



# SCEPTRE RESOURCES LIMITED

Annual Report • December 31, 1981



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Annual Report  
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# Corporate Profile of Sceptre Resources Limited

Sceptre Resources Limited is an independent Canadian company engaged in the exploration for and the development of petroleum and natural gas in Canada, the United States, Abu Dhabi, United Arab Emirates and other countries.

On May 14, 1982 Sceptre completed the acquisition of Francana Oil & Gas Ltd. As a result of this acquisition, Sceptre's proven and probable petroleum and natural gas reserves are estimated by independent petroleum consultants to be 309 billion cubic feet of natural gas and 23 million barrels of oil and condensate. Sceptre also has proven reserves in the Canadian Arctic Islands, and holds interests in non-producing oil wells offshore Ireland, a shut-in natural gas well in the Dutch Sector of the North Sea and a shut-in natural gas and condensate discovery offshore Libya.

Sceptre holds working interests in almost 24 million gross acres of petroleum and natural gas rights (2.9 million net acres) after the completion of the Francana acquisition. This acreage is located in 12 countries including Canada (872,000 net acres), the United States (338,000 net acres), Libya (387,000 net acres) and Abu Dhabi, United Arab Emirates (543,000 net acres).

Sceptre holds an equity interest in two affiliated public oil and gas companies: a 39% interest in Candecca Resources Limited, a U.K. company and a 10% interest in S & K Petroleum Ltd., an Alberta company engaged in exploration activities in the United States. Sceptre's interest in Candecca has a current quoted market value in excess of \$50 million and Sceptre has announced it intends to dispose of all or a substantial portion of this investment.

Subsequent to the Francana acquisition, Sceptre's 17.3 million issued and outstanding common shares were held by over 10,000 shareholders. The common shares are listed for trading on The Toronto Stock Exchange, the Montreal Stock Exchange and dealings are permitted on The Stock Exchange, London, England under Rule 163(1)(e). The Company's 7% Series A Convertible Second Preferred Shares are also listed for trading on the Toronto and Montreal Stock Exchanges. The common shares of Sceptre are quoted in the United States on NASDAQ.

Cover Photo:

Seismic Activity on Sceptre's Area "A" Concession in Abu Dhabi, U.A.E.



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## Financial and Operating Highlights



### Financial

	SCEPTRE RESOURCES LIMITED	
	Nine Months Ended December 31, 1980	Year Ended December 31, 1981
Total revenue .....	\$ 6,266,551	\$12,855,761
Net earnings (loss) before extraordinary items.....	\$ 545,486	\$ (2,308,438)
Extraordinary items .....	\$ 1,700,728	\$ —
Net earnings (loss).....	\$ 2,246,214	\$ (2,308,438)
Preferred Dividends.....	\$ 581,100	\$ 2,099,913
Net earnings (loss) applicable to common shares.....	\$ 1,315,214	\$ (4,408,351)
Per common share (1).....	15¢	(47¢)
Funds generated from operations.....	\$ 3,910,230	\$ 5,877,853
Per common share.....	46¢	63¢
Addition to property and equipment.....	\$13,419,593	\$58,227,501
Working capital (deficiency) .....	\$24,708,794	\$ (49,697)
Shareholders Equity .....	\$74,315,410	\$88,719,154
Common shares outstanding at end of period .....	8,505,923	10,253,095
Common shares (weighted average during period).....	8,495,706	9,298,800
Number of holders of common shares.....	2,600	2,700

### Operations

	SCEPTRE RESOURCES LIMITED & FRANCANIA OIL & GAS LTD.(2)		
	Nine Months Ended December 31, 1980	Year Ended December 31, 1981	Year Ended December 31, 1981
Acreage holdings—Canada			
Gross acres.....	1,815,895	1,769,610	1,806,569
Net acres.....	476,586	390,534	481,690
Royalty acres.....	945,855	928,959	152,833
Acreage holdings—United States			
Gross acres.....	1,038,136	2,287,580	—
Net acres.....	77,625	338,293	—
Acreage holdings—International			
Gross acres.....	11,490,928	18,049,048	—
Net acres.....	1,498,916	1,728,314	—
Drilling Activity			
Natural gas wells.....	19	87	31
Oil wells .....	24	29	25
Dry, abandoned or service wells.....	29	51	42
Total wells.....	72	167	98
Production			
Petroleum and condensate—barrels.....	38,852	57,986	894,000
Per day .....	142	159	2,449
Natural gas—MMcf .....	1,454	2,082	12,280
Per day .....	5.3	5.7	33.6
Reserves—gross proven and probable			
Petroleum and condensate—barrels.....	542,700	1,166,000	21,762,000
Natural gas—Bcf .....	58.6	74.0	235.1
Employees at end of period .....	42	70	130

(1) After the deduction of entitlement to dividends on Preferred Shares of the Company and its subsidiaries.

(2) On May 14, 1982 Sceptre completed the acquisition of Francana Oil and Gas Ltd. Financial and operating results for Sceptre and Francana will be reported on a combined basis after that date.





Richard A. Gusella

## Letter to the Shareholders

On behalf of the Board of Directors, we are pleased to submit our report on the activities of Sceptre Resources Limited for the 12 months ended December 31, 1981. Last year's report covered the nine-month period ended December 31, 1980.

Your Company experienced significant growth during the reporting period. Capital spending was a record \$58.2 million, with \$14.3 million invested in Canada, \$32.4 million invested in the U.S.A., and the balance in various other countries. In 1980, Sceptre's capital spending was \$13.4 million. This significant increase in capital spending, which will enhance Sceptre's future growth potential, resulted in the following:

### Highlights

- During the year, Sceptre participated in 167 gross (23.2 net) wells, including 77 gross wells in Canada, 86 gross wells in the United States and 4 gross wells overseas. This record level of drilling activity resulted in 4.5 net oil wells and 11.0 net natural gas wells for an overall success ratio of 67%.
- The 15% pre-tax present worth of Sceptre's oil and natural gas reserves increased to \$113 million, as at January 1, 1982, compared to \$55 million as at January 1, 1981. These estimates were calculated by independent consultants. These reserves are

forecast to generate net revenues, after deduction of royalties, operating costs, capital expenditure requirements and Federal taxes other than income taxes, of \$825 million over the life of the properties.

- Sceptre's net acreage position increased to approximately 2.5 million net acres compared to approximately 2.1 million net acres at January 1, 1981. Sceptre now holds 338,000 net acres in the United States (Williston Basin, Denver—Julesburg Basin, Michigan Basin, Gulf-Coast onshore). During the year, Sceptre also acquired new concessions in Libya and in the German Sector of the North Sea.
- Your Company has now established a sound financial base as evidenced by projected future net cash flow from reserves of \$825 million and access to approximately \$100 million from the combination of available lines of credit and the anticipated proceeds from the sale of Sceptre's 39% equity interest in its U.K. affiliate, Candecca Resources Limited. Subsequent to year-end, Sceptre announced it was considering the sale of all or a substantial portion of its interest in Candecca. The current market value of Sceptre's holding in Candecca exceeds \$50 million.

### Acquisition of Francana

Sceptre's financial and operating base was further strengthened subsequent to year-end with the acquisition, effective May 14, 1982, of the Canadian assets of Francana Oil & Gas Ltd. The transaction was part of an arrangement under which Francana's principal shareholders, Hudson Bay Mining and Smelting Co., Limited and Minorco Canada Limited, acquired Francana's non-Canadian assets in exchange for shares of Francana these companies owned, together with the assumption of \$68 million of Francana's debt. Subsequently, Sceptre issued 2.15 shares of its common shares for each share of Francana held by the public and assumed \$107 million of Francana's debt. The transaction resulted in the issuance of approximately 7.1 million common shares.

As a result of the transaction, Sceptre acquired extensive producing and non-producing exploratory properties in western Canada. In addition to purchasing approximately 500,000 net acres, primarily located in Alberta, Sceptre also acquired proven reserves projected to generate future net revenue of \$1.2 billion after deductions for royalties, PGRT, IORT, operating expenses and capital costs. The 15% present worth value of these reserves was estimated by independent consultants to be \$262.9 million;



this projection does not include any net revenues from Francana's probable reserves, estimated by independent consultants to be 13 million barrels of oil and 41 billion cubic feet of natural gas. As a result of this acquisition, Francana's Canadian operations will be eligible to receive Petroleum Incentive Payments which in turn will increase cash flow available for exploratory and development programs. The impact of this purchase will become evident during the second quarter of 1982.

The combination of Sceptre with Francana, which will be operated as a wholly-owned subsidiary, produces a company with available financial resources totalling in excess of \$300 million over the next five years, assuming the sale of Sceptre's interest in Candecca. Sceptre has unutilized credit facilities under favourable terms and upon the consummation of the sale of the Candecca shares, proceeds would be used to reduce indebtedness leaving the Company well positioned to draw down on available lines of credit to finance development programs and to pursue other attractive acquisition opportunities. Available cash flow will be utilized to finance Sceptre's Canadian, U.S. and international exploration and development programs. Selected information on Francana is included in the main body of the Annual Report.

### **Financial and Operating Results**

Revenue in 1981 was \$12,855,761, an increase of 105% over the \$6,266,551 reported for fiscal 1980. Production revenue after deduction of royalties was \$4,614,050, an increase of 76% over 1980, reflecting higher product prices and the extended 1981 reporting period. New wells in the United States and two new natural gas fields in Canada were placed on-stream during the latter part of 1981; these are expected to contribute to production revenue growth during 1982. This is evidenced by the Company's December natural gas sales, which reached 9.8 MMcf per day compared to average daily production during 1981 of 5.7 MMcf per day. Average daily natural gas production during 1980 was 5.3 MMcf per day. Oil production in 1981 averaged 159 barrels per day, an increase of 12% over 1980.

Cash flow from operations was \$5,877,853 compared to \$3,910,230 during 1980, an increase of 50.3%. Expenses increased to \$13,226,415 during 1981 compared to \$4,473,884 in 1980. The loss from operations during 1981 was \$370,654 compared to earnings in 1980 of \$1,792,667. After deduction of dividends paid by subsidiary companies on out-

standing term preferred shares, Sceptre recorded a loss of \$2,308,438 compared to 1980 earnings of \$545,486. This loss is attributable to the decision to record a book writeoff of \$3,222,920 related to non-productive foreign expenditures previously incurred in Viet Nam, Ireland and the U.K. sector of the North Sea. During 1980, Sceptre recorded extraordinary earnings of \$1,700,728 resulting in net earnings of \$2,246,214. There were no extraordinary items during 1981.

On a per share basis, after deduction of dividends paid or payable on the Company's outstanding Convertible Preferred Shares, Sceptre recorded a loss of \$0.47 per share (\$4,408,351 in total) compared to earnings of \$0.15 per share (\$1,315,214 in total) during 1980.

### **Canadian Activity**

During 1981, Sceptre participated in 77 gross exploratory and development wells in Canada, resulting in 35 natural gas wells, 21 oil wells and 21 dry wells for an overall success ratio of 73%. Capital spending was \$14.3 million and an additional \$7 million was invested by the Sceptre 1980-81 Exploration Program and the Sceptre Saskatchewan 80 Program, limited partnerships administered by Sceptre as general partner and operator. Significant areas of activity included Red Earth-Loon Lake, Gartley, Drumheller-Rowley and Berland River, all situated in Alberta. Primary emphasis in Canada was placed on exploration for "new oil" and on development of natural gas properties either under contract or for which sales contracts can be obtained.

### **United States Activity**

Sceptre's U.S. activity is coordinated from its office in Denver, Colorado. Principal activity areas include the onshore Gulf Coast, Williston Basin, Rocky Mountain and Appalachian Overthrust regions and the Michigan Basin. During 1981 Sceptre invested \$32.4 million in the U.S.A., participating in 86 gross wells with an overall success ratio of 59%. Sceptre's acreage position increased to 338,293 net acres under 2.3 million gross acres compared to 77,625 net acres at year-end 1980.

In the onshore Gulf Coast region, Sceptre is a 16⅓% participant in a U.S. \$60 million joint venture with S & K Petroleum Limited and Kaiser Oil (U.S.) Ltd., the operator. Sceptre manages S & K and owns a 10% equity interest in the company, which is a 50% participant in the joint venture. During 1981, a total





of (U.S.) \$40 million was spent by the joint venture to acquire 132,000 acres relating to 74 prospects and in drilling 21 wells on 17 of these prospects. This drilling resulted in four oil wells, five natural gas wells and 12 dry wells. Sales of crude oil commenced in 1981 and production of natural gas commenced February 15, 1982. Further drilling of both exploratory and development wells is scheduled during 1982.

During 1981, Sceptre was a 50% participant in and operated a U.S. \$10 million joint venture with Penine Resources Limited, an affiliate of Candecca Resources Limited. Emphasis was placed on acquiring leases in the general Rocky Mountain region, including the Williston Basin. Acreage was acquired in North Dakota and Montana within the Williston Basin, as well as in Colorado, Wyoming and Western Kansas. Subsequent to year-end, Sceptre agreed to acquire, at cost after deducting certain expenditures, that portion of the joint venture not already owned by the Company. Sceptre anticipates an active seismic and drilling program on this acreage during the 1980's.

In Michigan, Sceptre acquired various interests under 157,210 gross acres. The lands are prospective for shallow Devonian oil and deeper Ordovician Prairie du Chien natural gas. During 1981, geological and geophysical data in relation to a portion of the acreage was acquired, with seismic and drilling planned for 1982, including a deep test offsetting the Dart Edwards 7-36 discovery well and a shallow Devonian test, both in Missaukee County.

During 1981, Sceptre also drilled a natural gas well within the Early Grove natural gas field on its Appalachian Overthrust acreage in Washington County, Virginia. A forty mile seismic program was also completed and the data is being evaluated.

### International Activity

Sceptre is the operator of and owns a 25% interest in the 1.94 million acre "Area A" concession onshore Abu Dhabi, U.A.E. A 1,600 kilometre seismic program was commenced in January, 1981 and over 1,500 kilometres of data has been acquired. Drilling of the Sweihan No. 1 well commenced on October 25, 1981; this well was suspended during May, 1982 for possible further evaluation of hydrocarbon shows. Geophysical and geological evaluation of a number of additional prospects will continue during 1982 and a second well on the concession is currently scheduled for drilling later this year.

Sceptre also owns a 3% interest in the "Area B" concession which covers an additional 1.9 million acres onshore Abu Dhabi. A seismic program was initiated on this block during the reporting period and drilling is scheduled to commence during 1982.

During 1981, Sceptre acquired a 10% interest in five concessions (four onshore and one offshore) in Libya. The concessions cover approximately 3.9 million acres and a variety of prospects. Sceptre's participation awaits final approval by Libyan authorities. An extensive seismic program covering approximately 7,600 kilometres and the drilling of 16 exploratory wells is scheduled during 1982-1984 inclusive. The MI-NC 41/137 well, located on the offshore concession, was spudded on October 29, 1981. Sceptre holds a 5% interest in the well as a result of a pooling. The well tested natural gas and 55° API condensate at rates of 12.5 MMcf per day and 750 barrels per day, respectively, through a half-inch choke from the Reineche formation at approximately 7,800 feet. Delineation drilling will be considered for late 1982 after a separate feature on the offshore block has been evaluated.

