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**SCEPTRE
RESOURCES
LIMITED**



**ANNUAL
REPORT
1980**

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Corporate Information



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and Chief Operating Officer

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Vice President, Finance
and Treasurer

James S. Palmer, Q.C.,

Secretary

Corporate Headquarters

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The Toronto-Dominion Bank

Calgary, Alberta

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Subsidiary Companies

Sceptre Oils Ltd.

Sceptre Oils (U.K.) Ltd.

Sceptre Oils (Ireland) Ltd.

Sceptre Oils (Overseas) Limited

Sceptre Resources (Portugal) Inc.

Sceptre Resources (Fund) Limited.

111-444 Resources Limited

Petroquest Ltd.

Petroquest Inc.

Anco Exploration Ltd.

Prudhoe Bay Oils Ltd.

Kamloops Copper Mines Ltd.

Canterbury Limited

Affiliated Company

Candecca Resources Limited

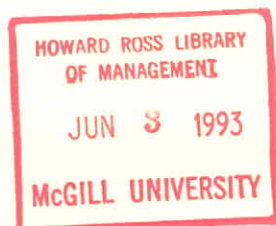
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HIGHLIGHTS



FINANCIAL

	Year ended March 31		
	1980	1979	1978
Revenue	\$ 5,369,378	\$ 4,752,211	\$ 3,808,307
Loss (earnings) before extraordinary items	\$ 581,685	\$ 1,025,067	\$ (121,557)
Per common share (1)	8¢	19¢	(3)¢
Earnings (loss) after extraordinary items	\$ 568,315	\$(5,499,058)	\$ 121,557
Per common share (1)	8¢	\$(1.03)	3¢
Cash flow from operations	\$ 3,742,908	\$ 3,230,703	\$ 2,195,898
Per common share (1)	54¢	60¢	54¢
Capital expenditures	\$ 9,802,979	\$ 8,459,411	\$ 6,678,602
Working capital (deficiency)	\$12,863,981	\$(3,086,035)	\$ 980,843
Long term debt	Nil	\$ 3,292,500	\$ 2,100,000
Shareholders' equity	\$42,026,363	\$18,579,016	\$23,404,285
Number of shares outstanding (weighted average shares outstanding)	6,903,397	5,349,329	4,097,480

(1) calculated based on the weighted average number of shares outstanding

PRODUCTION

Petroleum and natural gas liquids (bbls)	51,533	84,645	60,930
Daily average (bbls per day)	141	232	167
Natural gas (MMcf)	1,927	3,470	3,031
Daily average (MMcf per day)	5.3	9.5	8.3
Sulphur (long tons)	23	4,115	2,293
Daily average (long tons per day)	—	11	6

Note: Effective June 1, 1979, the Company sold its interest in certain resource properties located in the Quirk Creek area of Alberta, which represented approximately 28% of oil and gas revenue during 1979.

LAND

Petroleum and natural gas rights				
Canada	- gross acres	1,768,616	1,654,694	2,401,309
	- net acres	428,498	347,579	480,419
Foreign	- gross acres	8,015,293	7,811,166	828,959
	- net acres	994,293	984,774	44,254

RESERVES

Before royalties, as evaluated by Kloepper & Associates Ltd., independent petroleum consultants, as at April 1, 1980:

	Oil and Condensate (Mstb)	Residue and Solution Gas (Bcf)	Future Net Cash Flow, pre-tax (000's)	
			Undiscounted	Discounted at the rate of 15%
Proven	426.5	33.85	\$121,494.0	\$32,691.2
Probable	267.2	19.92	92,404.9	14,076.0
	693.7	53.77	\$213,898.9	\$46,767.2

Note: Sceptre has 49,600 MMcf of Proven Reserves in the Arctic Islands/Beaufort. Kloepper & Associates Ltd. have not estimated the Future Net Cash Flow on these properties due to the uncertainty of production volumes and the lack of knowledge of timing for start of production. In addition, Sceptre has proven and probable reserves offshore Ireland and in the Dutch Sector of the North Sea. Reserve volumes and cash flow projections have not been included in the Kloepper Report for these areas.

Letter to the Shareholders

On behalf of the Board of Directors, we are pleased to report on the activities of Sceptre Resources Limited for the fiscal year of 1980. The year ended March 31, 1980 was a period of accomplishment marked by a further improvement in our financial position, successful exploratory and development drilling and a continued broadening of our exploratory acreage position both domestically and abroad. The combination of a strengthened technical staff and the above factors augers well for your Company's performance during the 1980's.

