b>(20,302,559)</b>
<b>Extraordinary Item</b>		
Gain on sale of a portion of the investment in Candecca Resources PLC (net of deferred income taxes of \$306,000)	5,560,269	—
<b>Loss for the Year</b>	<b>\$ (48,380,809)</b>	<b>\$ (20,302,559)</b>
<b>Loss per Common Share</b>		
Before extraordinary item	\$(2.71)	\$(1.52)
Extraordinary item	0.26	—
Loss for the year	\$(2.45)	\$(1.52)

## Consolidated Statement of Deficit

Year Ended December 31, 1983

	1983	1982
<b>Deficit at Beginning of Year</b>	<b>\$(29,747,667)</b>	<b>\$ (7,345,284)</b>
Loss for the year	(48,380,809)	(20,302,559)
Dividends on preferred shares	(3,355,032)	(2,099,824)
<b>Deficit at End of Year</b>	<b>\$(81,483,508)</b>	<b>\$(29,747,667)</b>



## Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1983

	1983	1982
<b>Working Capital Derived From</b>		
Operations (note 14)	\$ 19,919,278	\$ 7,224,831
Issue of common shares		
For cash, net of share-issue expenses	50,031,472	513,099
On acquisition of Francana Oil & Gas Ltd.	—	42,621,006
On acquisition of oil and gas partnership units	345,197	—
Issue of preferred shares		
For cash	3,000,000	—
On acquisition of Willowdale Resources (1981) Ltd.	17,000,580	—
Business combination with High Plains Oil Corporation, net of acquisition costs of \$236,719	3,734,032	—
Sale of a portion of the investment in Candecca Resources PLC	10,698,139	—
Long-term debt	50,087,425	33,136,746
Deferred production revenue	6,250,026	10,845,332
Due from directors and officers	793,900	—
Unrealized foreign exchange gain	582,418	—
Other assets	—	566,615
	<b>162,442,467</b>	<b>94,907,629</b>
<b>Working Capital Applied To</b>		
Fixed assets	22,630,874	53,103,393
Acquisition of Willowdale Resources (1981) Ltd., including a working capital deficiency of \$2,705,029	20,601,957	—
Acquisition of Francana Oil & Gas Ltd.	—	46,421,489
Investment in Candecca Resources PLC	4,931,745	1,603,991
Reduction of long-term debt	30,779,242	9,074,660
Repurchase of preferred shares by subsidiaries	11,600,000	3,500,000
Preferred share dividends	3,355,032	2,099,824
Preferred share dividends of subsidiary companies	623,438	1,314,938
Deferred production revenue	2,032,386	—
Due from directors and officers	—	408,300
	<b>96,554,674</b>	<b>117,526,595</b>
<b>Increase (Decrease) in Working Capital</b>	<b>65,887,793</b>	<b>(22,618,966)</b>
<b>Working Capital Deficiency at Beginning of Year</b>	<b>(22,668,663)</b>	<b>(49,697)</b>
<b>Working Capital (Deficiency) at End of Year</b>	<b>\$ 43,219,130</b>	<b>\$ (22,668,663)</b>

## Auditors' Report

### To the Shareholders of Sceptre Resources Limited

We have examined the consolidated balance sheet of Sceptre Resources Limited as at December 31, 1983 and the consolidated statements of earnings, 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 December 31, 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, except for the change in the method of translating foreign currencies as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Canada  
March 22, 1984

*Thorne Riddell*  
Chartered Accountants



## Notes to Consolidated Financial Statements

Year Ended December 31, 1983

### 1. Accounting Policies

#### (a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies, each of which is wholly owned except High Plains Oil Corporation (High Plains) which, since June 14, 1983, is 78.7% owned (see note 3(b)).

The excess of the cost of shares of subsidiary companies over the underlying book values at the dates of acquisition, net of accumulated amortization, totalling \$118,880,000 has been allocated to fixed assets and is subject to the accounting policies described below.

#### (b) Fixed Assets

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, interest and overhead charges related to exploration activities.

The costs related to a cost centre from which there is production, together with the costs of production equipment, are depleted and depreciated on the unit of production method based on the estimated proven reserves of each country as determined by the Company. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content. The costs of acquiring and evaluating unusually significant unproved properties are excluded from the computation of depletion until such time as additional reserves are proven or an impairment in value has occurred.

No provision is made for the amortization of the costs accumulated in non-producing cost centres. Such costs will be depleted when the country becomes productive or will be written off to earnings if exploration activity in that country is determined to be unsuccessful.

The cost of other equipment, less estimated salvage value, is depreciated on the straight line method over their estimated useful lives at rates varying from 10% to 33 $\frac{1}{3}$ %.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

#### (c) Capitalized Interest

The Company capitalizes interest, to the extent it has been incurred, on expenditures in cost centres from which significant production has not commenced and in which a significant exploration program is in progress.

#### (d) Foreign Currency Translation

The Company follows the temporal method when translating foreign currency transactions and the financial statements of integrated foreign subsidiaries and operations. Under this method monetary items are translated at the rates of exchange prevailing at the balance sheet date, non-monetary items are translated at historic exchange rates and revenues and expenses (other than depletion and depreciation) are translated at average rates of exchange during the year. The resulting gains or losses are

credited or charged to earnings except for those relating to monetary items having a fixed life which are deferred and amortized over the life of the particular items.

The assets and liabilities of self-sustaining foreign subsidiaries and operations are translated at the rates of exchange prevailing at the balance sheet date and the revenues and expenses of such entities (including depletion and depreciation) are translated at the average rates of exchange during the year. The resulting exchange gains or losses are deferred and included as a separate item of shareholders' equity in the balance sheet.

#### (e) Earnings Per Common Share

The earnings per common share are calculated by dividing the weighted-average number of common shares outstanding during the year into the earnings available to the common shareholders after deduction of the dividend entitlement (including undeclared dividends) of the Second Preferred shareholders.

### 2. Change in Accounting

Effective June 14, 1983, the Company adopted, on a prospective basis, the method of translating foreign currencies described in note 1(d). Previously the Company followed the current, non-current method of translating all foreign currency transactions and financial statements of foreign subsidiaries and operations. The effect of this change in accounting is not significant.