In the Netherlands sector of the North Sea, Sceptre continues to await appropriate approvals to commence development drilling on Block L/14, in which the Company holds a 7.5% interest. The L/14-1 discovery well had previously tested 18 MMcf per day. In 1982 the L/14-4 exploratory well was spudded to evaluate a separate feature on the block.

In 1981, Sceptre acquired interests ranging between 2.5% and 5% in approximately 2.5 million acres in the German sector of the North Sea. An exploratory well, J/5-1, in which Sceptre holds a 5% interest, is currently drilling.

In the Philippines, the Sulu Sea contract, in which Sceptre held a 15% interest, was farmed-out to Amoco Sulu Sea Co. An exploratory well, which earned Amoco a 50% interest in the contract, was drilled at no cost to Sceptre in early 1982 and was abandoned. Subsequent to year-end, Sceptre cancelled its plans to explore onshore France and limited work was conducted in Portugal during the latter part of 1981 following the abandonment in March of the Campelos No. 1 well. Additional seismic on this concession is under consideration. No activity is contemplated on Sceptre's Viet Nam acreage during 1982 and applications for four blocks in the Adriatic Sea, in which Sceptre is now a 10% participant, remain outstanding.



## Investments

In addition to its 10% equity interest in S & K Petroleum Ltd., Sceptre owns a 39% equity interest in Candecca Resources Limited, a U.K. based oil and gas company. Candecca has extensive holdings of exploratory acreage onshore the United Kingdom and is a 25% participant in the Humbly Grove oil discovery in the Dorset/Hampshire Basin of Southern England. Candecca also expanded its holdings offshore the United Kingdom, Ireland and Germany through a transaction with Plascom Limited which resulted in Candecca managing the affairs of Plascom while securing a 36% equity interest in that company. Candecca also owns 31% of Pennine Resources Limited, which is engaged in exploration activity in the United States. Sceptre has announced it plans to sell all or a substantial portion of its interest in Candecca. As previously stated, proceeds would be applied to the reduction of Sceptre's indebtedness, which in turn would increase cash flow available for capital investment programs.

## General

As a result of an aggressive capital spending program during 1981 and the recent acquisition of the Canadian operations of Francana, Sceptre is poised for a period of significant growth during the 1980's. This comes at a time when most sectors of the economy, including the oil and gas industry, face serious difficulties in not only financing growth but also in meeting short-term obligations. Recent policy moves, such as that announced by the Government of Alberta, will enhance the level of funds available to your Company to fund its exploration and development programs. In our opinion, additional policy initiatives aimed at increasing netbacks to the oil industry as well as production volumes (whether in domestic or export markets) are required to restore investor confidence in this vital sector of the Canadian economy.

## Corporate Matters

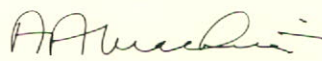

At the last Annual Meeting of shareholders, Mr. T. O. Stangeland, then Executive Vice-President, Pulp and Paper of Consolidated Bathurst Inc., was elected a Director of Sceptre Resources Limited. Mr. W. J. Witt was appointed Vice-President and Manager, U.S. Operations and was also appointed President of S & K Petroleum Ltd. Mr. Gary W. Freeman was appointed Vice-President and Manager of Domestic Exploration; Mr. Gordon H. Johnston was

appointed Vice-President, Land and Contracts and Mr. Allen F. Emes was appointed Vice-President, Corporate.

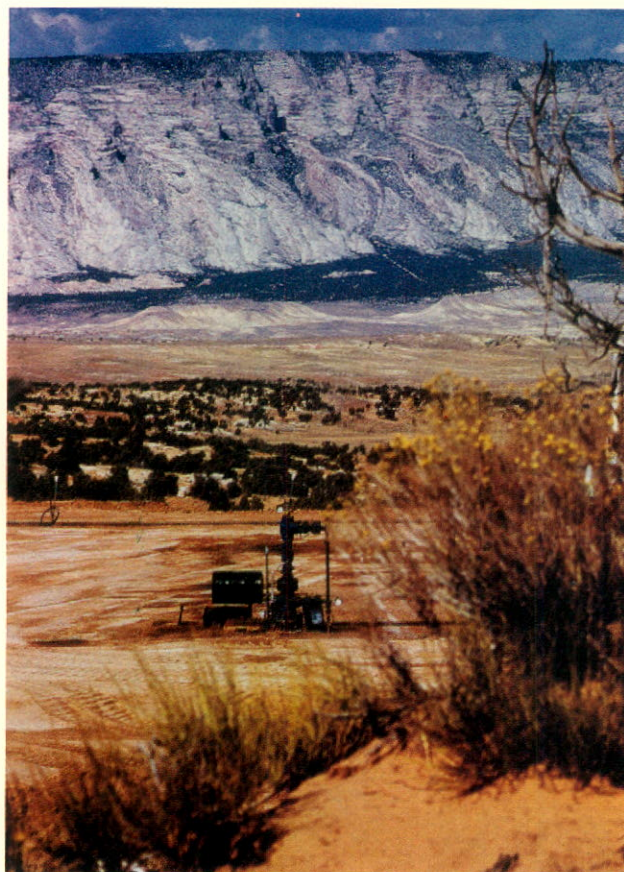
We would like to take this opportunity to thank other members of the Board and the Company's staff for contributing to the growth of Sceptre during the past year. Also, we wish to welcome the Francana employees remaining with the Company.

In addition, we wish to thank our shareholders for their continued support and extend a welcome to former Francana shareholders who are new holders of Sceptre common shares.

Submitted on behalf of the Board of Directors

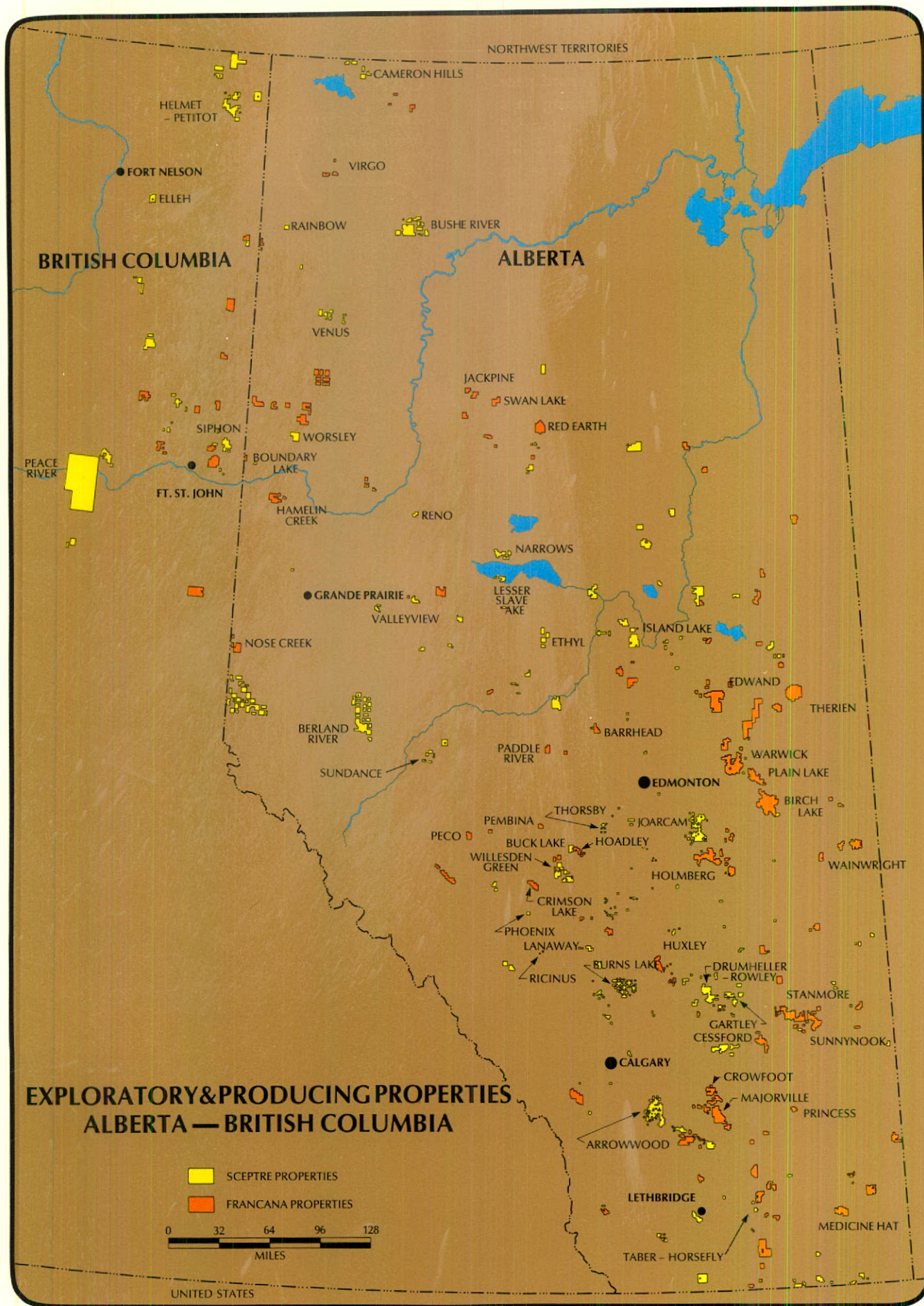
   
A. A. Mackenzie                      R. A. Gusella  
Chairman                              President and  
   Chief Executive Officer

May 25, 1982



Wellhead in Uinta Basin, Utah







## Exploration and Development

Sceptre's drilling activity continued at a record pace during 1981 with the Company participating in a total of 167 gross wells. Of this total 77 were located in western Canada, 86 in the United States, 2 offshore Ireland, 1 in Portugal and 1 in the U.K. sector of the North Sea.

Francana participated in a total of 98 wells in Canada during 1981.

In Canada, on a combined basis, a total of 46 wells were completed as oil wells, 66 wells were completed as natural gas wells and 63 wells were abandoned. In the United States 8 wells were classified as oil or condensate discoveries, 52 wells were completed as natural gas wells and 26 wells were abandoned. Wells were also abandoned in Portugal, offshore Ireland and in the U.K. sector of the North Sea.

On a combined basis, of the total of 265 wells participated in by Francana or Sceptre, a total of 65 (approximately 25%) were drilled on a "farm-out" basis on Sceptre or Francana acreage at no cost except the contribution of acreage. This demonstrates the advantages of acquiring and maintaining a significant holding of wildcat acreage.

### 1981 DRILLING RESULTS

	Sceptre Resources Limited	Francana Oil & Gas Ltd. (Canadian Operations)
Natural gas wells.....	87	31
Oil wells.....	29	25
Dry, abandoned or service wells.....	51	42
	<u>167</u>	<u>98</u>

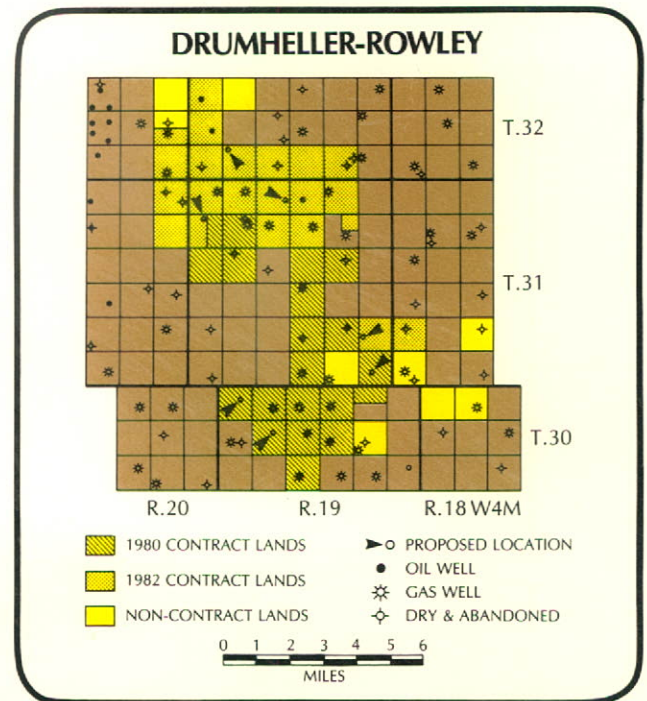
### GEOGRAPHICAL DISTRIBUTION OF 1981 DRILLING

Combined Sceptre Resources Limited & Francana Oil & Gas Ltd. for the Year Ending December 31, 1981

	Oil Wells (gross)	Natural Gas Wells (gross)	Dry, Aban- doned or Service Wells (gross)	Total Wells (gross)	(net)
Alberta .....	36	61	59	156	54.0
British Columbia.	1	5	2	8	1.3
Saskatchewan.....	9	—	1	10	1.6
Manitoba.....	—	—	1	1	0.2
United States.....	8	52	26	86	7.9
International .....	—	—	4	4	0.4
	<u>54</u>	<u>118</u>	<u>93</u>	<u>265</u>	<u>65.4</u>

## CANADA

Areas of significant activity in Canada during the fiscal period under review were:



### Drumheller – Rowley, Alberta

During 1981 Sceptre continued to develop its natural gas reserves within the Drumheller-Rowley contract area. The Company holds an average 39% working interest in 36,050 gross acres in this region, and prior to year end had participated in 20 natural gas wells and one oil well.

In December, 1981, six of these wells in the southern portion of the producing area were placed on production under a T.C.P.L. contract at a production rate of 4.3 MMcf per day. One step-out location is currently drilling and two more are scheduled to be drilled prior to July, 1982 when reserve redetermination will occur.

On the northern portion, Sceptre participated in the drilling of six wells during 1981. Four were completed as natural gas wells, one as a flowing oil well, and one well was abandoned. Subsequent to year end, two further oil wells have been drilled. Current plans for this area include additional step-out drilling, and the connection of the gas wells to production facilities with a view to commencement of production from the northern portion in November, 1982, also under a T.C.P.L. contract.