During fiscal 1980, the Company's revenue was \$5,369,378, an increase of 13% over 1979 despite lower natural gas sales resulting from the disposition of our interests in property at Quirk Creek, effective June 1, 1979 and curtailment of natural gas sales from other properties last summer. Cash flow from operations was \$3,742,908 (54¢ per share) in 1980, an increase of 16% over 1979. The Company's earnings before deduction of dividends paid by subsidiary companies and extraordinary items rose 286% to \$1,231,215 in 1980, while the loss before extraordinary items was \$581,685 (8¢ per share) compared to \$1,025,067 (19¢ per share) in 1979. The earnings after extraordinary items were \$568,315 in 1980 compared to a loss in 1979 of \$5,499,058. The Company has discharged its bank indebtedness and working capital at year end was \$12,863,981 compared to a working capital deficiency of \$3,086,035 in 1979. As a result of a retroactive change in accounting policies, including the deconsolidation of Candeca Resources Limited, our United Kingdom affiliate, previously reported 1979 results and those for prior years have been restated.

In last year's Annual Report it was reported that effective June 1, 1979, Sceptre sold its interests in property at Quirk Creek, Alberta for \$12 million. This transaction was concluded in August, 1979 and Sceptre received \$4 million, with the balance receivable in four equal annual installments together with interest at prime plus 1% on the unpaid balance. On August 10, 1979 our Rights Offering to shareholders was fully subscribed and resulted in the issuance of 1,841,047 common shares at \$6.50 per share for proceeds of \$11,566,846, net of the costs of issue. Pursuant to the terms of the Offering, Sceptre also issued 920,523 share purchase warrants entitling holders to purchase a like number of common shares at \$8.75 per share up to the close of business on August 10, 1981.

On December 20, 1979, Sceptre agreed to sell one million treasury shares at \$10 per share to Consolidated-Bathurst Inc., a large Montreal-based pulp and paper and industrial company. As part of the transaction, Sceptre also granted Consolidated-Bathurst an option up to the close of business on August 10, 1981, to purchase an additional 500,000 treasury shares at a price of \$12 per share. The transaction was completed on January 9, 1980. When the newly purchased shares are combined with those purchased by Consolidated-Bathurst in the open market, that company owns approximately 16% of Sceptre's

common shares. On a fully-diluted basis, assuming the exercise of outstanding warrants, employee options and the option granted to Consolidated-Bathurst, it would own approximately 18% of Sceptre Resources Limited. We welcome this significant new shareholder and management has nominated two officers (Mr. Timothy J. Wagg and Mr. Pierre Goyette) of Consolidated-Bathurst for election by shareholders to Sceptre's Board of Directors at our Annual Meeting.

Subsequent to year end, Sceptre announced the formation of two new joint ventures with limited partnerships, in addition to the program being carried out with Sceptre Exploration 78 Program which was established last year. On March 28, 1980 the Company entered into a \$4 million joint venture with Sceptre Exploration 79 Program, a privately-placed limited partnership which was sold to certain groups which participated in the 78 Program. This joint venture will concentrate its activities in the Helmet-Petitot and Tommy Lakes regions of British Columbia and in the Lethbridge region of Alberta. To date, the joint venture has participated in 16 gross wells, resulting in 10 natural gaswells and one well is currently drilling. On April 17, 1980, Sceptre entered into a \$3.8 million joint venture with Sceptre Saskatchewan 80 Program, a limited partnership sold to 306 limited partners in Alberta and Saskatchewan by way of prospectus. This joint venture will explore for oil, and to a lesser extent natural gas, in the Provinces of Saskatchewan and Manitoba and it is anticipated the joint venture will be involved in evaluating 15 to 20 prospects over the next year. Sceptre is the operator of these joint ventures and its wholly-owned subsidiary, Sceptre Resources (Fund) Limited, is the General Partner of each limited partnership. Sceptre's contribution to the joint ventures is 30%, in the form of cash and properties, while benefits from the programs are shared on an equal basis with the partnerships.

The proceeds from these transactions will permit continued expansion of Sceptre's domestic and worldwide exploration and development programs. Our current budget forecasts indicate a capital spending program in excess of \$50 million over the next three years, which can be financed without significant new borrowings. The projected expenditure level is about 2½ times that undertaken by the Company during the past 30 months.