### 3. Business Combinations

#### (a) Acquisition of Willowdale Resources (1981) Ltd.

On January 27, 1983, the Company acquired all the outstanding shares of Willowdale Resources (1981) Ltd., a private Canadian oil and gas company for an aggregate consideration of \$17,896,928. This business combination has been accounted for as a purchase and the results of operations of Willowdale Resources (1981) Ltd. have been included in these financial statements from the date of acquisition. The excess of the cost of shares over the book value of acquired assets less liabilities has been assigned to fixed assets and is subject to the accounting policies outlined above.

The acquisition is summarized as follows:

Current assets	\$ 5,523,891
Current liabilities	8,228,920
	(2,705,029)
Fixed assets	39,328,985
	36,623,956
Long-term debt	(44,493,000)
Deferred income taxes	(1,625,585)
Deferred production revenue	(8,554,666)
Book value of assets less liabilities	(18,049,295)
Excess of cost of shares over book value of assets less liabilities, assigned to fixed assets	35,946,223
Total consideration	\$ 17,896,928
Comprised of:	
850,029 8½% Convertible Second Preferred Shares	
Series B at an ascribed value of \$20.00 per share	\$ 17,000,580
Costs of acquisition	896,348
Total consideration	\$ 17,896,928



#### (b) Business Combination with High Plains Oil Corporation

On June 14, 1983, the Company merged its United States operations with those of S & K Petroleum Ltd., (S & K) and with another privately held corporation to form High Plains and exchanged its investment in S & K for shares of High Plains. As a result of these and other related transactions, the Company owns 78.7% of High Plains. This business combination has been accounted for as a purchase and the results of operations of the acquired companies have been included in these financial statements from the date of acquisition. The excess of the consideration allocated over the book value of assets less liabilities assumed on the business combination has been assigned to fixed assets and is subject to the accounting policies outlined above.

The acquisition is summarized as follows:

Current assets	\$ 4,694,620
Current liabilities	723,869
	3,970,751
Fixed assets	3,526,145
Deferred income taxes	(18,971)
Book value of net assets acquired	7,477,925
Minority interest	(2,618,085)
Book value of assets less liabilities assumed on business combination	4,859,840
Excess of consideration over book value of assets less liabilities assumed on business combination, assigned to fixed assets	1,073,676
Total consideration	\$ 5,933,516
Comprised of:	
Minority interest in United States subsidiaries previously wholly owned	\$ 5,233,864
Investment in S & K Petroleum Ltd.	462,933
Costs of acquisition	236,719
Total consideration	\$ 5,933,516

#### 4. Due from Director and Officer

The Company loaned \$769,200 to a director and officer which financed the purchase of common shares of the Company. This loan is non-interest bearing and is repayable in three equal annual installments commencing in 1984. Accordingly, \$256,400 has been classified as a current asset.

During 1983, in conjunction with the settlement on resignation of a director and officer, the Company made a provision for a loss of \$542,500 in respect of a note receivable of \$1,080,000 and reclassified the remaining balance to current assets.

#### 5. Fixed Assets

	1983		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon			
Canada	\$346,404,367	\$34,551,431	\$311,852,936
United States	23,654,200	2,409,984	21,244,216
Abu Dhabi	9,150,268	—	9,150,268
Netherlands	4,186,669	—	4,186,669
Java Sea	948,362	—	948,362
Other equipment	5,836,769	1,263,755	4,573,014
	\$390,180,635	\$38,225,170	\$351,955,465
	1982		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon			
Canada	\$262,589,653	\$15,941,745	\$246,647,908
United States	43,369,566	1,040,384	42,329,182
Abu Dhabi	18,452,001	—	18,452,001
Java Sea	4,747,386	—	4,747,386
Netherlands	3,534,706	—	3,534,706
Ireland	1,261,487	—	1,261,487
Philippines	359,221	—	359,221
Other areas	1,336,137	—	1,336,137
Other equipment	8,617,040	549,359	8,067,681
	\$344,267,197	\$17,531,488	\$326,735,709

At December 31, 1983, the costs of acquiring and evaluating unusually significant unproved properties in Canada of \$39,389,000 (1982 — \$45,461,000) and in the United States of \$10,297,000 (1982 — \$34,015,000) have been excluded from the computation of depletion. During 1983, interest of \$3,348,000 (1982 — \$5,739,000) and general and administrative expenses of \$6,471,000 (1982 — \$4,054,000) have been capitalized in accordance with the accounting policies of the Company.



## 6. Long-Term Debt

	1983	1982
Bank loan (a)	\$ 94,700,000	\$107,000,000
Bank loans (b)	82,021,323	41,756,250
Bank loans (c)	29,195,316	—
Other	2,618,863	5,825,379
	<b>208,535,502</b>	154,581,629
Less: current maturities	<b>285,501</b>	10,132,811
	<b>\$208,250,001</b>	\$144,448,818

(a) Bears interest at prime plus  $\frac{1}{4}\%$  (11.25% at December 31, 1983), is evidenced by a demand promissory note and is secured by the Company's interest in certain oil and gas properties and by a general assignment of accounts receivable.

(b) Bear interest at prime plus  $\frac{1}{2}\%$  (11.50% at December 31, 1983), are evidenced by a demand promissory note and are secured by the Company's interest in certain oil and gas properties, its investment in Candecca Resources PLC., and by a general assignment of accounts receivable.

(c) Bear interest at rates of prime plus  $\frac{1}{4}\%$  (11.25% at December 31, 1983) and prime plus  $\frac{1}{2}\%$  (11.50% at December 31, 1983), are evidenced by a demand promissory note and are secured by the Company's interest in certain oil and gas properties.

Subsequent to December 31, 1983, proceeds of \$31,939,075 from the sale of Candecca shares (see note 13) have been applied to reduce bank loans and the repayment terms of the bank loans were amended such that repayments commence on March 31, 1985.