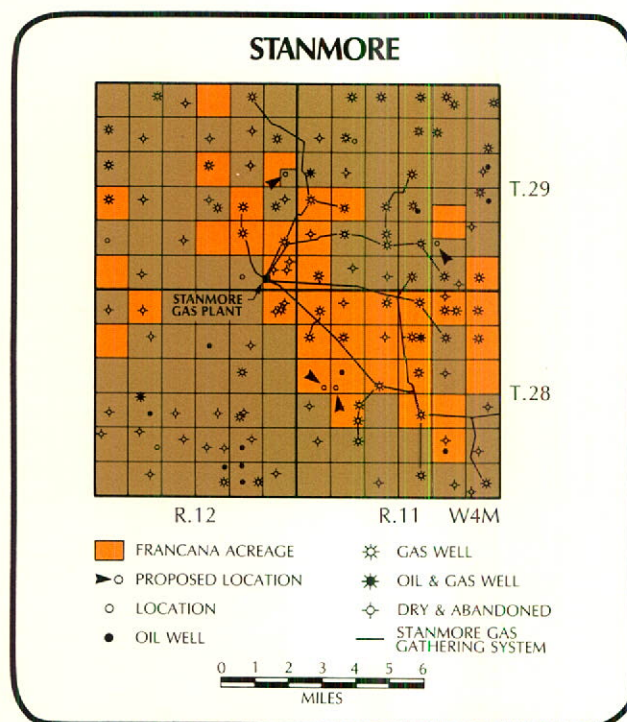




## Other Sceptre Activity

In addition to the ongoing activities at Drumheller-Rowley, Sceptre:

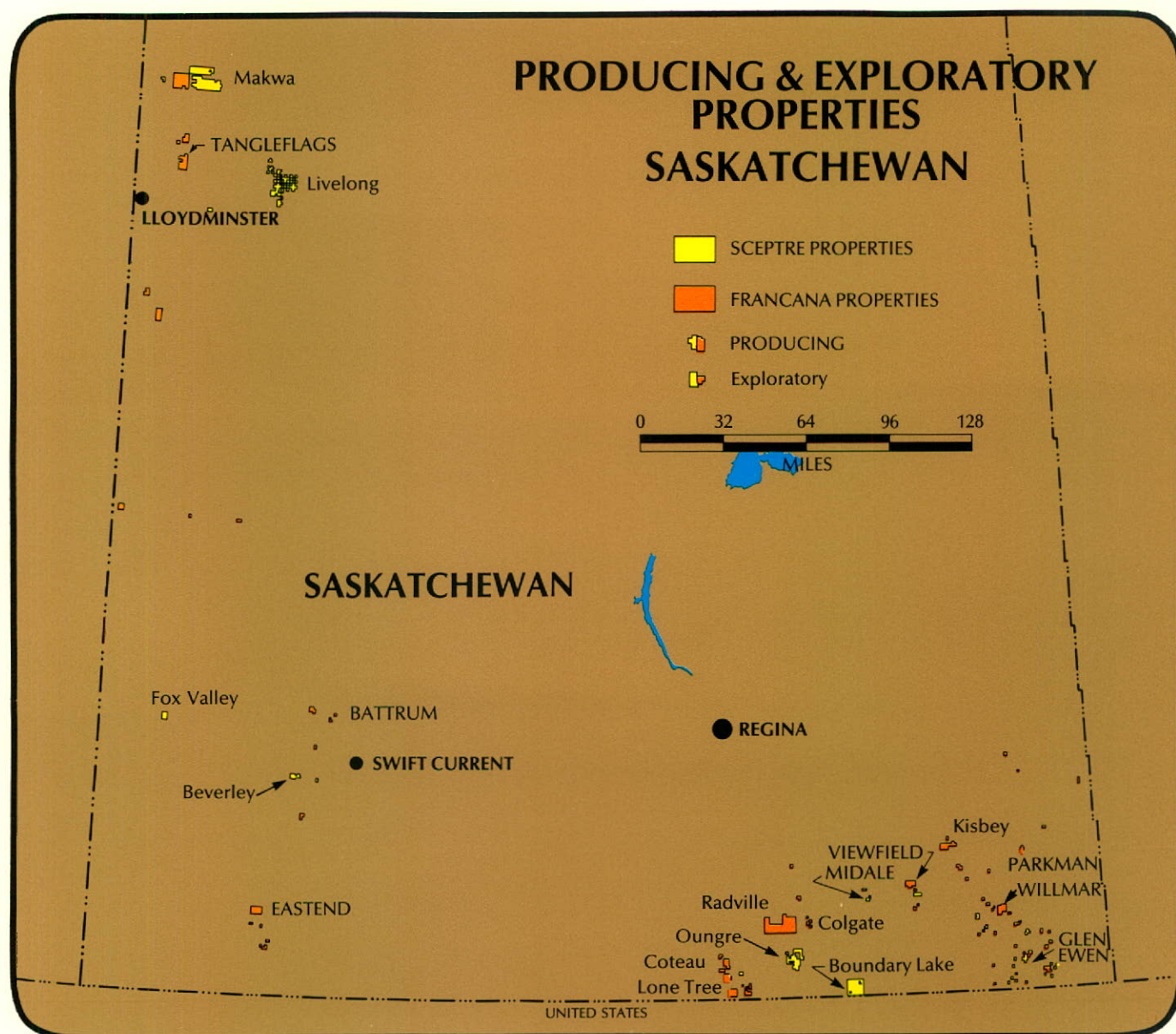
- participated in two exploratory oil discoveries at **Midale**, Saskatchewan, where the Company plans additional follow-up development drilling this year.
- is currently developing natural gas at **Arrowwood**, Alberta, where the Company holds between 30% and 60% interests in 8,640 gross acres dedicated to a Pan Alberta Contract. These reserves are scheduled to commence production in September, 1982 at 2.25 MMcf/d. The Company also plans a major exploratory program to evaluate deeper horizons in the area.
- has recently completed three additional oil discoveries in the **Red Earth-Loon Lake** areas of northern Alberta. This brings to six the total of new oil wells in which the Company has participated in this area.
- participated in a Cretaceous gas discovery in the **Sundance-Pine Creek** region of central Alberta. This well is an extension to the Kaybob gas producing field situated less than two miles to the north, and additional drilling is planned for later this year.
- participated in the drilling and tie-in of natural gas wells in the **Joarcam-Kingman** area of central Alberta, where the Company holds interests ranging from 3.125% to 100% in 48,045 gross acres. This area lies within the Birch-Wavy gas contract area, and additional drilling is planned for 1982.
- completed the evaluation of seismic data purchased over its **Cameron Hills** property in northern Alberta. The Company holds a 75% interest in 19,200 gross acres in this region, and two drillable Keg River reef anomalies were identified. Drilling must await the winter season due to lack of summer accessibility.
- succeeded in committing to Kann Gas Producers Limited additional natural gas reserves recently discovered in the **Gartley** and **Long Coulee** areas of eastern Alberta. These reserves, along with additional undeveloped probable reserves, could come on stream in 1983 providing an export licence is granted to Kann Gas.
- has completed an interpretation of a geophysical program shot in the **Burns Lake** area of central Alberta. The Company holds interests ranging from 7.5% to 100% in 34,698 gross acres in this area, and due to recent new oil discoveries nearby plans to drill a minimum of two exploratory wells in 1982.



### Stanmore, Alberta

At Stanmore, Alberta, Francana, the operator, maintained its production level of approximately 13 MMcf per day and currently holds interests ranging from 25% to 100% in 14 natural gas wells which are producing under a deliverability based contract with the gas sold to Trans Canada Pipe Lines Ltd. Additional drilling during 1981 resulted in two natural gas wells and one dry and abandoned hole. The operator has plans to drill a minimum of four step-out locations during 1982 and, in conjunction with the drilling activity, plans to tie in additional wells by September of this year in an attempt to improve net gas sales.



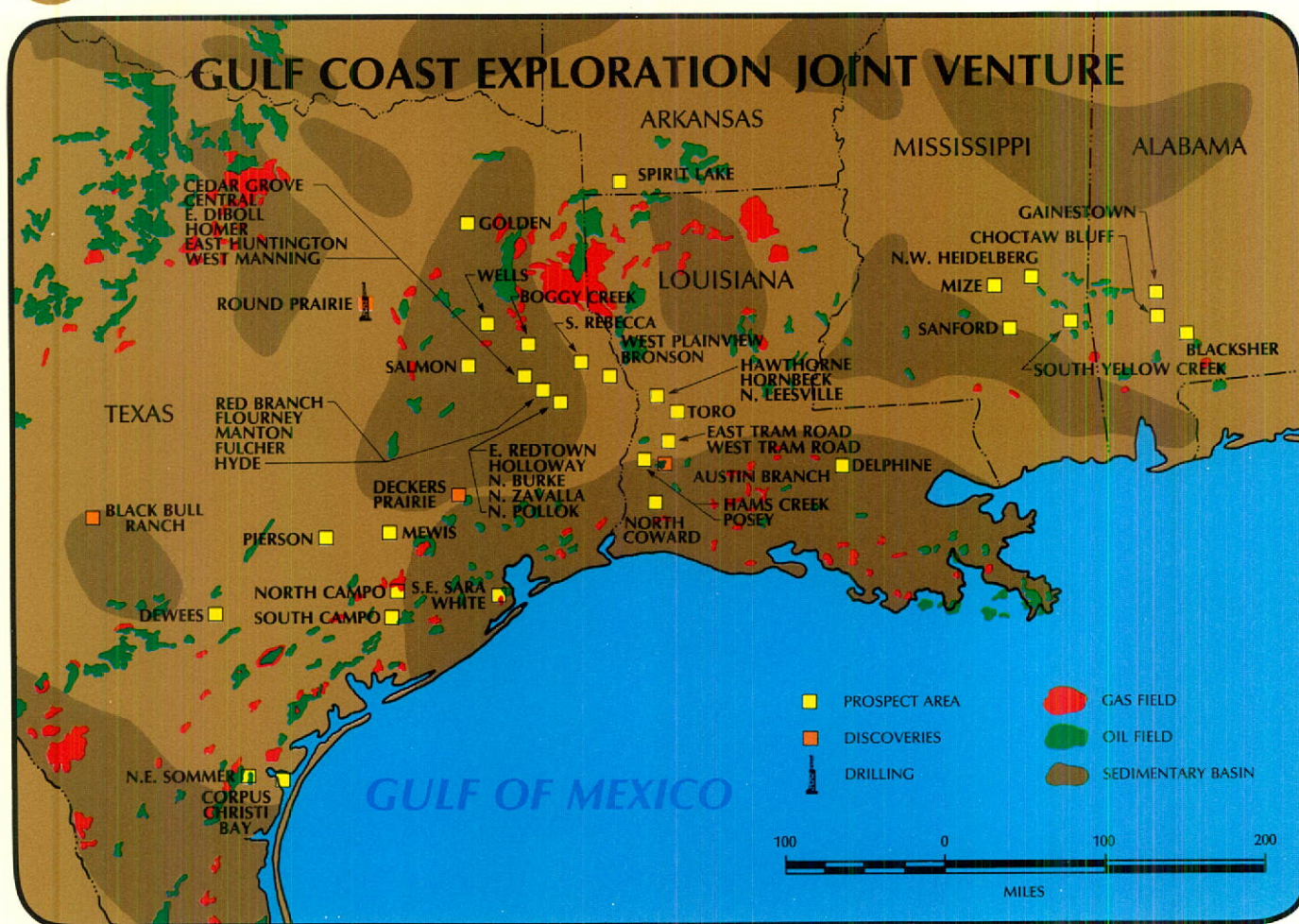


### Other Francana Activity

In addition to the aforementioned program at Stanmore, Francana:

- participated in drilling five "new oil" wells in the **Red Earth** area of northern Alberta.
- drilled and completed three "new oil" wells in the **Peco** area of west central Alberta, bringing to six the total number of oil wells drilled in this area by Francana.
- has participated in a significant natural gas condensate discovery at **Hoadley** in central Alberta.
- plans a minimum seven well development program on its **Tangleflags**, Saskatchewan property where the Company holds a 50% interest in 6,321 acres. This area has significant potential for development as a major heavy crude producing area.
- continued active pursuit of a major Glauconite channel sand oil play on their 15,040 acre block at **Taber** in southern Alberta. Wells drilled into the pool since its discovery in late 1979 have been producing an average rate of 100 barrels of oil per day. A minimum of three wells are scheduled for drilling during 1982 on their acreage.
- will participate in an exploration agreement involving a seismic program covering its **East Beaufort Sea** permit, in an attempt to further delineate a major structural feature already defined on the block.





## UNITED STATES

Sceptre's oil and gas activities in the United States are coordinated from its office in Denver, Colorado and are presently concentrated in the onshore Gulf Coast, Williston Basin, Rocky Mountain, Michigan Basin and Appalachian Overthrust regions.

### Gulf Coast Region

Sceptre is a 16% participant in a U.S. \$60 million joint venture in this region with S & K and Kaiser Oil (U.S.) Ltd., the operator. Sceptre owns a 10% equity interest in S & K which is a 50% participant in the joint venture.

During 1981 a total of 17 prospects were evaluated by drilling out of a total of 73 prospects identified by the joint venture. Sceptre participated in 22 wells on these 17 prospects which resulted in 4 oil wells, 4 natural gas wells, 1 suspended well, 1 well which was shut-in due to mechanical problems and 12 dry wells.

In addition to success on the Round Prairie Prospect which is outlined in detail below, the joint venture participated in oil discoveries at Austin Branch in Louisiana, and at Black Bull Ranch and Rutersville in Texas. Also, the joint venture drilled a natural gas and condensate discovery at Deckers Prairie in Texas.

Sceptre anticipates that 1982 will also be an active year for the joint venture with a mixture of high potential wildcat wells scheduled to be drilled along with several lower risk development wells. Deep Smackover tests are planned on the Northwest Heidelberg Prospect in Mississippi and on the Gainestown Prospect in Alabama. A well to test the Upper Frio Sands is planned on the Delphine Prospect in Louisiana. Gross reserve potential for a discovery on any one of these prospects is estimated to be 10-15 million barrels of oil or oil equivalent. In addition, development drilling is planned on pros-

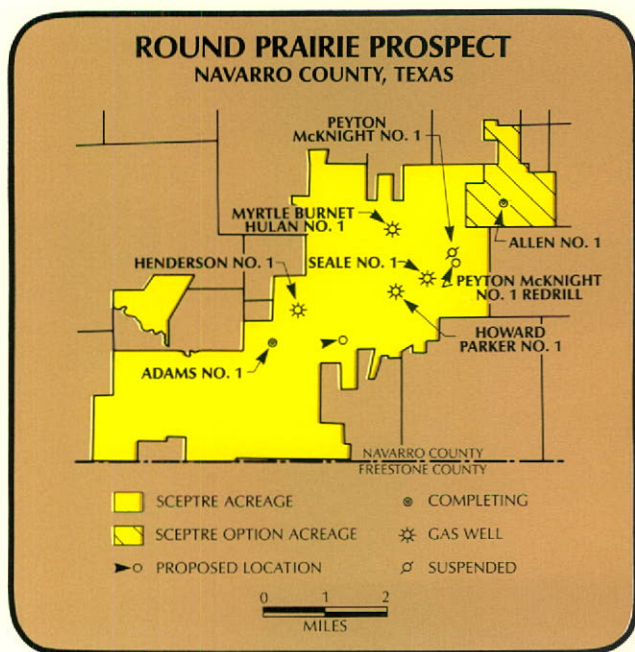


pects where previous joint venture success has been encountered.

### Round Prairie, Texas

Sceptre has encountered significant drilling success on the Round Prairie Prospect in Navarro County, Texas where the joint venture holds various interests in over 9,100 acres on the prospect. To date, the joint venture has participated in one recompletion and four step-out wells. Sceptre's working interest in production in these wells averages approximately 12.5% before payout and 9% after payout. Activity to date indicates significant reserves of natural gas in the Jurassic Smackover formation at 12,500 feet in addition to natural gas and condensate reserves in the Jurassic Cotton Valley Limestone at approximately 11,000 feet. The Smackover reserves have a high H<sub>2</sub>S content which necessitates a delay in the sale of the gas pending construction of a sulphur extraction facility in the region.

The Cotton Valley gas is sweet gas and has been contracted under a tight gas classification with an initial sales price of \$5.114 per Mcf. This price was subsequently adjusted upwards to \$5.59 per Mcf. Three wells are presently hooked into a sales line and are producing both natural gas and condensate. Three additional wells will be tied-in shortly. The joint venture expects to participate in a number of step-out wells during 1982.



### Williston Basin Region

Sceptre is a 25% participant with Louisiana Land and Exploration Co., the operator, and Patrick Petroleum Company in an exploration program on acreage situated in Williams and Divide Counties, North Dakota. Extensive seismic data has been obtained and new data is being compiled. Plans call for 15 additional wells to be drilled either by Sceptre or by industry partners under farmout agreements during 1982. Mississippian, Devonian, and Ordovician prospects with reserve potential in the 1-10 million barrel category will be evaluated.