The estimated annual payments of principal during each of the five years subsequent to December 31, 1983 are as follows: 1984 — \$285,501; 1985 — \$12,282,559; 1986 — \$20,513,329; 1987 — \$20,153,957; 1988 — \$25,170,575.

## 7. Deferred Production Revenue

Under the provisions of certain gas purchase contracts, as amended by an agreement with TransCanada PipeLines Limited and Topgas Holdings Limited, the Company has received payment for gas which will be delivered in the future. In each year commencing on November 1, 1984, the Company is committed to deliver 10% of the total amount of gas for which prepayment has been received.

## 8. Income Taxes

The income tax provision differs from the calculated tax obtained by applying the Canadian corporate tax rate of 48% (1982 — 47.8%) to the loss before income taxes and extraordinary item of \$58,243,039 (1982 — \$21,921,705). These differences are accounted for as follows:

	1983	1982
Calculated income tax provision	<b>\$(27,956,659)</b>	\$(10,478,575)
Add (Deduct):		
Crown charges disallowed for tax purposes less rebates	<b>6,537,954</b>	4,004,682
Federal resource allowance	<b>(7,081,549)</b>	(3,579,643)
Depletion allowance on Canadian oil and gas production income	<b>(1,576,021)</b>	(185,266)
Preferred share dividends of subsidiaries	<b>299,250</b>	628,540
Non-deductible depletion and write-down of foreign properties and exploration costs	<b>22,697,737</b>	6,536,132
Petroleum and gas revenue tax	<b>2,794,855</b>	1,384,778
Other	<b>(17,528)</b>	70,206
Income tax provision	<b>\$ (4,301,961)</b>	\$ (1,619,146)

## 9. Capital Stock

### (a) Authorized

The authorized capital of the Company consists of:

(i) two classes of preferred shares, consisting of a senior class (First Preferred Shares) and a junior class (Second Preferred Shares). Both classes are of no par value, are unlimited in number and are issuable in series.

(ii) an unlimited number of no par value common shares.

The following summarizes the material characteristics of the issued preferred shares:

(i) 7% Convertible Second Preferred Shares Series A

The convertible preferred shares Series A were issued at \$25.00 and bear cumulative dividends of \$1.75 per annum. Each share is convertible into common shares on or prior to August 1, 1985 at a price of \$17.00 per common share. The shares are redeemable at par on or after August 1, 1984 if the average trading price of the common shares on the TSE is not less than 125% of the conversion price or at a premium declining from \$1.25 to NIL at various dates to August 1, 1990. In each quarter beginning October 1, 1990, the Company is obligated to repurchase  $\frac{1}{4}\%$  of the total shares outstanding at August 1, 1990 at \$25.00 plus accrued dividends.

(ii)  $8\frac{1}{2}\%$  Convertible Second Preferred Shares Series B

The convertible preferred shares Series B were issued at \$20.00 and bear cumulative dividends of \$1.70 per annum. Each share is convertible into common shares on or prior to March 1, 1993 at a price of \$8.00 per common share. The shares are redeemable at par on or after March 1, 1985 if the average trading price of the common shares on the TSE is not less than 125% of the conversion price or at a premium declining from \$1.25 to NIL at various dates to March 1, 1994. In each quarter beginning January 1, 1994, the Company is obligated to repurchase  $\frac{1}{4}\%$  of the total shares outstanding at November 1, 1993 at \$20.00 plus accrued dividends.



(iii) 8½% Convertible Second Preferred Shares Series C

The convertible preferred shares Series C were issued at \$20.00 and bear cumulative dividends of \$1.70 per annum. Each share is convertible into common shares on or prior to March 1, 1993 at a price of \$7.58 per common share. The shares are redeemable at par on or after March 1, 1985 if the average trading price of the common shares on the TSE is not less than 125% of the conversion price or at a premium declining from \$1.25 to NIL at various dates to March 1, 1994. In each quarter beginning January 1, 1994, the Company is obligated to repurchase 1¼% of the total shares outstanding at November 1, 1993 at \$20.00 plus accrued dividends.

(b) Issued

	1983	1982
1,199,898 7% Convertible Second Preferred Shares Series A	\$ 29,997,450	\$ 29,997,450
840,428 8½% Convertible Second Preferred Shares Series B	16,808,560	—
150,000 8½% Convertible Second Preferred Shares Series C	3,000,000	—
25,994,588 Common Shares (December 31, 1982 — 17,443,486)	160,025,772	109,457,083
Less:		
39,780 Common shares held by the Company and to be cancelled	(255,990)	(255,990)
	\$209,575,792	\$139,198,543

(c) Issue of Preferred Shares

During the period January 27, 1983 to April 15, 1983, the Company issued 850,029 8½% Convertible Second Preferred Shares Series B having an aggregate ascribed value of \$17,000,580 on the acquisition of Willowdale Resources (1981) Ltd.

On February 25, 1983, the Company issued 150,000 8½% Convertible Second Preferred Shares Series C for an aggregate amount of \$3,000,000 cash.

(d) Issue of Common Shares

	Number of Shares	Consideration
Balance, December 31, 1981	10,253,095	\$ 66,322,978
On acquisition of Francana Oil & Gas Ltd.	7,103,501	42,621,006
On exercise of stock options	86,890	513,099
Balance, December 31, 1982	17,443,486	109,457,083
For cash, net of share issue expenses of \$1,214,790	8,420,000	49,785,210
On acquisition of oil and gas partnership units	62,400	345,197
On exercise of stock options	44,700	246,262
On conversion of Preferred Shares Series B	24,002	192,020
Balance, December 31, 1983	25,994,588	\$160,025,772

(e) Common Shares Reserved

At December 31, 1983, the following shares were reserved:

(i) 797,296 shares in respect of stock options granted to officers, directors and employees as described below;

(ii) 1,764,556 shares in respect of conversion rights attaching to the Second Preferred Shares Series A to August 1, 1985 and thereafter 1,666,525 shares to August 1, 1990; and

(iii) 2,496,848 shares in respect of conversion rights attaching to the Second Preferred Shares Series B and C to March 1, 1985 and thereafter 2,217,267 shares to March 1, 1994.

(iv) 1,000,000 shares in respect of warrants exercisable at a price of \$6.75 per share on or before August 15, 1986 and thereafter at a price of \$7.00 per share to August 15, 1988.

(f) Stock Option Plans

The Board of Directors of the Company has a policy of granting, from time to time, options to purchase common shares to officers and other valued employees of the Company. Options are granted at an exercise price equal to market price of the common shares on the date of grant and are generally exercisable over a three-year period.

Option changes during the two years ended December 31, 1983 were:

	Number of Shares Reserved	Exercise Price	
		From	To
Balance at December 31, 1981	508,418	\$6.19	\$14.40
Granted	1,127,051	5.50	12.47
Exercised	86,890	5.50	6.53
Cancelled	730,183	5.50	14.40
Balance at December 31, 1982	818,396	5.50	12.47
Granted	235,800	5.50	7.00
Exercised	44,700	5.50	5.875
Cancelled	212,200	5.50	5.875
Balance at December 31, 1983	797,296	5.50	12.47

10. Contingent Liabilities and Commitments

The Company has lease agreements in respect of office premises of which future minimum payments are approximately as follows: 1984 — \$1,400,000; 1985 — \$1,200,000; 1986 — \$900,000; 1987 — \$900,000.



## 11. Business Segments

The Company is engaged in only one business segment, the exploration for and development and production of petroleum and natural gas. The following information represents the geographic distribution of the Company's activities.

1983	Canada	United States	Other	Consolidated
<b>Net Production Revenue</b>	\$ 60,390,348	\$ 2,097,309	\$ —	\$ 62,487,657
<b>Segment Operating Profit (Loss)</b>	\$ 19,672,402	\$ (34,621,342)	\$ (21,503,063)	\$ (36,452,003)
General corporate expenses less other income				(6,353,250)
Income and other taxes				8,301,961
Interest expense				(18,823,411)
Dividends on preferred shares of subsidiaries				(623,438)
Minority interest				9,063
Extraordinary item				5,560,269
<b>Loss for the Year</b>				\$ (48,380,809)
<b>Identifiable Assets</b>	\$363,550,970	\$ 29,988,010	\$ 18,789,495	\$412,328,475
Corporate assets				769,200
Investment in Candecca				16,997,750
<b>Total Assets</b>				\$430,095,425
<b>1982</b>	<b>Canada</b>	<b>United States</b>	<b>Other</b>	<b>Consolidated</b>
<b>Net Production Revenue</b>	\$ 28,040,102	\$ 1,159,432	\$ —	\$ 29,199,534
<b>Segment Operating Profit (Loss)</b>	\$ 10,325,128	\$ (9,036,862)	\$ (8,810,848)	\$ (7,522,582)
General corporate expenses less other income				(3,986,042)
Income and other taxes				3,989,226
Interest expense				(11,468,223)
Dividends on preferred shares of subsidiaries				(1,314,938)
<b>Loss for the Year</b>				\$ (20,302,559)
<b>Identifiable Assets</b>	\$267,675,339	\$ 53,093,555	\$ 30,026,510	\$350,795,404
Corporate assets				4,623,713
Investment in Candecca				16,897,875
<b>Total Assets</b>				\$372,316,992



**12. Related Party Transactions**

(a) The Company is the operator of a joint venture which is engaged in the exploration for oil and gas in Abu Dhabi. The joint venture includes two companies which are associated with certain directors, other than employees, of the Company. At December 31, 1983, \$124,000 U.S., was unpaid in respect of cash calls made by the Company to one of those associated companies. This unpaid amount bears interest at bank prime rate plus 2%.

(b) The Company is the operator of a joint venture which is engaged in the exploration for oil and gas in the Java Sea. During 1983, a company ("Newco") controlled by certain directors, other than employees, of the Company acquired a 15% working interest in the joint venture from the Company under terms and conditions identical with those negotiated with another third party. At December 31, 1983, \$807,000 U.S. was receivable, subject to the completion of certain legal requirements, in respect of this transaction. Subsequent to December 31, 1983, Newco paid \$207,000 U.S. to the Company and sold most of its interest to an unrelated party which assumed the remaining \$600,000 U.S. outstanding.

**13. Subsequent Events**

(a) On January 3, 1984, the Company sold 8,609,801 shares of Candecca Resources PLC (Candecca) at a price of £1.60 cash per share pursuant to an option granted October 28, 1983 and, on January 5, 1984, the Company agreed to sell the balance of its investment in Candecca (2,383,454 shares) at a price of £1.8545 cash per share. The aggregate proceeds of \$32,014,408 have been utilized to repay bank loans. These sales will result in an extraordinary gain of \$14,666,658 in the first quarter of 1984.

(b) On January 19, 1984, the Company agreed to sell all of its oil and gas interests in the Netherlands for \$5,000,000 U.S. cash, resulting in a gain of approximately \$2,000,000.

**14. Consolidated Statement of Changes in Financial Position****(a) Working Capital Derived from Operations**

	1983	1982
Loss for the year	<b>\$(53,326,703)</b>	\$(18,987,621)
Add (Deduct) items not involving working capital		
Depletion and depreciation	<b>20,951,717</b>	9,520,750
Write-down of non-productive foreign properties and exploration	<b>56,964,698</b>	18,310,848
Deferred income taxes	<b>(4,301,961)</b>	(1,619,146)
Other	<b>(368,473)</b>	—
	<b>\$ 19,919,278</b>	\$ 7,224,831