Sceptre also owns an 87.5% interest in 14,500 acres in Williams and McKenzie Counties, North Dakota and in Sheridan and Richland Counties, Montana, covering a number of specific prospects which may be drilled during 1982. This acreage is in close proximity to recent discoveries made by other operators in the region.

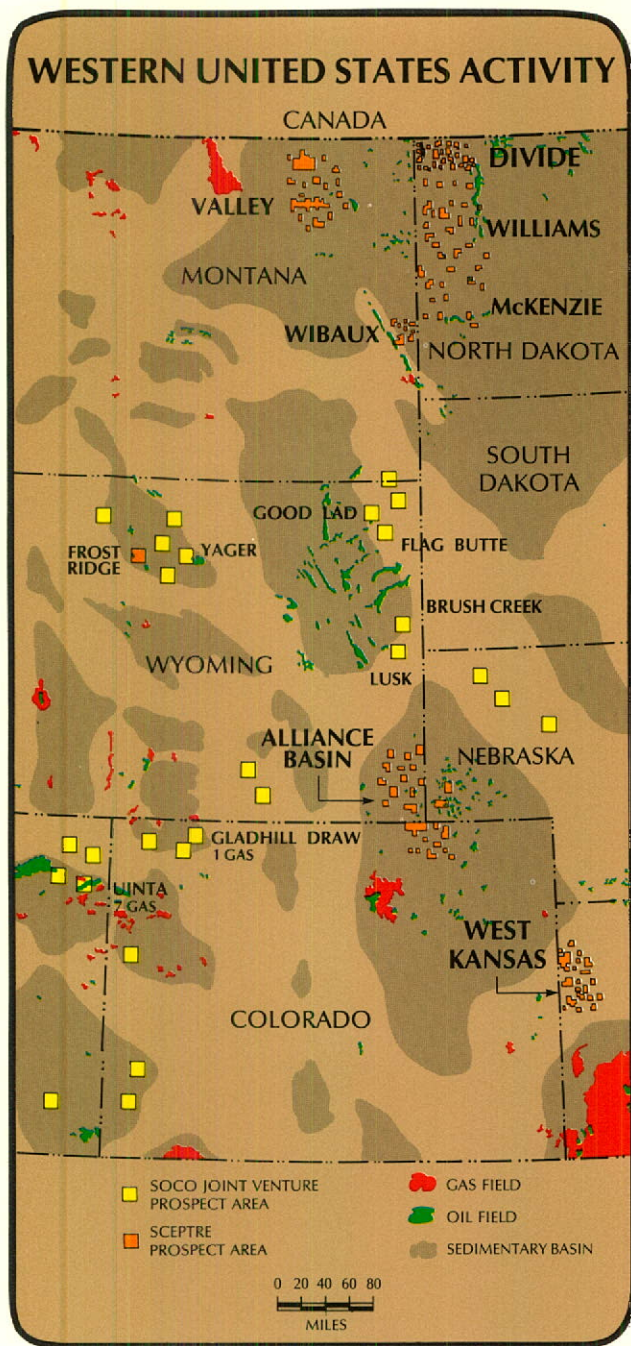
Sceptre also holds 2,740 net mineral acres in Wibaux and Dawson Counties, Montana and completed a leasing program in Valley County, Montana for acreage in proximity to a recent oil discoveries by other operators.

### Rocky Mountain Region

Sceptre has invested U.S. \$1 million with two land acquisition joint ventures which spent an aggregate of U.S. \$22 million during the period 1979 to 1981 primarily to acquire petroleum leases in this region. During 1981, Sceptre was a 20% participant in a U.S. \$10 million, 16 well drilling program to evaluate prospects under 34,000 gross acres so acquired. This drilling was concentrated in Colorado, Wyoming and Utah and resulted in eight natural gas wells in the Uinta Basin. These wells will be connected to production facilities by mid-summer. A number of development wells are planned to fully develop the discovery.

Sceptre was also successful in farming-out to industry partners a variety of prospects acquired through land acquisition joint ventures. In excess of 40 wells were drilled on Sceptre acreage in 1981 at no cost to the Company, including 36 wells in Carbon County, Wyoming as part of a deep gas development program to obtain production from tight Mesa Verde sands in the region. Thirty of

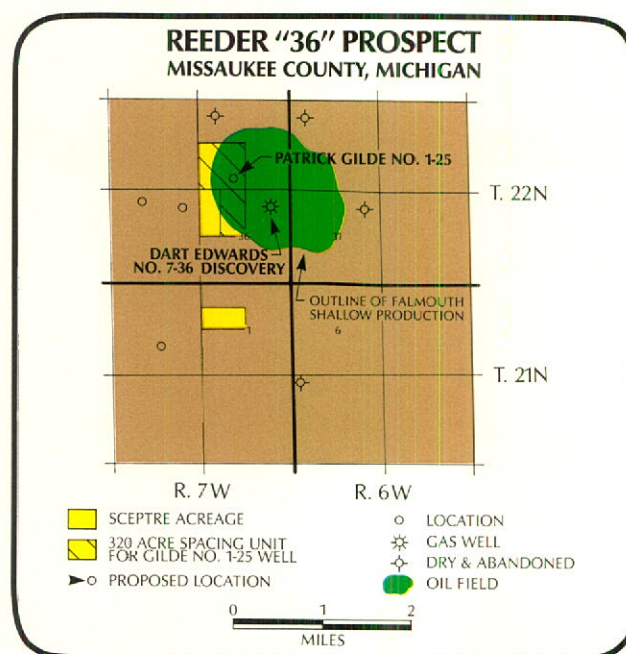




these wells are considered to be commercial and are expected to be on production by the end of 1982 with Sceptre retaining a modest interest of approximately 1.25% after payout. An additional 70-80

wells could be drilled on Sceptre acreage at no cost to the Company.

Sceptre also holds acreage primarily located in the Colorado and Wyoming portions of the Alliance Basin. A sixty-three mile seismic program was completed during 1981 and the data generated from that program is being evaluated. A three well drilling program on a portion of the acreage is scheduled to commence shortly. If successful, follow-up development drilling is contemplated.



## State of Michigan

Sceptre holds leases over approximately 157,000 acres (33,000 net acres) in the State of Michigan. The leases are situated over a broad area of the Michigan Basin which is prospective for shallow Devonian oil and deeper Ordovician Prairie du Chien natural gas. Sceptre and its partners have compiled geophysical and geological data in relation to a portion of its acreage in this region and additional seismic is planned during 1982.





Leases held in Southern United States

A licence has been obtained to drill a deep exploratory well in the first half of 1982 to test the Prairie du Chien formation on the Reeder "36" Prospect located in Missaukee County. The location is within one mile of the Dart Edwards 7-36 discovery made by PPG Industries in 1981. This well has reserve potential of 30 billion cubic feet of natural gas assigned to a 320 acre spacing unit.

Sceptre also expects to participate in a number of shallower Devonian tests in Michigan during 1982.

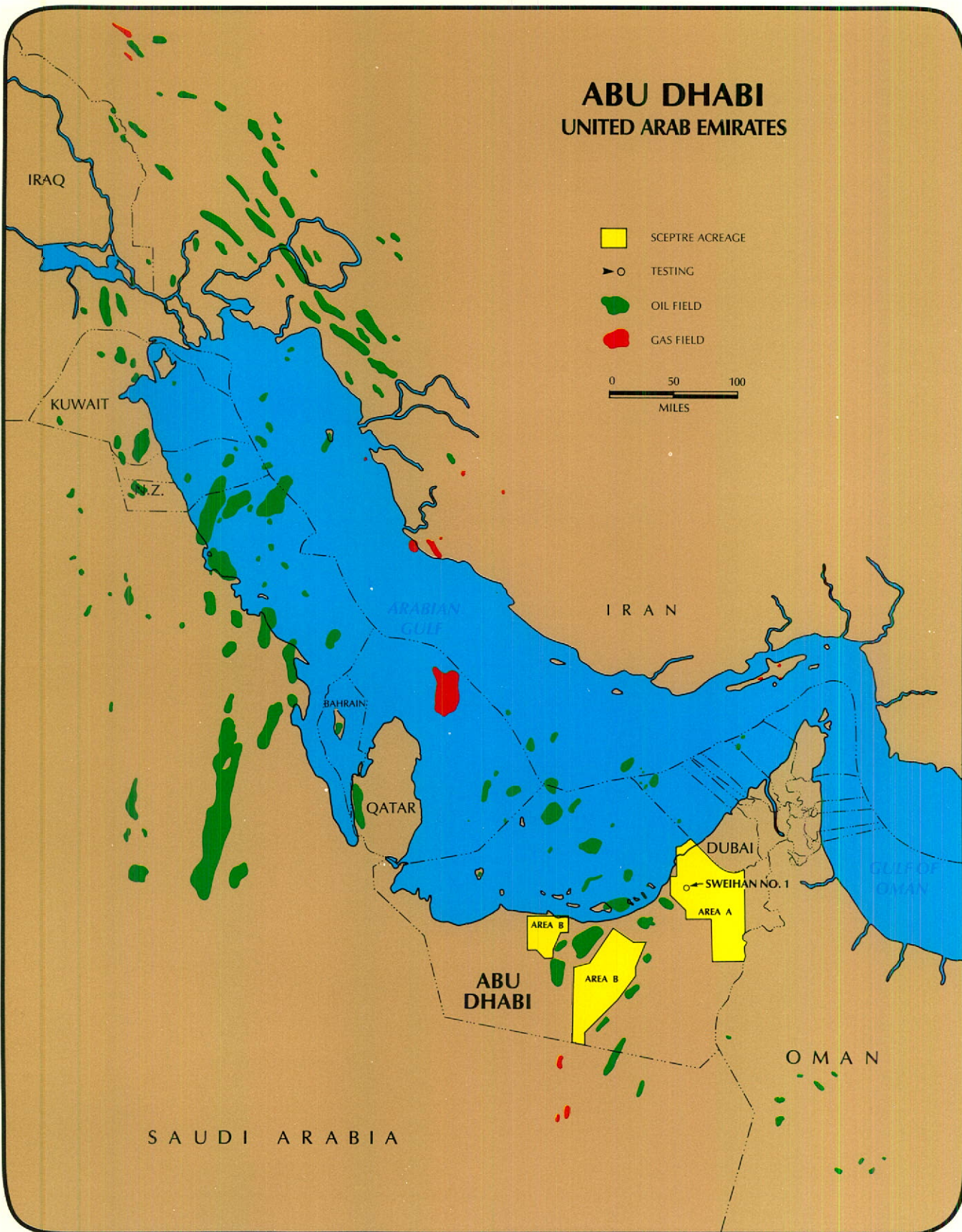
### **Appalachian Overthrust Region**

Sceptre holds a 23⅓% interest in approximately 62,000 acres primarily situated in Washington County, Virginia. Sceptre has drilled two wells, including a natural gas well which encountered approximately 70 feet of net pay in the Mississippian Price formation. The well is within the limits of the Early Grove natural gas field. A forty mile seismic program has been completed and the data is being evaluated.





## ABU DHABI UNITED ARAB EMIRATES





## INTERNATIONAL

Sceptre's international activities are coordinated from its office in London, England and are primarily concentrated in Abu Dhabi, the North Sea, and Libya.

### ABU DHABI, UNITED ARAB EMIRATES

Sceptre is well represented in this region of the Middle East with interests in two large concessions, located at the southern margin of the Arabian Gulf, onshore Abu Dhabi. The concessions, Area "A" and Area "B" had not been extensively explored prior to being granted to Sceptre and its partners late in 1980. Abu Dhabi has a number of multi-billion barrel fields with average field production rates exceeding 120,000 barrels per day from the 10 fields currently on production.

#### Area "A"

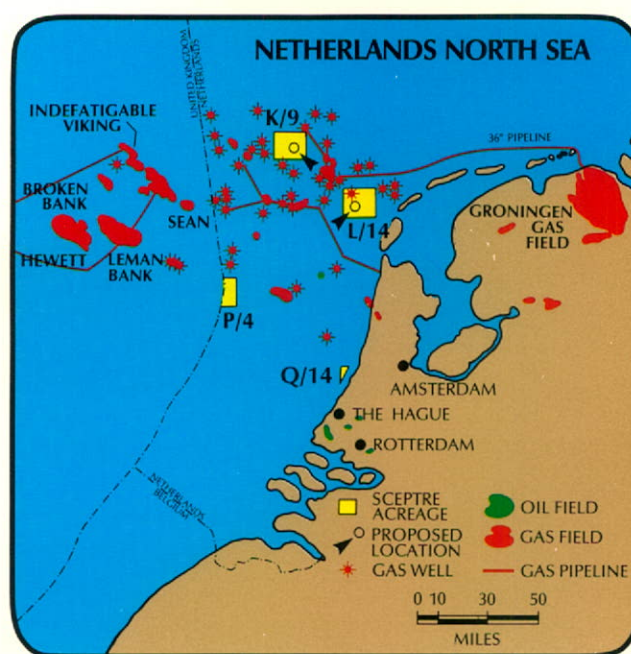
Sceptre is the operator of, and owns a 25% interest in, approximately 1.94 million acres in the Area A concession located primarily onshore Abu Dhabi. The concession is situated in close proximity to proven oil fields. A 1,600 kilometre seismic program was commenced in January, 1981 and approximately 1,385 kilometres of onshore seismic and 154 kilometres of telseis seismic offshore have been completed. The seismic program on the Area A concession has resulted in the identification of a number of additional prospects and one well, the Sweihan No. 1 was commenced in 1981. The well reached its scheduled objective of 14,500 feet in March, 1982. Testing of zones which appeared to be hydrocarbon bearing has proven to be disappointing, and the well was suspended for possible further evaluation of the hydrocarbon shows.

Sceptre and its partners plan to drill a second well on Area A in the late summer and the seismic program is continuing. Amoco, which was granted the concession immediately east of Area A in 1980, will drill a deep overthrust test immediately adjacent to Sceptre acreage during the early summer. The Company will watch with interest the results of this well due to Amoco's recent significant overthrust success in Sharjah.

#### Area "B"

Sceptre also owns a 3% interest in the Area B concession which is also located primarily onshore

Abu Dhabi and covers approximately 1.9 million acres. The concession is operated by Amerada Hess Corp. A seismic program is currently underway and drilling activity is expected to commence during 1982.