**(b) Analysis of the Changes in Components of Working Capital**

	1983	1982
Increase (decrease) in current assets:		
Cash and term deposits	<b>\$ 523,116</b>	\$ —
Short-term investments, at cost	<b>33,303,708</b>	—
Accounts receivable	<b>9,536,114</b>	9,427,460
Notes receivable from Candecca Resources PLC	<b>(2,311,580)</b>	2,311,580
Notes receivable	<b>—</b>	(4,000,000)
Inventory of leases held for resale	<b>(7,049,623)</b>	1,475,499
Current amount due from director and officer	<b>256,400</b>	(600,600)
	<b>34,258,135</b>	8,613,939
(Increase) decrease in current liabilities:		
Bank indebtedness	<b>20,655,339</b>	(15,685,587)
Accounts payable and accrued liabilities	<b>2,985,059</b>	(7,786,307)
Current maturities on long term debt	<b>9,847,310</b>	(10,132,811)
Current portion of deferred production revenue	<b>(1,858,050)</b>	—
Note payable	<b>—</b>	2,371,800
	<b>31,629,658</b>	(31,232,905)
Increase (decrease) in working capital	<b>\$ 65,887,793</b>	\$(22,618,966)



## Supplementary Financial Information



### 15. Supplementary Financial Information (unaudited)

#### (a) Oil and Gas Activities

##### (i) Costs incurred in Oil and Gas Producing Activities

	Property Acquisition Costs		Exploration Costs	Development Costs
	Proved	Unproved		
<b>1983</b>				
Canada	\$ 75,639,298(1)	\$ 1,794,045	\$ 1,389,125	\$ 9,310,212
United States	—	8,904,253	1,393,557	(65,249)
Other	—	(2,884,434)	3,176,169	—
	<b>\$ 75,639,298</b>	<b>\$ 7,813,864</b>	<b>\$ 5,958,851</b>	<b>\$ 9,244,963</b>
<b>1982</b>				
Canada	\$ 140,873,135(2)	\$ 54,340,265	\$ 7,083,239	\$ 4,097,325
United States	—	9,989,155	5,794,485	1,069,026
Other	—	5,198,756	13,236,404	—
	<b>\$ 140,873,135</b>	<b>\$ 69,528,176</b>	<b>\$ 26,114,128</b>	<b>\$ 5,166,351</b>

(1) Includes the acquisition of Willowdale Resources (1981) Ltd.

(2) Includes the acquisition of Francana Oil & Gas Ltd.

##### (ii) Results of Operations for Oil and Gas Producing Activities

	Canada	United States	Total
<b>1983</b>			
Revenue	\$ 60,390,348	\$ 2,097,309	\$ 62,487,657
Production costs	(20,848,874)	(174,371)	(21,023,245)
Depletion, depreciation and amortization and valuation provisions	(19,869,072)	(36,544,280)	(56,413,352)
	<b>19,672,402</b>	<b>(34,621,342)</b>	<b>(14,948,940)</b>
Income tax	(5,311,549)	—	(5,311,549)
Results of operations	<b>\$ 14,360,853</b>	<b>\$(34,621,342)</b>	<b>\$(20,260,489)</b>
<b>1982</b>			
Revenue	\$ 28,040,102	\$ 1,159,432	\$ 29,199,534
Production costs	(8,649,835)	(240,682)	(8,890,517)
Depletion, depreciation amortization and valuation provisions	(9,065,139)	(9,955,612)	(19,020,751)
	<b>10,325,128</b>	<b>(9,036,862)</b>	<b>1,288,266</b>
Income tax	(2,776,169)	—	(2,776,169)
Results of operations	<b>\$ 7,548,959</b>	<b>\$(9,036,862)</b>	<b>\$(1,487,903)</b>



## (iii) Estimated Net Quantities before Royalties and Mineral taxes of Proved Oil and Gas Reserves

	Crude Oil and Natural Gas Liquids (Thousands of Barrels)			Natural Gas (Millions of Cubic Feet)		
	Canada	United States	Total	Canada	United States	Total
Reserves at December 31, 1981	433.8	33.0	466.8	44,700	1,800	46,500
Acquisitions	8,766.8	—	8,766.8	189,184	—	189,184
Revisions of previous estimates	763.3	6.8	770.1	(18,763)	1,162	(17,601)
Extensions, discoveries and other additions	487.1	88.4	575.5	8,752	649	9,401
Production	(721.5)	(21.4)	(742.9)	(7,866)	(134)	(8,000)
Reserves at December 31, 1982	9,729.5	106.8	9,836.3	216,007	3,477	219,484
Acquisitions	1,038.7	71.6	1,110.3	66,818	734	67,552
Revisions of previous estimates	583.0	34.2	617.2	1,197	(2,001)	(804)
Extensions, discoveries and other additions	1,437.0	64.2	1,501.2	5,134	11	5,145
Production	(1,345.8)	(37.3)	(1,383.1)	(15,357)	(225)	(15,582)
Reserves at December 31, 1983	11,442.4	239.5	11,681.9	273,799	1,996	275,795

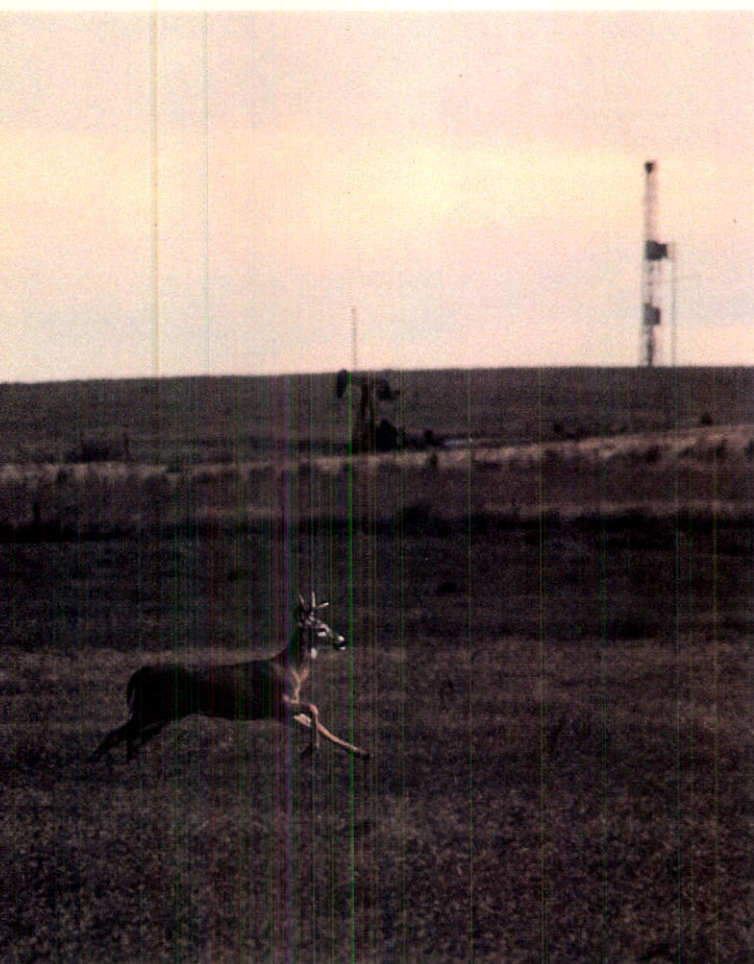
Proved oil and gas reserves are estimated quantities of crude oil, natural gas and natural gas liquids which have been demonstrated with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

The estimates are based on judgments and interpretations of data dependent upon uncertainties including market conditions, government actions and the environment itself. As a result, it is possible that the ultimate recovery from proved reserves will be different from those reported.

Reserve estimates and production volumes represent ownership interest before deduction of royalties. Present Canadian royalty rates on Crown leases in certain provinces are dependent upon, and can vary significantly with, changes in prices, production rates and other factors. Accordingly, the Company believes that presentation of reserves and production volumes before deduction of royalties provides the most meaningful and appropriate information.

## (b) Quarterly Financial Information (in Thousands of Dollars)

	1983 Quarter			
	First	Second	Third	Fourth
Revenue	\$21,007	\$21,193	\$20,257	\$26,499
Gross margin	11,596	10,904	11,415	13,769
Loss before extraordinary item	(1,217)	(1,772)	(1,354)	(49,598)
Loss	(1,217)	(296)	(1,354)	(45,514)
Loss per common share				
Before extraordinary item	(0.11)	(0.14)	(0.11)	(1.91)
Extraordinary item	—	0.08	—	0.16
Loss	(0.11)	(0.06)	(0.11)	(1.75)
Cash flow per share	0.27	0.21	0.22	0.24
	1982 Quarter			
	First	Second	Third	Fourth
Revenue	\$ 2,331	\$ 7,806	\$13,517	\$18,823
Gross margin	1,666	5,017	7,576	9,234
Loss	(359)	(619)	(483)	(18,842)
Loss per common share	(0.09)	(0.08)	(0.08)	(1.27)
Cash flow per share	0.12	0.10	0.11	0.16





## Historical Information

(dollar amounts in millions, except for share data)

	Year Ended December 31,			Nine Months Ended December 31,	Year Ended March 31,
	1983	1982	1981	1980	1980
<b>Summary of Earnings</b>					
Oil and gas revenue	\$ 88.6	\$ 42.5	\$ 6.4	\$ 4.0	\$ 5.0
Earnings (Loss) before extraordinary items	\$ (53.9)	\$ (20.3)	\$ (2.3)	\$ 0.5	\$ (0.6)
Earnings (Loss) after extraordinary items	\$ (48.4)	\$ (20.3)	\$ (2.3)	\$ 2.2	\$ 0.6
Per common share	\$ (2.45)	\$ (1.52)	\$ (0.47)	\$ 0.15	\$ 0.08
Funds generated from operations	\$ 19.9	\$ 7.2	\$ 5.9	\$ 3.9	\$ 3.7
Per common share	\$ 0.94	\$ 0.49	\$ 0.63	\$ 0.46	\$ 0.54
Weighted-average common shares — millions	21.2	14.8	9.3	8.5	6.9
<b>Summary of Changes in Financial Position</b>					
Funds generated from operations	\$ 19.9	\$ 7.2	\$ 5.9	\$ 3.9	\$ 3.7
Common and Preferred shares issued	70.4	43.1	18.8	31.3	22.9
Increase in long-term debt	50.1	33.1	12.4	—	1.3
Deferred production revenue	6.2	10.8	—	—	—
Sale of investments and fixed assets	10.7	—	—	5.7	12.0
Other	5.1	0.7	4.4	2.2	(0.1)
	162.4	94.9	41.5	43.1	39.8
Fixed-asset additions	22.6	53.1	52.8	13.4	9.7
Acquisitions	20.6	46.4	5.4	—	—
Retirement of long-term debt and Preferred shares of subsidiaries	42.4	12.6	3.5	2.6	5.4
Investments	4.9	1.6	.5	11.0	—
Dividends and others	6.0	3.8	4.0	4.3	8.7
	96.5	117.5	66.2	31.3	23.8
Increase (Decrease) in Working Capital	\$ 65.9	\$ (22.6)	\$ (24.7)	\$ 11.8	\$ 16.0
<b>Balance Sheet Summary</b>					
Working capital (deficiency)	\$ 43.2	\$ (22.7)	\$ —	\$ 24.7	\$ 12.9
Total assets	\$430.1	\$372.3	\$142.5	\$105.4	\$ 72.3
Long-term debt and Preferred shares of subsidiaries	\$208.3	\$156.0	\$ 27.5	\$ 18.6	\$ 21.2
Deferred production revenue	\$ 37.6	\$ 24.8	\$ .1	\$ .1	\$ .1
Deferred income taxes	\$ 30.2	\$ 32.9	\$ 8.4	\$ 7.5	\$ 6.4
Minority interest	\$ 8.0	\$ —	\$ —	\$ —	\$ —
Shareholders' equity	\$128.6	\$109.5	\$ 88.7	\$ 74.3	\$ 42.0
Common shares outstanding at year end — millions	26.0	17.4	10.3	8.5	8.4
<b>Operations Summary</b>					
Drilling (gross wells), including farmout					
Oil	70	48	29	19	30
Gas	24	39	87	24	29
Dry	42	41	51	29	30
	136	128	167	72	89
Production, daily					
Oil and liquids — barrels	3,789	2,028	159	142	141
Natural gas — MMcf	42.7	21.9	5.7	5.3	5.3
Proved Reserves					
Oil and gas liquids — millions of barrels	11.7	10.9	0.5	0.4	0.4
Natural gas — Bcf	275.8	220.0	47.0	37.0	34.0
Acreage Holdings					
Undeveloped acres — millions of net acres	3.0	7.3	2.4	2.0	1.4
<b>Total Employees</b>	<b>167</b>	<b>190</b>	<b>70</b>	<b>42</b>	<b>27</b>