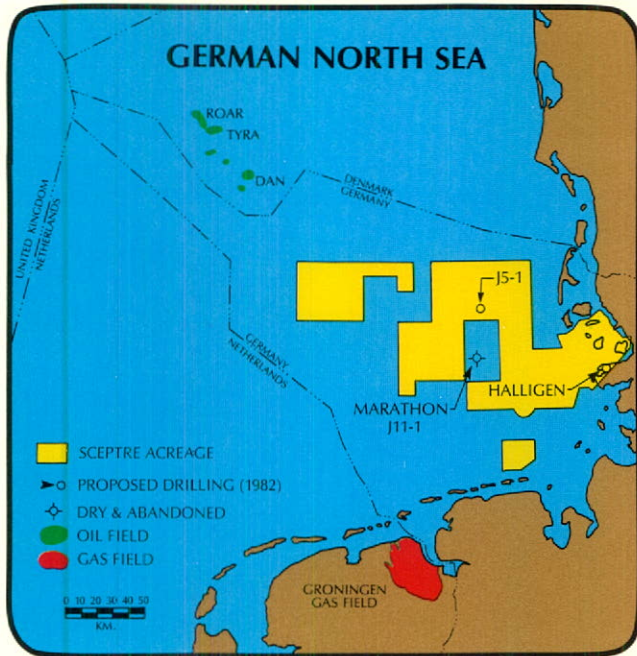


## NORTH SEA

### Netherlands Sector

Sceptre owns interests ranging from 3.625% to 14.59% in licences covering four blocks in the Netherlands sector of the North Sea. A natural gas well which tested 18 MMcf per day is situated on Block L/14 in which Sceptre owns a 7.5% interest. The operator has applied for a production licence and a two-well development program will be undertaken. If the production licence is awarded, a 1983 startup of production is contemplated. Sceptre and its partners spudded an exploratory well L/14-4 on April 14, 1982 on the northwest corner of the block in approximately 100 feet of water. With a total scheduled depth of 11,800 feet, the well will primarily test the Rotliegendes formation at 11,000 feet. Results are expected by mid-June, 1982. Exploratory drilling on blocks K/9 and Q/14 is also contemplated during late 1982 or early 1983.





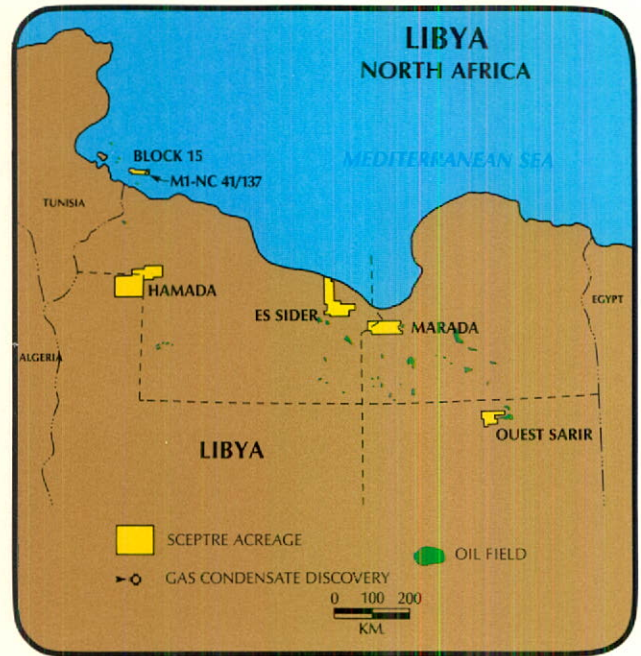
### German Sector

Sceptre recently acquired interests between 2.5% and 5% in approximately 2.5 million acres in the German sector of the North Sea. The interests cover 29 blocks in the area. On April 27, 1982 the J/5-1 well was spudded on block J/5. The well, in which Sceptre has a 5% interest, will be drilled to a depth of approximately 16,400 feet to test the Rotliegendes sands. Sceptre and its partners also anticipate drilling a Tertiary test on Halligen Island late in 1982.

### LIBYA

Sceptre recently acquired a 10% interest in five concessions (four onshore and one offshore) in Libya. The concessions cover approximately 3.9 million acres and a variety of oil and natural gas prospects. Societe Nationale Elf Aquitaine, the operator, presently plans to compile seismic data on approximately 7,600 kilometres and to drill 16 exploratory wells during the period 1982-1984 inclusive.

The first exploratory well, M1-NC 41/137, located on the offshore concession, was spudded on October 29, 1981. As a result of a pooling of acreage, Sceptre holds a 5% interest in this well, which is being operated by AGIP, S.p.A. The well yielded natural gas and 55° API condensate at rates of approximately 12.5 MMcf per day and 750 barrels per day, respectively through a half-inch choke from the Reineche formation at a depth of approximately 7,800 feet.



Delineation drilling will be considered for late 1982 after a separate structure on the block has been evaluated.

A seismic program is underway on the Hamada concession.

### OTHER INTERNATIONAL AREAS

Sceptre is participating in exploration programs offshore **Australia**, offshore **Ireland** and offshore the **Philippines** in the Sulu Sea. The Sulu Sea contract, in which Sceptre holds a 15% interest was farmed out to Amoco Sulu Sea Oil Co., which drilled a U.S. \$6 million well in late February, 1982 to earn a 50% interest in the concession. The well was abandoned.

In **Portugal**, Sceptre is the operator of and holds a 33⅓% interest in a 180,634 acre concession covering Block 43 in the Lusitanian Basin north of Lisbon. A well was drilled early in 1981 to a total depth of 11,815 feet and was abandoned in March, 1981. Subsequent analysis of well logs indicated a zone which appears to be gas-bearing. Additional seismic on the acreage is under consideration and other operators are expected to drill exploratory wells on adjoining concessions during 1982. Sceptre has no present plans to conduct exploration on its **Viet Nam** acreage.

Sceptre is also an applicant for additional concessions offshore **Italy** and is reviewing other exploratory projects in other countries.



## Candecca Resources Limited

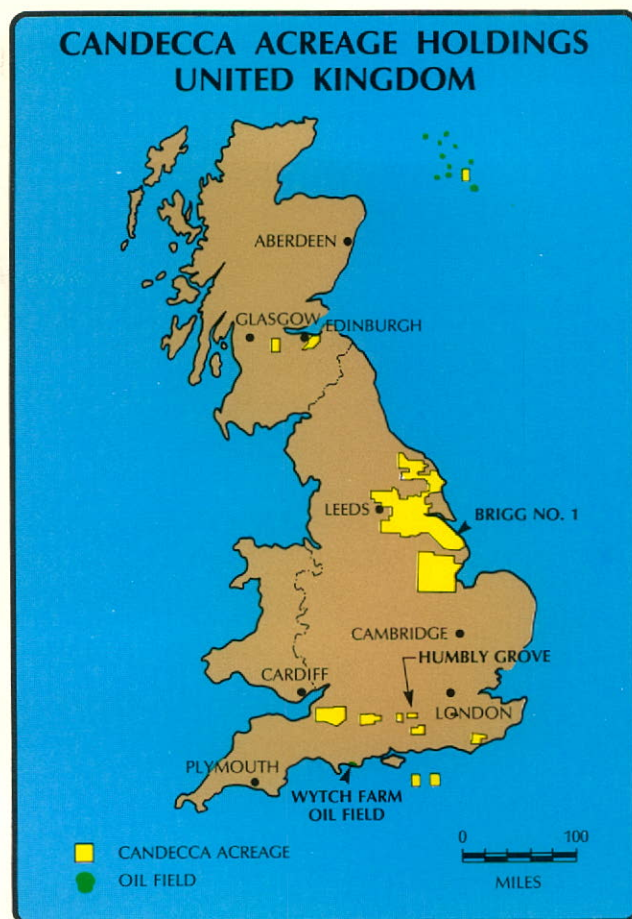
Sceptre owns 11,398,603 (approximately 39%) of the outstanding ordinary shares of Candecca Resources Limited and is its principal shareholder. Candecca is a public oil and gas exploration and production company which is based in the United Kingdom. On May 27, 1982 the quoted market price of Candecca's ordinary shares on The Stock Exchange, London was £2.26 per share (approximately \$5.00 Canadian) placing a current market value on Sceptre's holdings in Candecca of approximately \$57 million (Canadian) or approximately \$3.30 for each of the 17.3 million Sceptre shares outstanding after the completion of the Francana acquisition.

Sceptre recently announced that it is considering the disposition of all or a substantial portion of its holdings in Candecca. The proceeds of a sale would be used to reduce bank indebtedness and supplement working capital.

Candecca owns interests in over three million gross (one million net) acres onshore the United Kingdom and is represented in virtually all the major sedimentary basins onshore in the United Kingdom including, to the north, the Scottish Midlands Valley; to the east, the Yorkshire Midlands Basin; and in the south the Wessex Basin which opens up under the English Channel and into France. Candecca has a 25% interest in the Humbly Grove Jurassic oil discovery in the Dorset/Hampshire Basin in the south of England and a 33⅓% interest in an oil discovery at Brigg in the Humberside region near the River Humber.

Candecca also owns a 36% equity interest in and manages the affairs of Plascom Limited, a North Sea affiliate, which owns a 2.3% interest in the Hewett Gas Field situated offshore the U.K. and holds various interests in 18 blocks in the U.K. North Sea, 29 blocks offshore Germany and 2 blocks offshore Ireland. Candecca also owns a 31% interest in and manages the affairs of Pennine Resources Limited, a company engaged in oil and gas exploration in the United States.

Candecca announced on February 17, 1982 that it had executed an agreement with Esso Petroleum Company Limited under which Candecca will farm out all of its undeveloped onshore U.K. acreage. Esso can earn a 50% interest in 39 production licenses by paying 100% of the cost of 58 wells and 75% of the cost of an additional 28 wells. The transaction has not been finalized pending receipt of partners' approval.



### HUMBLY GROVE

In 1980 Candecca participated as to a 25% interest in a significant oil discovery, Humbly Grove No. 1, located on production licence 116B, onshore England. The well was completed, placed on pump, and has been producing oil at the rate of 100 barrels per day. More significantly, in April 1982 Candecca participated in the Humbly Grove No. 2 delineation well located approximately 800 metres northwest from the discovery well.

Humbly Grove No. 2 tested a stabilized flow rate of 750 barrels of 38 degree A.P.I. oil per day and 3.28 million cubic feet of natural gas per day, through a ½ inch choke, from the same reservoir formation previously encountered in Humbly Grove No. 1. In addition, the well tested from a deeper formation a flow rate of 2 million cubic feet of gas per day through a ¼" choke. Further tests of this well are scheduled.

A second well in the three-well delineation program, Humbly Grove No. 3, was spudded in May, 1982 on a location 1500 metres east of Humbly Grove No. 1. Results are expected by mid-June, 1982.





Sceptre owns interests in exploratory acreage in a number of prospective regions. Sceptre's working interest acreage holdings in Canada as at December 31, 1981 amounted to approximately 1,770,000 gross (391,000 net) acres; in the United States its total acreage holdings amounted to approximately 2,288,000 gross (338,000 net) acres; and its acreage holdings in ten other countries amounted to approximately 18,049,000 gross (1,728,000 net) acres. Sceptre also holds royalty and other interests in approximately 929,000 gross acres in Canada.

The addition, effective May 14, 1982, of the Canadian oil and gas properties of Francana Oil & Gas Ltd. results in an increase in Sceptre's Canadian

acreage holdings to approximately 3.6 million gross (827,000 net) acres together with combined royalty interests of approximately 1.1 million gross acres.

In the United States in 1981, Sceptre continued its program to establish a significant acreage bank. The Company expects to participate in a significant number of wells during 1982 and future years by farming out its acreage to industry partners. Of particular interest, Sceptre has acquired large land parcels in such high activity regions as the Williston Basin, western Kansas, Michigan and the Gulf Coast.

Internationally, during the year Sceptre acquired concessions in Libya and in the German North Sea.

## SCEPTRE RESOURCES LIMITED PETROLEUM AND NATURAL GAS RIGHTS As at December 31, 1981

	Petroleum and Natural Gas Leases		Concessions, Permits, Licenses and Reservations		Total		Royalty and Other Interests Gross Acres
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres	
<b>CANADA</b>							
Alberta .....	926,435	263,153	103,068	20,500	1,029,503	283,653	39,633
British Columbia .....	156,575	41,904	447,175	31,678	603,750	73,582	10,223
Saskatchewan .....	38,947	8,926	51,695	10,686	90,642	19,612	—
Arctic Islands							
N.W.T. ....	15,114	6,801	30,601	6,886	45,715	13,687	411,253
Beaufort Sea .....	—	—	—	—	—	—	467,850
	<u>1,137,071</u>	<u>320,784</u>	<u>632,539</u>	<u>69,750</u>	<u>1,769,610</u>	<u>390,534</u>	<u>928,959</u>
<b>UNITED STATES</b>							
Williston Basin .....	190,939	100,069	—	—	190,939	100,069	—
Kansas/Nebraska .....	500,927	75,999	—	—	500,927	75,999	—
Rocky Mountain Region .....	563,932	51,128	—	—	563,932	51,128	—
Michigan Basin .....	157,210	32,766	—	—	157,210	32,766	—
Appalachian Region .....	62,274	13,845	—	—	62,274	13,845	—
Pacific Coast, Onshore .....	358,324	23,934	—	—	358,324	23,934	—
Gulf Coast, Onshore .....	131,950	21,992	—	—	131,950	21,992	—
Other .....	322,024	18,560	—	—	322,024	18,560	—
	<u>2,287,580</u>	<u>338,293</u>	<u>—</u>	<u>—</u>	<u>2,287,580</u>	<u>338,293</u>	<u>—</u>
<b>INTERNATIONAL</b>							
Abu Dhabi, U.A.E. ....	—	—	3,843,113	543,138	3,843,113	543,138	—
Philippines .....	—	—	3,583,012	268,726	3,583,012	268,726	—
Germany, North Sea .....	—	—	2,500,000	71,000	2,500,000	71,000	—
Netherlands, North Sea .....	—	—	245,865	15,071	245,865	15,071	—
United Kingdom, North Sea .....	—	—	53,375	2,615	53,375	2,615	—
Republic of Ireland, Offshore .....	—	—	308,750	18,840	308,750	18,840	—
Libya .....	—	—	3,872,085	387,208	3,872,085	387,208	—
Portugal .....	—	—	180,634	60,211	180,634	60,211	—
France, Onshore .....	—	—	65,500	21,834	65,500	21,834	—
Vietnam .....	—	—	3,396,714	339,671	3,396,714	339,671	—
	<u>—</u>	<u>—</u>	<u>18,049,048</u>	<u>1,728,314</u>	<u>18,049,048</u>	<u>1,728,314</u>	<u>—</u>
<b>TOTAL</b> .....	<u>3,424,651</u>	<u>659,077</u>	<u>18,681,587</u>	<u>1,798,064</u>	<u>22,106,238</u>	<u>2,457,141</u>	<u>928,959</u>

### Notes:

- (1) The totals include 166,880 gross (40,540 net) acres in Canada and 5,800 gross (896 net) acres in the United States which are producing or are capable of production and to which reserves of petroleum and natural gas have been assigned.



**FRANCANA OIL & GAS LTD.**  
**CANADIAN PETROLEUM AND NATURAL GAS RIGHTS**  
**As at December 31, 1981**

	Developed Acres		Undeveloped Acres	
	Gross	Net	Gross	Net
Alberta .....	566,292	301,214	752,187	269,266
British Columbia .....	28,278	8,211	78,924	25,559
Manitoba .....	446	89	17,715	10,026
Saskatchewan.....	47,896	30,252	180,619	85,413
Territories and Arctic Islands .....	—	—	282,438	17,362
East Coast Offshore .....	—	—	494,686	74,064
Total Francana.....	642,912	339,766	1,806,569	481,690

## Production

With the acquisition on May 14, 1982 of Francana Oil & Gas Ltd., Sceptre significantly expanded its production base for 1982 and future years.

### OIL AND CONDENSATE

Sceptre and Francana own various interests in approximately 1,250 oil and condensate wells (182 net wells) located in Canada and the United States. Approximately 60 percent of such wells are located in Saskatchewan and 35 percent in Alberta.

Production for Sceptre and Francana for the reporting period was approximately 952,000 barrels of oil and condensate (2,600 barrels per day) which compares to combined production of approximately 1.1 million barrels (3,100 barrels per day) in 1980. A combination of the Alberta crude oil production cutback, reduced net backs to the producer, particularly in Saskatchewan, and the curtailed refining requirements of crude oil purchasers contributed to the reduced 1981 production. A final resolution of these problems in 1982 would result in significantly increased production rates for oil and condensate.

During 1981 the principal oil producing properties and their production, which account for approximately 44 percent of the 1981 oil production is as follows:

### PRODUCTION OF CRUDE OIL, CONDENSATE AND NATURAL GAS

	Year Ended December 31, 1981		
	Sceptre Resources Limited	Francana Oil & Gas Ltd.(1)	Combined
Gross Natural Gas Sales			
Total—MMcf.....	2,082	12,280	14,362
Daily Average—			
MMcf per day...	5.7	33.6	39.3
Crude Oil and Condensate Sales			
Total—barrels .....	57,986	894,100	952,086
Daily Average—			
barrels per day .....	159	2,450	2,609

(1) Effective May 14, 1982 Sceptre completed the acquisition of Francana Oil & Gas Ltd. which holds primarily Canadian oil and gas producing properties and wildcat acreage.

Property	Oil Production (bbls)
Battrum, Saskatchewan.....	121,000
Viewfield, Saskatchewan.....	103,000
Willmar, Saskatchewan .....	103,000
Princess, Alberta.....	89,000





## NATURAL GAS

Sceptre and Francana hold interests in approximately 1400 natural gas wells (274 net wells) with over 90 percent of these wells located in Alberta.

Production of natural gas on a combined basis for the reporting period was approximately 14.4 billion cubic feet (39 million cubic feet per day) compared to production for the combined companies in 1980 of 16.2 billion cubic feet (46 million cubic feet per day). This decline resulted primarily from limited nominations in Alberta by the major gas purchasers in the province. The stated intention of both the Federal and Provincial Governments to actively promote and pursue new natural gas markets, together with the recently announced amendments to the method of calculating exportable surplus by the National Energy Board have the potential to increase the Company's future production of natural gas.

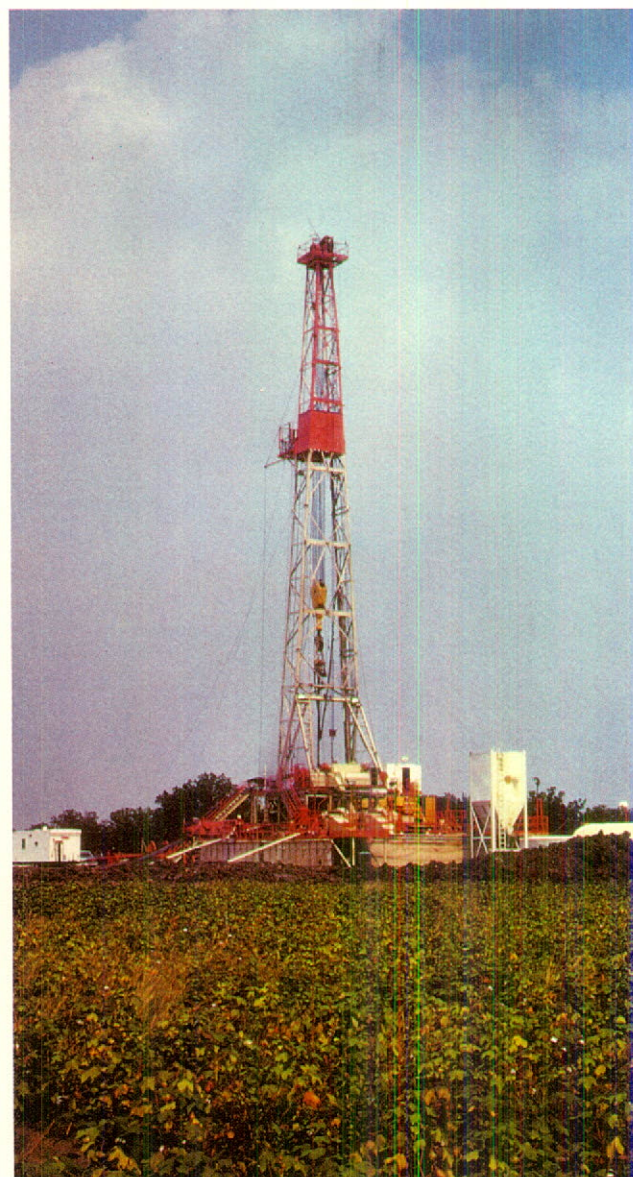
During 1981 the principal natural gas producing properties and their share of production, which represents approximately 50% of the natural gas production for the combined Sceptre and Francana, is as follows:

Property	Natural Gas Production (MMcf)
Stanmore, Alberta .....	2,444
Edward, Alberta.....	1,789
Birch Lake, Alberta.....	1,540
Warwick, Alberta.....	1,364

### STATUS OF PETROLEUM AND NATURAL GAS WELLS

(as at December 31, 1981)

	Oil Wells		Gas Wells	
	Gross	Net	Gross	Net
<b>SCEPTRE RESOURCES LIMITED</b>				
Alberta.....	67	10.6	195	50.0
Saskatchewan.....	17	2.6	2	0.2
British Columbia .....	—	—	41	9.8
United States.....	30	2.3	56	6.8
Republic of Ireland ....	3	0.0	—	—
North Sea— Netherlands Sector.	—	—	1	0.1
	<u>117</u>	<u>15.5</u>	<u>295</u>	<u>66.9</u>
<b>FRANCANA OIL &amp; GAS LTD.</b>				
<b>(Canadian Operations)</b>				
Alberta.....	322	57.4	1,083	200.9
British Columbia .....	1	0.3	20	3.8
Manitoba .....	117	0.6	—	—
Saskatchewan.....	694	108.6	5	2.0
	<u>1,134</u>	<u>166.9</u>	<u>1,108</u>	<u>206.7</u>



Rig Drilling at Round Prairie, Texas.



## Reserves

Sceptre's oil and gas reserve volumes and the interest of the Company in future net cash flow from its petroleum and natural gas properties located in Canada have been evaluated as at January 1, 1982 by Kloepfer, Coles, Nikiforuk, Pennell Associates Ltd. of Calgary, Alberta and those in the United States primarily by Keplinger and Associates Inc. of Denver, Colorado and Houston, Texas. These reports are summarized below.

Francana's Canadian crude oil, natural gas, natural gas liquids and sulphur reserves as at January 1, 1982 have been reported on by McDaniel & Associates Consultants Ltd. of Calgary. This report is summarized below.

The gross proven plus probable reserves on a combined basis for Sceptre and Francana as at January 1, 1982 are estimated to be 22.9 million barrels of oil and natural gas liquids, 309 billion cubic feet of natural gas and 28,000 long tons of sulphur. The undiscounted value of the future net cash flow

generated over the life of these reserves is estimated to be in excess of \$2 billion.

On a geographical basis, approximately 70% of the oil and liquids reserves for the combined companies are located in Saskatchewan, 26% in Alberta, 3% in the United States and the remainder in British Columbia and Manitoba. An internal estimate indicates that approximately 5% of the oil reserves in Canada (1 million barrels) qualify for the New Oil Reference Price. With in excess of 16 million gross barrels of proven and probable oil reserves in Saskatchewan, Sceptre could benefit significantly from the recently announced intention by the Government of the Province of Saskatchewan to reduce their taxation and royalty rates to a level more in line with those of the Province of Alberta.

Approximately 90 percent of natural gas reserves are located in Alberta with 5% in British Columbia, 2% in Saskatchewan and 3% in the United States.

### SCEPTRE RESOURCES LIMITED PETROLEUM AND NATURAL GAS RESERVES

January 1, 1982

	Gross Estimated Sceptre Working Interest Reserves	
	Oil and Condensate (Mstb)	Natural Gas (Bcf)
Proven .....	467	47
Probable .....	699	27
TOTAL .....	1,166	74

	Present Worth Discounted at the Rate of			
	Undiscounted	12%	15%	20%
Proven .....	\$402,278,000	\$ 93,731,000	\$ 75,515,000	\$56,346,000
Probable .....	422,470,000	52,124,000	37,821,000	24,529,000
TOTAL .....	\$824,748,000	\$145,855,000	\$113,336,000	\$80,875,000

### FRANCANA OIL & GAS LTD. CANADIAN PETROLEUM AND NATURAL GAS RESERVES

January 1, 1982

	Gross Estimated Francana Share of Remaining Reserves			
	Crude Oil Barrels (Mstb)	Natural Gas (Bcf)	Natural Gas Liquids barrels (Mstb)	Sulphur (long tons)
Proven developed .....	8,525.8	194.4	546.5	23,009
Probable additional .....	12,656.9	40.7	32.8	4,788
TOTAL .....	21,182.7	235.1	579.3	27,797

	Present Worth Discounted at the Rate of			
	Undiscounted	10%	15%	20%
Proven developed .....	\$1,140,394,674	\$358,304,519	\$246,106,488	\$183,240,781
Probable additional .....	not estimated	23,263,881	16,808,370	12,965,210
TOTAL .....	\$1,140,394,674	\$381,568,400	\$262,914,858	\$196,205,991





Revenue from oil and gas production, net of royalties, increased from \$2,622,788 for the nine months ended December 31, 1980 to \$4,614,050 for the year ended December 31, 1981. Volume increases, on a daily basis, of 12% and 5% for oil and gas, respectively, together with higher prices, account for the revenue increase. The increase in oil volumes resulted primarily from new wells brought on production in the United States at Austin Branch, Texas and Golden Prairie, Nebraska and in Canada at Garrington and Red Earth in Alberta. Natural gas production increased with the completion, late in 1981, of natural gas plants at Joarcam and Drumheller, which regions are expected to contribute significantly to 1982 and future production.

Sceptre realized a total of \$4,477,494 from the disposition of oil and gas leases in the United States. The related costs of this acreage to Sceptre was \$3,415,612. This disposition is in keeping with Sceptre management philosophy of establishing a diversified acreage inventory in the United States and of trading or selling a portion of this acreage at a profit and retaining the remaining acreage.

Revenue from management fees increased from \$390,000 for the nine months ended December 31, 1980 to \$1,877,229 for the year ended December 31, 1981. This increase relates to fees charged pursuant to various joint ventures or to related companies which Sceptre either operates or manages, primarily S & K Petroleum Ltd., the Sceptre 1980-81 Exploration Program and the Sceptre Saskatchewan 80 Program.

Operating expenses increased from \$414,577 for the nine months ended December 31, 1980 to \$908,766 for the year ended December 31, 1981. This increase, on an annualized basis, relates to increased production as well as inflation.

General and administrative costs increased for the year ended December 31, 1981 to \$2,313,501 from \$1,375,852 for the prior nine month fiscal period. This increase primarily relates to increased activity in each of Sceptre's four offices. Sceptre continues to increase the number of projects where it acts as operator and also operates or manages a variety of drilling funds and joint ventures which results in increased overhead.

Depletion and depreciation increased from

\$1,392,470 for the nine months ended December 31, 1980 to \$2,133,967 for the year ended December 31, 1981, an increase of 53%, which resulted from increased production volumes and also the twelve month reporting period in 1981.

Deferred income taxes decreased from \$1,348,593 for the nine months ended December 31, 1980 to \$833,370 for the year ended December 31, 1981 primarily because of an adjustment to reflect the write-down of foreign exploration expenses as outlined below.

The loss from operations during 1981 was \$370,654 compared to earnings during the nine month period ending December 31, 1980 of \$1,792,667. After deduction of dividends paid by subsidiary companies on outstanding term preferred shares, Sceptre recorded a loss of \$2,308,438 compared to 1980 earnings of \$545,486. This loss is attributable to the decision to record a book write-off of \$3,222,920 related to non-productive foreign expenditures previously incurred in Vietnam, Ireland and the U.K. sector of the North Sea. During 1980, Sceptre recorded extraordinary earnings of \$1,700,728 resulting in net earnings of \$2,246,214. There were no extraordinary items during 1981.

On a per share basis, after deduction of dividends paid or payable on Sceptre's outstanding Convertible Preferred Shares, Sceptre recorded a loss of 47¢ per share (\$4,408,351 in total) compared to earnings in 1980 of 15¢ per share (\$1,315,214).

Capital spending for the year ended December 31, 1981 was \$58.2 million, an increase of 334% over the \$13.4 million invested during the nine months ended December 31, 1980. During 1981 Sceptre spent \$27.2 million in establishing an inventory of prospective acreage in the United States. In addition, a total of \$12.0 million was expended for exploration and development drilling and related production facilities in the United States. In Canada, a total of \$8.9 million was spent on exploration and development drilling, land and production facilities. Sceptre also acquired the assets of the Sceptre 78 Exploration Program and the Sceptre 79 Exploration Program for an expenditure of \$5.4 million. Internationally, Sceptre spent a total of \$11.5 million related to exploration and development activities and the acquisition of oil and gas rights.



## Francana Acquisition

On May 14, 1982 Sceptre, Francana Oil & Gas Ltd., Hudson Bay Mining and Smelting Co., Limited (Hudbay) and an affiliate of Hudbay completed a reorganization under which Sceptre acquired the Canadian operations of Francana and the non-Canadian assets of Francana were acquired by Hudbay and its affiliate.

Under this reorganization, Hudbay and its affiliate, which owned 9.8 million shares or 75% of Francana's common shares, acquired the non-Canadian assets of Francana in exchange for their shares of Francana and the assumption of approximately \$68 million of Francana debt, thereby reducing Francana's long-term debt to \$107 million. A major Canadian bank has committed to provide Sceptre with a \$137 million credit facility secured solely by Francana's

Canadian reserves. Francana's public and minority shareholders, who owned approximately 3.4 million common shares, exchanged each share of Francana common for 2.15 shares of Sceptre common. As a result of this reorganization Sceptre's issued common shares increased from 10.2 million to 17.3 million (20.1 million fully diluted).

The combination of Sceptre and Francana produces a company with proven oil and gas reserves projected by independent consultants to generate future net revenues in excess of \$2.1 billion. The Company also has significant unused bank lines of credit together with its investment in Candecca which has a current market value in excess of \$50 million. Sceptre has announced its intention to dispose of all or a substantial portion of this investment.

### 1981 SHARE DATA

Sceptre's common shares and 7% Series A Convertible Second Preferred Shares are listed on The Toronto Stock Exchange, the Montreal Stock Exchange and dealings are permitted on The Stock Exchange, London, England. Sceptre common shares are also quoted on NASDAQ in the United States. The approximate number of holders of Sceptre common shares after the completion of the acquisition of Francana Oil & Gas Ltd. is 10,000.