## Shareholder Information



### Annual Meeting

*The annual general meeting of shareholders of Sceptre Resources Limited will be held in the Britannia Room of the Westin Hotel, Calgary, Alberta at 3:00 p.m. local time, May 29, 1984.*

### Transfer Agents and Registrars

#### *Common Shares*

Canada Trust Company  
Calgary, Vancouver, Toronto,  
Montreal

CIBC Trust Company  
New York

#### *Convertible Second Preferred Shares, Series A, B and C*

Canada Trust Company  
Calgary, Toronto, Montreal,  
Vancouver

### Stock Exchange Listings

#### *Common Shares*

The Toronto Stock Exchange  
The Montreal Stock Exchange  
Symbol: SRL

NASDAQ  
Symbol: SCRLF

The Stock Exchange  
London, England  
[Under Section 163(1) (E)]

#### *Convertible Second Preferred Shares, Series A*

The Toronto Stock Exchange  
The Montreal Stock Exchange  
Symbol: SRL PR.A

### Auditors

Thorne Riddell  
Chartered Accountants  
Calgary, Alberta

### Investor Relations

Sceptre Resources Limited  
2600 Bow Valley Square 4  
250 - 6th Avenue S.W.  
Calgary, Alberta  
T2P 3H7  
(403) 298-9800



## Geographical Distribution of Outstanding Common Shares at December 31, 1983

(by addresses in Shareholder Register)

	Number of Shareholders	Number of Shares	Percent
Canada	2,839	22,711,443	87
United States	5,466	2,806,032	11
Other	120	477,113	2
	8,425	25,994,588	100

On a fully diluted basis, after the conversion of preferred shares and the exercise of options and warrants, Sceptre would have 32,053,299 common shares outstanding at December 31, 1983.

The Company's Canadian Ownership Rate entitles it to the maximum level of Petroleum Incentive Payments under the National Energy Program.



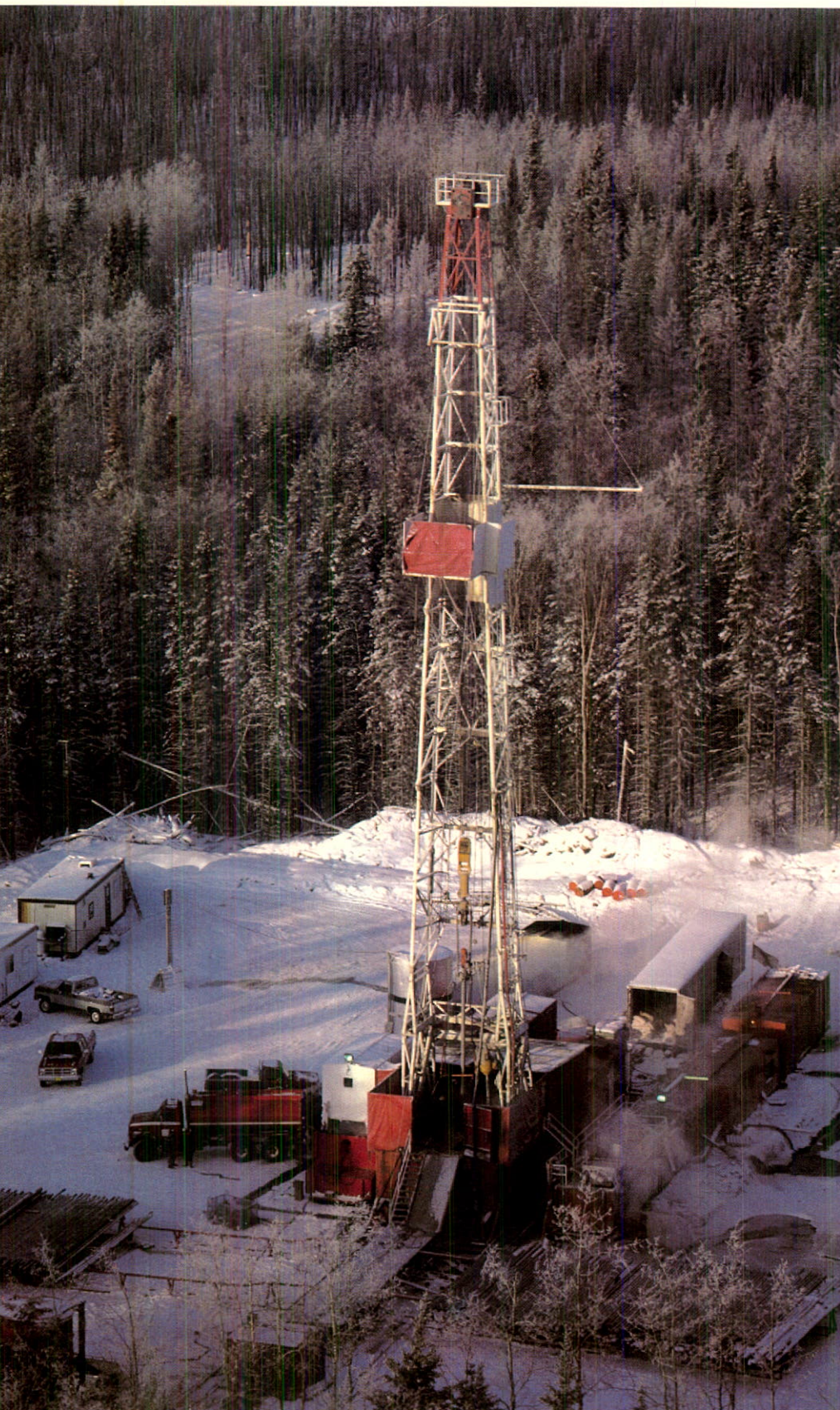
## Trading Range of Common Shares

	The Toronto Stock Exchange Symbol "SRL" (Cdn \$)			The Montreal Stock Exchange Symbol "SRL" (Cdn \$)			NASDAQ* Symbol "SCRLF" (U.S. \$)		
	High	Low	Volume	High	Low	Volume	High	Low	Volume
<b>1982</b>									
First Quarter	\$13.125	\$5.25	470,063	\$12.75	\$5.25	23,810	—	—	—
Second Quarter	\$ 6.75	\$4.70	1,555,339	\$ 6.25	\$6.25	637	\$4.6875	\$3.625	145,386
Third Quarter	\$ 8.75	\$5.375	1,659,522	\$ 8.25	\$5.625	23,665	\$6.75	\$4.125	496,193
Fourth Quarter	\$ 8.625	\$5.875	1,631,909	\$ 8.375	\$6.00	57,340	\$6.875	\$4.6875	577,043
			5,316,833			105,452			1,218,622
<b>1983</b>									
First Quarter	\$ 7.50	\$4.90	989,950	\$ 7.375	\$5.00	47,632	\$5.875	\$3.875	445,610
Second Quarter	\$ 6.25	\$4.80	841,713	\$ 6.125	\$4.90	40,213	\$4.8125	\$3.8125	250,900
Third Quarter	\$ 8.00	\$5.25	1,799,002	\$ 8.00	\$5.75	156,377	\$6.25	\$4.1875	464,916
Fourth Quarter	\$ 7.00	\$4.85	1,351,267	\$ 7.00	\$4.90	626,090	\$5.625	\$3.875	353,276
			4,981,932			870,312			1,514,702

\* commenced trading May 28, 1982



## Corporate Information



### Head Office

2600 Bow Valley Square 4  
250 - 6th Avenue S.W.  
Calgary, Alberta T2P 3H7  
Telephone (403) 298-9800  
Telex 822619

### Officers

Angus A. Mackenzie  
*Chairman of the Board*

Richard A. Gusella  
*President and Chief Executive Officer*

Ronald W. Ambrose  
*Senior Vice President,  
Exploration and Land*

Allen F. Emes  
*Senior Vice President,  
Finance and Administration*

Norman D. Knowles  
*Senior Vice President,  
Engineering and Operations*

Thomas W. Dickson  
*Vice President, Engineering*

Gary W. Freeman  
*Vice President, Exploration*

Stephen N. Inbusch  
*Vice President,  
Corporate Development and Planning*

Gordon H. Johnston  
*Vice President, Land and Contracts*

Mary J. Leahy  
*Vice President, Administration*

Kenneth R. Stan  
*Vice President, Operations*

Stanley G. Weber  
*Vice President, Finance, and Treasurer*

James S. Palmer, Q.C.  
*Secretary*



## Directors

**W. Leslie Duffy\*\***

*New York, New York*

*Partner*

*Cahill Gordon & Reindel*

**Jean Gaulin**

*Mont-Royal, Quebec*

*President and Chief Executive Officer*

*Gaz Metropolitain Inc.*

**Denis Giroux\*\*\***

*Montreal, Quebec*

*Vice President, Corporate Investments*

*Caisse de Dépôt et Placement du Québec*

**Pierre Goyette\*\***

*Montreal, Quebec*

*President and Chief Operating Officer*

*Montreal City and District Savings Bank*

**Richard A. Gusella\***

*Calgary, Alberta*

*President and Chief Executive Officer*

*Sceptre Resources Limited*

**Stuart R. Horne\*\*\***

*Caledon, Ontario*

*Vice President of Investments*

*Hudson Bay Mining and Smelting Co., Limited*

**Angus A. Mackenzie\***

*London, England*

*Chairman of the Board*

*Sceptre Resources Limited*

**H. Stuart McColl (1)**

*London, England*

*Oil and Gas Consultant*

**James S. Palmer, Q.C.\***

*Calgary, Alberta*

*Partner*

*Burnet, Duckworth & Palmer*

**T. Oscar Stangeland\*\***

*Montreal, Quebec*

*President and Chief Operating Officer*

*Consolidated-Bathurst Inc.*

**Thatcher L. Townsend, Jr.\*\*\***

*Winston-Salem, North Carolina*

*Private Investor*

**Timothy J. Wagg\*\*\***

*Montreal, Quebec*

*Vice President — Finance*

*Consolidated-Bathurst Inc.*

## International Offices

Sceptre Resources Indonesia  
(a division of Sceptre Resources Limited)

JL. Ampera Raya No. 6

P.O. Box 6 — KBYCL, Kemang

Jakarta Selatan

Indonesia

Telephone 782628 or 781834

Telex 47101

President and General Manager,

Gerald L. Fletcher

Sceptre Resources

(Abu Dhabi) Ltd.

P.O. Box 7134

Abu Dhabi, U.A.E.

Telephone 9712-326560/336957

Telex 24186

Vice President,

Jean-Marie Hyraille

## Principal Canadian Subsidiary (wholly owned)

Francona Oil & Gas Ltd.

## Affiliated Public Company (78.7% owned)

High Plains Oil Corporation

Suite 300

5353 West Dartmouth

Denver, Colorado 80227

Telephone (303) 988-9396

Telex 450884

Chairman of the Board

and President,

Michael R. McClurg

## Operated Gas Plants (all in Alberta)

Cessford

Holmberg

Huxley

Judy Creek

Stanmore

## Major Operated Compressor Stations (all in Alberta)

Birch Lake

Edward

Warwick/Norma

## Solicitors

Burnet, Duckworth & Palmer

Calgary, Alberta

Cahill Gordon & Reindel

New York, New York

## Bankers

The Royal Bank of Canada

Calgary, Alberta

The Toronto Dominion Bank

Calgary, Alberta

\* members of the Executive Committee

\*\* members of the Compensation Committee

\*\*\* members of the Audit Committee

(1) Resigned effective March 22, 1984





**SCEPTRE RESOURCES LIMITED**

2600 Bow Valley Square IV  
250 - 6th Avenue S.W.  
Calgary, Alberta  
T2P 3H7