#### 1981 TRADING INFORMATION – THE TORONTO STOCK EXCHANGE

DESCRIPTION	EXCHANGE SYMBOL	1st Quarter \$	2nd Quarter \$	3rd Quarter \$	4th Quarter \$	TRADING VOLUME	DOLLAR VOLUME
Common	SRL	14.50—17.50	13.38—17.50	7.00—16.13	9.38—13.50	2,600,780	\$36,798,000
7% Convertible Second Preferred	SRL PR.A	24.75—28.50	24.00—27.00	16.00—26.00	16.00—21.00	233,500	\$ 5,637,000





Sceptre Resources Limited

# Consolidated Balance Sheet

as at December 31, 1981

## Assets

	1981	1980
<b>Current Assets</b>		
Cash and short term deposits .....	\$ —	\$ 3,109,143
Short term investments, at cost .....	—	18,900,384
Inventory of leases held for resale .....	5,574,124	—
Accounts receivable .....	7,582,612	5,336,236
Current portion of long-term receivables .....	4,000,000	2,000,000
Current amounts due from directors and officers .....	600,600	192,300
	<u>17,757,336</u>	<u>29,538,063</u>
Long Term Receivables (Note 4) .....	—	4,000,000
Due from Directors and Officers (Note 5) .....	1,440,900	1,849,200
Investment in S & K Petroleum Ltd., at cost, quoted market value \$2,061,120 .....	462,933	—
Investment in Candecca Resources Limited, quoted market value 1981 — \$57,183,372, 1980 — \$72,580,605 (Note 6) .....	15,293,884	15,357,338
Fixed Assets (Note 7) .....	<u>107,510,446</u>	<u>54,639,832</u>
	<u>\$142,465,499</u>	<u>\$105,384,433</u>

## Liabilities

<b>Current Liabilities</b>		
Bank indebtedness .....	\$ 4,969,752	\$ —
Accounts payable and accrued liabilities .....	10,465,481	4,829,269
Note payable .....	2,371,800	—
	<u>17,807,033</u>	<u>4,829,269</u>
Long Term Debt (Note 8) .....	12,425,750	—
Deferred Production Revenue .....	61,040	110,075
Preferred Shares of Subsidiary Companies (Note 9) .....	15,100,000	18,600,000
Deferred Income Taxes .....	<u>8,352,522</u>	<u>7,529,679</u>

## Shareholders' Equity

<b>Capital Stock (Note 10)</b>		
Issued		
1,199,898 7% Convertible Second Preferred Shares, Series A (1980 — 1,200,000 shares) .....	29,997,450	30,000,000
10,253,095 Common Shares (1980 — 8,505,923 shares) .....	66,322,978	47,508,333
Less		
39,780 Common Shares held by a subsidiary and the Company .....	(255,990)	(255,990)
	<u>96,064,438</u>	<u>77,252,343</u>
Deficit .....	<u>(7,345,284)</u>	<u>(2,936,933)</u>
	<u>88,719,154</u>	<u>74,315,410</u>
	<u>\$142,465,499</u>	<u>\$105,384,433</u>

Approved by the Board

*R. A. Gusella*, Director

*Jan S. ...*, Director



## Consolidated Statement of Earnings

	Year Ended December 31, 1981	Nine Months Ended December 31, 1980
<b>Revenue</b>		
Oil and gas .....	\$ 4,614,050	\$2,622,788
Sales of oil and gas leases .....	4,477,494	—
Interest .....	1,945,238	2,630,263
Management fees .....	1,877,229	390,000
Share of earnings (losses) of Candecca Resources Limited (Note 6) .....	(58,250)	623,500
	<u>12,855,761</u>	<u>6,266,551</u>
<b>Expenses</b>		
Production .....	908,766	414,577
Cost of sales of oil and gas leases .....	3,415,612	—
Petroleum and gas revenue tax .....	278,226	—
General and administrative .....	2,313,501	1,375,852
Interest and standby fees .....	362,438	9,290
Depletion and depreciation .....	2,133,967	1,392,470
Write-off of non-productive foreign exploration .....	3,222,920	—
Deferred income taxes .....	833,370	1,348,593
Alberta royalty tax credit .....	(242,385)	(66,898)
	<u>13,226,415</u>	<u>4,473,884</u>
Earnings (loss) before undernoted .....	(370,654)	1,792,667
Dividends on preferred shares of subsidiary companies .....	1,937,784	1,247,181
<b>Earnings (loss) Before Extraordinary Items</b> .....	<u>(2,308,438)</u>	<u>545,486</u>
<b>Extraordinary Items</b>		
Gain on sale of investment, net of deferred taxes of \$338,039 .....	—	1,538,728
Gain on issue of shares by Candecca Resources Limited .....	—	162,000
	<u>—</u>	<u>1,700,728</u>
<b>Net Earnings (Loss)</b> .....	<u><u>\$(2,308,438)</u></u>	<u><u>\$2,246,214</u></u>
<b>Earnings (Loss) Per Common Share (Note 1(f))</b>		
Before extraordinary items .....	\$ (.47)	\$ (.05)
Extraordinary items .....	—	.20
Net earnings (loss) .....	<u><u>\$ (.47)</u></u>	<u><u>\$ .15</u></u>





## Consolidated Statement of Deficit

	Year Ended December 31, 1981	Nine Months Ended December 31, 1980
Deficit at Beginning of Period .....	\$(2,936,933)	\$(3,915,465)
Net earnings (loss) .....	(2,308,438)	2,246,214
Dividends on preferred shares .....	(2,099,913)	(581,100)
Preferred share issue expenses, net of deferred income taxes of \$609,000 .....	—	(686,582)
Deficit at End of Period .....	<u>\$(7,345,284)</u>	<u>\$(2,936,933)</u>

## Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1981	Nine Months Ended December 31, 1980
<b>Working Capital Derived From</b>		
Operations .....	\$ 5,877,853	\$ 3,910,230
Issue of common shares		
For cash .....	14,228,624	1,310,515
On acquisition of oil and gas partnerships .....	4,583,471	—
Long term debt .....	12,425,750	—
Long term receivables .....	4,000,000	2,000,000
Due from directors and officers .....	408,300	192,300
Issue of preferred shares .....	—	30,000,000
Sale of investments .....	—	5,702,423
Other .....	—	3,896
	<u>41,523,998</u>	<u>43,119,364</u>
<b>Working Capital Applied To</b>		
Fixed assets .....	52,828,706	13,419,593
Acquisition of net assets of oil and gas partnerships including working capital deficiencies of \$443,887 .....	5,398,795	—
Repurchase of preferred shares by subsidiaries .....	3,500,000	2,625,000
Preferred share dividends .....	2,099,913	581,100
Preferred share dividends of subsidiary companies .....	1,937,784	1,247,181
Investment in S & K Petroleum Ltd. ....	462,933	—
Investment in Candecca Resources Limited .....	—	7,200,439
Other investments .....	—	3,825,656
Preferred share issue expenses .....	—	1,295,582
Due from directors and officers .....	—	1,080,000
Other .....	54,358	—
	<u>66,282,489</u>	<u>31,274,551</u>
Increase (Decrease) in Working Capital .....	(24,758,491)	11,844,813
Working Capital at Beginning of Period .....	24,708,794	12,863,981
Working Capital (Deficiency) at End of Period .....	<u>\$ (49,697)</u>	<u>\$24,708,794</u>



# Notes to Consolidated Financial Statements

Year Ended December 31, 1981

## 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.

The Company followed the equity method of accounting for its investment in Candecca Resources Limited ("Candecca") to September 30, 1981 (see Note 6). Under this method, the Company's investment was recorded on the balance sheet at cost plus its share of undistributed earnings since acquisition.

The excess of the cost of shares of subsidiary companies and of Candecca over the underlying book value at the dates of acquisition has been allocated to fixed assets and is subject to the accounting policies described below.

### (b) Inventory of Leases Held for Resale

In the course of its ongoing exploration activities, the Company may acquire interests in oil and gas leases which, at the time of acquisition are identified as being purchased for resale. These interests are recorded in the balance sheet as inventory of leases held for resale and are valued at the lower of cost and net realizable value. Gains and losses on the disposition of such leases are included in earnings.

### (c) 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 expense, 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 recoverable reserves of each country as determined by the Company. 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.

Substantially all of the exploration 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.

### (d) Capitalized Interest

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

### (e) Foreign Currency Translation

The Company translates amounts in foreign currencies into Canadian dollars on the following basis: current assets and current liabilities at rates of exchange prevailing at the balance sheet date; other assets and liabilities at rates of exchange at the date the original transactions took place; and revenues and expenses (other than depletion and depreciation) at average rates of exchange during the year. Gains or losses resulting from the translation of foreign currencies are credited or charged to earnings.

### (f) Earnings per Common Share

The earnings per common share are calculated by dividing the weighted average number of common shares outstanding during the period into the earnings available to the common shareholders after deduction of the dividend entitlement (including \$350,000 respecting undeclared dividends as at December 31, 1981 and 1980) of the Second Preferred shareholders.

## 2. Change of Year End

The Company changed its fiscal year end from March 31 to December 31. Therefore, the comparative financial statements are for the nine months ended December 31, 1980.

## 3. Acquisition of Oil and Gas Partnerships

Effective July 1, 1981 the Company purchased all of the outstanding partnership units of Sceptre Exploration 78 Program and Sceptre Exploration 79 Program, Alberta limited partnerships engaged in the exploration for oil and gas, for \$371,437 cash and the issue of 295,271 common shares at an ascribed value of approximately \$15.53 per share. These business combinations have been accounted for as purchases and the results of operations have been included in these financial statements from the effective dates of acquisition. The excess of the cost of the partnership units over the book value of acquired net assets has been assigned to fixed assets and is subject to the accounting policies outlined above.





The acquisition is summarized as follows:

Current assets .....	\$ 628,865
Current liabilities .....	1,072,752
	(443,887)
Fixed assets .....	4,802,144
Book value net assets .....	4,358,257
Excess of cost of partnership units over underlying net book value, assigned to fixed assets .....	596,651
Purchase consideration .....	<u>\$4,954,908</u>

#### 4. Long term Receivables

During 1980, the Company sold resource properties for an aggregate consideration of \$12,000,000 of which \$4,000,000 was received on closing and the balance of \$8,000,000 was receivable in equal annual installments of \$2,000,000 plus interest at bank prime rate plus 1%. Subsequent to December 31, 1981, the Company received substantially all of the remaining amount outstanding and accordingly, the entire receivable has been classified as a current asset.

#### 5. Due from Directors and Officers

The Company loaned an aggregate of \$2,041,500 to two directors and officers which financed the purchase of common shares of the Company. These loans are non-interest bearing and are repayable over five years. At December 31, 1981 \$1,849,200 (1980 — \$2,041,500) remained outstanding on these loans including \$408,300 (1980 — \$192,300) included in current assets.

#### 6. Investment in Candecca Resources Limited

On September 18, 1981 the directors authorized the Company to investigate the possible sale of all or a substantial portion of the investment in Candecca Resources Limited and subsequently on February 23, 1982 the Company retained agents to assist in the disposition. Accordingly, the Company discontinued the equity method of accounting for this investment effective September 30, 1981.

#### 7. Fixed Assets

	December 31, 1981			December 31, 1980
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada .....	\$ 59,738,448	\$7,860,249	\$ 51,878,199	\$39,450,484
United States .....	36,140,981	575,360	35,565,621	3,412,161
Adu Dhabi .....	7,197,393	—	7,197,393	2,485,077
Portugal .....	3,892,831	—	3,892,831	2,786,982
Germany .....	2,307,510	—	2,307,510	—
Netherlands .....	2,303,164	—	2,303,164	2,135,482
Libya .....	1,450,000	—	1,450,000	—
Ireland .....	965,971	—	965,971	2,103,546
Java Sea .....	775,601	—	775,601	19,098
Philippines .....	297,408	—	297,408	254,422
Other areas .....	876,748	—	876,748	723,088
	<u>\$115,946,055</u>	<u>\$8,435,609</u>	<u>\$107,510,446</u>	<u>\$54,639,832</u>

#### 8. Long term Debt

	December 31, 1981
Bank loan .....	\$12,000,000
Other .....	425,750
	<u>\$12,425,750</u>

The bank loan bears interest at prime plus ½% (17.75% as at December 31, 1981), is evidenced by a demand promissory note and is secured by the Company's interest in certain oil and gas properties, a portion of its investment in Candecca, its investment in S & K Petroleum Ltd. and by a general assignment of accounts receivable. The loan is repayable over 9 years commencing April 30, 1983.

The estimated annual payments of principal during each of the four years subsequent to December 31, 1982 is \$1,000,000 in 1983 and \$1,333,333 in each of 1984, 1985, and 1986.



## 9. Preferred Shares of Subsidiary Companies

The holder of the preferred shares, a Canadian Chartered Bank, is entitled to receive quarterly cumulative dividends on the principal amount of preferred shares outstanding calculated at an annual rate equal to 1½% plus fifty-two one hundredths of bank prime rate (10.095% at December 31, 1981). The Company and various subsidiaries have undertaken to purchase the preferred shares under certain conditions in which case the bank may extend a line of credit and for which the Company has provided, as security, an assignment of certain petroleum and natural gas properties, an assignment of accounts receivable and a floating charge debenture on all the assets of the Company. The repurchase requirements of the preferred shares are as follows: 1982—\$3,500,000; 1983—\$3,500,000; 1984—\$8,100,000.

## 10. 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.

### (b) Issue of Preferred Shares

During the nine months ended December 31, 1980, the Company issued 1,200,000 7% Convertible Second Preferred Shares Series A for an aggregate amount of \$30,000,000 before deduction of underwriting commissions and expenses of issue. The shares are redeemable, under certain conditions, and are convertible into common shares at a price of \$17.00 per common share to August 1, 1985 and thereafter to August 1, 1990 at a price of \$18.00 per common share.

### (c) Issue of Common Shares

The following shares were issued for cash:

	Number of Shares	Consideration
Balance, March 31, 1980 .....	8,380,438	\$46,197,818
Pursuant to a share purchase agreement with a director and senior officer .....	100,000	1,080,000
On exercise of warrants .....	5,119	45,150
On exercise of stock options .....	20,366	185,365
Balance, December 31, 1980 .....	8,505,923	47,508,333
On acquisition of petroleum and natural gas leases and rights .....	295,271	4,583,471
On exercise of warrants .....	897,468	7,807,200
On exercise of option .....	500,000	6,000,000
On exercise of stock options .....	54,283	421,424
On conversion of preferred shares .....	150	2,550
Balance, December 31, 1981 .....	10,253,095	\$66,322,978

### (d) Common Shares Reserved

At December 31, 1981 the following shares were reserved:

- (i) 508,418 shares in respect of stock options granted to officers and employees, exercisable at prices ranging from \$6.19 to \$14.40 at various dates to September, 1984;
- (ii) 1,764,556 shares in respect of conversion rights attaching to the Second Preferred Shares to August 1, 1985 and thereafter 1,666,525 shares to August 1, 1990; and
- (iii) a maximum of 563,200 shares in respect of an agreement to offer to purchase all of the units of Sceptre 1980-81 Exploration Program (a partnership engaged in the exploration for and development of petroleum and natural gas) to August 14, 1983.

## 11. Contingent Liabilities and Commitments

The Company is contingently liable for a maximum of approximately \$1,100,000 under letters of credit issued by a Canadian Chartered Bank in respect of work commitments under certain exploration licences.

The Company has lease commitments of approximately \$280,000 per annum in respect of office premise leases which expire on various dates to 1984.





## 12. 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 is presented representing the geographic distribution of the Company's activities:

<b>December 31, 1981</b>	<b>Canada</b>	<b>United States</b>	<b>Other</b>	<b>Consolidated</b>
<b>Revenue</b> .....	\$ 4,217,921	\$ 4,873,623	\$ —	\$ 9,091,544
<b>Segment operating profit (loss)</b> .....	\$ 1,270,134	\$ 1,084,839	\$(3,222,920)	\$ (867,947)
<b>Other income (expenses)</b>				
General corporate net of management fee revenue .....				(798,710)
Income taxes .....				(590,985)
Interest income .....				1,945,238
Equity loss .....				(58,250)
Dividends on preferred shares of subsidiaries .....				(1,937,784)
<b>Loss</b> .....				\$ (2,308,438)
<b>Identifiable Assets</b> .....	\$57,432,409	\$43,019,970	\$20,214,803	\$120,667,182
Corporate assets .....				6,504,433
Investment in Candecca .....				15,293,884
<b>Total Assets</b> .....				\$142,465,499
 <b>December 31, 1980</b>	 <b>Canada</b>	 <b>United States</b>	 <b>Other</b>	 <b>Consolidated</b>
<b>Revenue</b> .....	\$ 2,596,020	\$ 26,768	\$ —	\$ 2,622,788
<b>Segment operating profit (loss)</b> .....	\$ 897,098	\$ (81,357)	\$ —	\$ 815,741
<b>Other income (expenses)</b>				
General corporate net of management fee revenue .....				(995,142)
Income taxes .....				(1,281,695)
Interest income .....				2,630,263
Equity earnings .....				623,500
Dividends on preferred shares of subsidiaries .....				(1,247,181)
Extraordinary items .....				1,700,728
<b>Net Earnings</b> .....				\$ 2,246,214
<b>Identifiable Assets</b> .....	\$44,003,115	\$4,071,499	\$11,901,454	\$ 59,976,068
Corporate assets .....				30,051,027
Investment in Candecca .....				15,357,338
<b>Total Assets</b> .....				\$105,384,433

## 13. Related Party Transactions

S & K Petroleum Ltd. ("S & K") is 9.96% owned by the Company. The Company has an option, to January 31, 1984, to acquire a further 9.9% interest in S & K. The Company manages all of the business and affairs of S & K pursuant to a management agreement under which \$1,547,109 was received during 1981. In addition, the Company sold oil and gas leases to S & K for a total consideration of \$3,610,972 which management believes to be the fair value of the leases at the time of sale. This transaction was ratified and approved by the independent board of S & K.

The Company purchased partnership units in Sceptre Exploration 78 Program and Sceptre Exploration 79 Program from certain directors and officers under terms and conditions identical with those offered to all other unit holders.



#### 14. Subsequent Events

- (a) The Company entered into an Arrangement Agreement made as of April 12, 1982 with Francana Oil & Gas Ltd. ("Francana") under which the Company will acquire all of the outstanding shares of Francana, subject to approval by the shareholders of Francana and following completion of the Exchange described below, for approximately 7,103,501 common shares having an ascribed value of \$6.00 per share. Prior to this arrangement Francana will have disposed of all of its Non-Canadian assets pursuant to an Exchange Agreement with its principal shareholders under which the shares of Francana owned by those shareholders will be surrendered to Francana. The principal assets of Francana following this exchange will be Canadian oil and gas properties and its principal liability will be long term bank debt of \$107,000,000. In the event the arrangement is completed, the Company has obtained a line of credit of \$137,000,000 from a Canadian Chartered Bank on commercial terms which will be used in part to refinance the long term debt of Francana.
- (b) The Company agreed as of February 1, 1982 to acquire, from an affiliate of Candecca, the portion of the Sceptre/Pennine Joint Venture not already owned by it. The purchase price is approximately U.S. \$3,324,000 repayable in four semi-annual installments of approximately U.S. \$831,000 commencing August, 1982. The Sceptre/Pennine Joint Venture is engaged in the exploration for and the development and production of oil and gas in the United States.

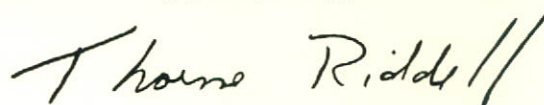
## Auditors' Report

To the Shareholders of  
Sceptre Resources Limited

We have examined the consolidated balance sheet of Sceptre Resources Limited as at December 31, 1981 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, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Canada  
March 4, 1982  
(April 12, 1982 as to Note 14 (a))



Chartered Accountants





## Statistical Review – Financial

(in thousands, except per share amounts)

	Year Ended December 31, 1981	Nine Months Ended December 31, 1980	Year Ended March 31,		
			1980	1979	1978
<b>Revenue</b>					
Oil and gas—net of royalties	\$ 4,614	\$2,623	\$3,360	\$ 4,614	\$3,775
Sales of oil and gas leases.....	4,477	—	—	—	—
Interest and other income ....	3,765	3,644	2,009	138	33
Total Revenue.....	<u>12,856</u>	<u>6,267</u>	<u>5,369</u>	<u>4,752</u>	<u>3,808</u>
<b>Expenses</b>					
Production.....	909	415	666	771	498
Cost of sale of oil and gas leases.....	3,416	—	—	—	—
Petroleum and gas revenue tax.....	278	—	—	—	—
General and administrative..	2,313	1,376	597	481	290
Interest.....	362	9	364	452	1,202
Alberta royalty credit.....	(242)	(67)	(135)	(222)	(271)
Depletion and depreciation..	2,134	1,393	1,481	1,970	1,241
Deferred Income Tax.....	833	1,349	1,165	869	559
Write-off of non productive foreign exploration.....	3,223	—	—	—	—
Total Expenses.....	<u>13,226</u>	<u>4,475</u>	<u>4,138</u>	<u>4,321</u>	<u>3,519</u>
Earnings (loss) before under- noted .....	(370)	1,792	1,231	431	289
<b>Dividends on subsidiary preferred shares .....</b>	<u>1,938</u>	<u>1,247</u>	<u>1,813</u>	<u>1,456</u>	<u>167</u>
Earnings (loss) before extraor- dinary items .....	(2,308)	545	(582)	(1,025)	122
<b>Extraordinary items .....</b>	<u>—</u>	<u>1,701</u>	<u>1,150</u>	<u>(4,474)</u>	<u>—</u>
NET EARNINGS (LOSS).....	(2,308)	2,246	568	(5,499)	122
<b>Preferred dividend entitlement.</b>	<u>(2,100)</u>	<u>(931)</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES .....	<u>\$ (4,408)</u>	<u>\$1,315</u>	<u>\$ 568</u>	<u>\$(5,499)</u>	<u>\$ 122</u>
Per common share.....	<u>(47¢)</u>	<u>15¢</u>	<u>8¢</u>	<u>\$ (1.04)</u>	<u>3¢</u>
<b>FUNDS GENERATED FROM OPERATIONS.....</b>	<u>\$ 5,878</u>	<u>\$3,910</u>	<u>\$3,743</u>	<u>\$ 3,231</u>	<u>\$2,196</u>
Per common share.....	<u>63¢</u>	<u>46¢</u>	<u>54¢</u>	<u>61¢</u>	<u>54¢</u>



## Statistical Review – Operations

	December 31,		March 31,		
	<u>1981</u>	<u>1980</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
<b>Acreage Holdings</b>					
<b>CANADA</b>					
Gross acres.....	1,769,610	1,815,895	1,768,616	1,654,694	2,401,309
Net acres.....	390,534	476,586	428,498	347,579	480,419
Royalty interest .....	928,959	945,855	1,037,322	1,027,366	199,692
<b>UNITED STATES</b>					
Gross acres.....	2,287,580	1,038,136	358,055	—	—
Net acres.....	338,293	77,625	36,233	—	—
<b>INTERNATIONAL</b>					
Gross acres.....	18,049,048	11,490,928	7,657,238	10,171,379	3,189,172
Net acres.....	1,728,314	1,498,916	958,060	2,301,630	1,250,948
Royalty interest .....	—	—	—	413,901	413,901
<b>Drilling Activity</b>					
Natural gas wells.....	87	19	30	45	24
Oil wells .....	29	24	29	6	12
Dry wells.....	51	29	30	27	12
Total wells .....	<u>167</u>	<u>72</u>	<u>89</u>	<u>78</u>	<u>48</u>
<b>Production</b>					
Petroleum and liquids—barrels .....	57,986	38,852	51,533	84,645	60,930
Per day .....	159	142	141	232	167
Natural gas—MMcf.....	2,082	1,454	1,927	3,470	3,031
Per day .....	5.7	5.3	5.3	9.5	8.3
<b>Gross Reserves—proven and probable(1)</b>					
Petroleum and liquids—barrels .....	1,166,000	542,700	693,700	748,600	2,915,000
Natural gas—Bcf.....	74.00	58.61	53.77	80.13	119.40
<b>Employees at Period – End .....</b>	<b>70</b>	<b>42</b>	<b>27</b>	<b>11</b>	<b>14</b>

(1) Reported reserves as at December 31, 1981, December 31, 1980 and March 31, 1980 were estimated and evaluated by Kloefer et al. Reported reserves prior to March 31, 1980 were estimated and evaluated by Sproule Associates Limited and John Blain Engineering Ltd.



**Statistical Review for Canada – Financial**

(thousands of Canadian dollars)

	December 31,			
	1981	1980	1979	1978
<b>Revenue:</b>				
Gross production income .....	\$47,308	\$52,282	\$44,655	\$33,069
Crown and overriding royalties .....	17,773	19,337	15,069	12,215
	29,535	32,945	29,586	20,854
Interest and other income .....	4,009	1,211	293	194
Total Revenue .....	33,544	34,156	29,879	21,048
<b>Costs and expenses:</b>				
Production and operating .....	5,946	6,133	5,127	3,742
General and administrative .....	3,747	4,647	2,842	2,262
Interest(2) .....	14,155	1,319	1,167	1,110
Loss (gain) on translation of foreign currency .....	87	(814)	181	374
Total Expenses .....	23,935	11,285	9,317	7,488
Funds generated from operations before current income taxes .....	9,609	22,871	20,562	13,560
Depletion and depreciation .....	8,362	9,511	8,513	5,551
Earnings before income taxes .....	1,247	13,360	12,049	8,009
<b>Income taxes:</b>				
Petroleum and gas revenue tax .....	2,837	—	—	—
Current .....	272	911	1,141	1,308
Provincial royalty tax credit .....	(1,200)	(1,069)	(1,506)	(1,417)
Deferred .....	577	5,771	4,550	3,339
Total Income Taxes .....	2,486	5,613	4,185	3,230
Net earnings (loss) for the year .....	<u>\$ (1,239)</u>	<u>\$ 7,747</u>	<u>\$ 7,864</u>	<u>\$ 4,779</u>

(1) In 1977 Francana's predecessor corporations did not have coterminous fiscal periods. Accordingly comparative financial information is not available for that year.

(2) Increase in 1981 primarily relates to debt service on the loan to acquire shares of Adobe Oil & Gas Corporation. As a result of the recent reorganization of Francana, its long term debt has been reduced from \$175 million to \$107 million. This will reduce interest payments in 1982 and subsequent years.



## Statistical Review For Canada – Operations

	December 31,				
	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
<b>Undeveloped Acreage Holdings</b> (all in Canada)					
Gross acres.....	1,806,569	2,412,660	4,462,743	2,957,975	3,326,444
Net acres.....	481,690	569,328	913,671	799,888	789,941
Royalty interest .....	152,833	173,340	56,251	(1)	(1)
<b>Drilling Activity</b>					
Natural gas wells.....	31	46	52	36	46
Oil wells .....	25	9	27	40	22
Dry wells .....	42	55	33	46	42
Total wells.....	<u>98</u>	<u>110</u>	<u>112</u>	<u>122</u>	<u>110</u>
<b>Production</b>					
Petroleum and liquids—barrels .....	894,000	1,083,000	984,000	921,600	885,500
Per day .....	2,449	2,967	2,696	2,525	2,426
Natural gas—MMcf.....	12,280	14,736	17,688	14,115	15,524
Per day .....	33.6	40.4	48.5	38.7	42.5
<b>Gross Reserves—proven and probable</b>					
Petroleum and liquids—barrels .....	21,762,000	21,745,000	22,226,000	(2)	(2)
Natural gas—Bcf.....	235.1	220.4	220.6	(2)	(2)

(1) Included in working interest acreage.

(2) Information not available.





DECEMBER 31, 1981

### BOARD OF DIRECTORS

**Angus A. Mackenzie\***

London, England

**Richard A. Gusella\***

Calgary, Alberta

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

Calgary, Alberta

**H. S. McColl\*\***

London, England

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

Tobaccoville, North Carolina

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

Caledon, Ontario

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

Montreal, Quebec

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

Montreal, Quebec

**Joseph S. Irwin, Jr.\*\***

Calgary, Alberta

### OFFICERS

**Angus A. Mackenzie**

Chairman of the Board

**Richard A. Gusella**

President and Chief

Executive Officer

**Joseph S. Irwin, Jr.**

Executive Vice President

and Chief Operating Officer

**Peter J. Carter**

Vice President and Manager of

International Operations

**William J. Witt**

Vice President and Manager,

U.S. Operations

**Gary W. Freeman**

Vice President and Manager

of Domestic Exploration

**Gordon H. Johnston**

Vice President, Land and Contracts

**Allen F. Emes**

Vice President, Corporate

**Stanley G. Weber**

Treasurer and

Chief Financial Officer

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

Secretary

\* members of the Executive Committee

\*\* members of the Compensation Committee

\*\*\* members of the Audit Committee



# Corporate Information

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## CORPORATE HEADQUARTERS

1610 Bow Valley Square III  
255 - 5th Avenue, S.W.  
Calgary, Alberta T2P 3G6  
Telephone (403) 261-3092  
Telex 03-822619

## INTERNATIONAL OFFICES

### United Kingdom

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London, W1X 9PB, England  
Telephone (01) 499-2941/42  
Telex 51-298577

### Abu Dhabi, United Arab Emirates

P.O. Box 2604  
Abu Dhabi, U.A.E.  
Telephone 9712-326560  
Telex 893-24186

### Portugal

Praca do Principe Real II  
Lisbon 2, Portugal  
Telephone 361-380  
Telex 404-12206

### United States

5353 West Dartmouth  
Suite 300  
Denver, Colorado 80227  
Telephone (303) 988-9396

## STOCK TRADING INFORMATION

Listed on The Toronto Stock Exchange,  
Listed on the Montreal Stock Exchange,  
Stock Exchange Symbols

Common Shares.....	SRL
7% Convertible Second	
Preferred Shares .....	SRL PR. A
Quoted on NASDAQ	
Symbol.....	SCRL

Dealings in Common Shares permitted on  
The Stock Exchange, London, England

## TRANSFER AGENTS AND REGISTRAR

The Canada Trust Company  
Vancouver, Calgary, Toronto, and Montreal  
  
The Canadian Imperial Bank of  
Commerce Trust Company  
New York, New York

## AUDITORS

Thorne Riddell  
Calgary, Alberta

## LEGAL COUNSEL

Burnet, Duckworth & Palmer  
Calgary, Alberta and London, England  
  
Cahill Gordon & Reindel  
New York, New York

## AFFILIATED PUBLIC COMPANIES

**Candecca Resources Limited**—39% Ownership  
97-99 Park Street  
London, W1Y 4NJ, England  
Telephone (01) 408-0108/10  
Telex 51-892684

**S & K Petroleum Ltd.**—10% Ownership  
1610 Bow Valley Square III  
255 - 5th Avenue, S.W.  
Calgary, Alberta T2P 3G6  
Telephone (403) 261-3092  
Telex 03-822619

## BANKERS

The Royal Bank of Canada  
Calgary, Alberta  
  
The Toronto Dominion Bank  
Calgary, Alberta





**SCEPTRE RESOURCES LIMITED**

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