During fiscal 1980, Sceptre participated in a total of 79 gross wells, resulting in 30 natural gaswells, 19 oilwells and 30 dry wells for an overall success ratio of 62%. Capital spending totalled \$9,802,979 for an increase over 1979 of 16%. During the year the Company significantly increased its exposure in the United States through participation in a joint venture managed by Snyder Oil Company of Denver, Colorado. At year end the joint venture had acquired 316,805 gross acres of exploratory rights in 9 states on 27 project areas, including a large acreage spread in Oregon and Washington on trend with recent significant natural gas discoveries made by other operators. Sceptre holds a 7.14% interest in the joint venture which is concentrating its activities in the general Rocky Mountain region of the United States and the Company plans to participate in similar programs with the

same operator during 1980 and 1981. Drilling activity on certain properties acquired during 1979 - 1980 is expected to commence shortly.

In April, 1980, Sceptre acquired a 23 1/3% interest in approximately 41,250 acres of exploratory rights located in the Overthrust Belt of the Appalachian Basin primarily in Washington County, Virginia. This property will be evaluated by seismic and a three-well drilling program later this year. Multiple objectives have been identified and upon completion of the program Sceptre's interest could reach 33 1/3%. Another operator has completed three significant natural gas discoveries within 2,500 feet of the acquired acreage. Also, Sceptre recently agreed to a 5% net participation in an initial 15-well drilling program on leases primarily situated in Elk County, Kansas, which will develop shallow oil prospects at depths ranging to 1,500 feet. Following completion on this first phase, a further 35 wells may be drilled to fully develop the lease block and also increase the Company's net interest in the project, to 10%. In order to effectively administer its increased involvement in the United States and in anticipation of a higher level of drilling activity, the Company intends to open an office in the United States during 1980.

Overseas, Sceptre supplemented its representation in the Dutch Sector of the North Sea with the purchase of interests ranging from 3.625% to 7.5% in Blocks K/9, L/14 and Q/14 comprising 153,947 gross acres (9,897 net acres). Subsequently a further 8.34% interest was acquired in Block Q/14, raising Sceptre's interest to 14.59%. Also, Sceptre as to a 3.625% interest joined with other companies in an application for 52,138 gross acres within Block K/9 which had previously been relinquished by another group of companies. This additional acreage has recently been awarded to the applicants. Included in the original purchase was a 7.5% interest in the L/14-1 natural gas discovery. Studies are underway to determine the feasibility of a development program which could result in the indicated natural gas pool being placed onstream during 1982. Plans are also being formulated to drill exploratory wells on Block K/9 and L/14 (on a separate feature from the L/14-1 discovery) later this year.

Sceptre holds a 0.17% interest in the 26/28-1 oil discovery in the Porcupine Basin offshore the west coast of Ireland during fiscal 1980. A second well is planned on this block during fiscal 1981. A 103 kilometre-seismic program was completed on the "Caldas da Rainha" concession onshore Portugal and current plans are to drill a deep exploratory well on one of the identified prospects before November, 1980. Sceptre operates this concession and holds a 33 1/3% interest.

During the year, Sceptre's interest in Candecca Resources Limited, our United Kingdom affiliate, was reduced to 45% when Candecca acquired the outstanding shares of Cambrian Exploration Limited through a successful share exchange and tender offer. Cambrian's principal assets consist of licence interests in the Dorset/Hampshire Basin of Southern England and an interest in the Bletchingly natural gas field south of London. Recently Candecca, as to a 25% interest, participated in the drilling of Humbly Grove No. 1, situated on Production Licence 116b about

40 miles southwest of London. The well encountered hydrocarbons below 3,000 feet and production testing is underway at this writing. Candecca also completed a joint venture agreement covering certain of its licences onshore the United Kingdom with a group of British and Australian companies and is participating in three seismic programs aggregating 114 miles in the Yorkshire Moors, the Midlands and Humberside regions. These programs prelude the start of an extensive drilling program covering up to nine additional wells in which Candecca expects to participate during the next 12 months. Shareholders of Sceptre Resources Limited who are interested in receiving a copy of Candecca's most recent annual report are requested to write to Sceptre and we will be pleased to forward one to you.

During the year, the Board of Directors accepted the resignation of Mr. H.S. McColl as a director of the Company in order to comply with regulations under the Canada Business Corporations Act. Management has nominated Mr. McColl for re-election to the Board of Directors at our Annual Meeting of shareholders. At the last Annual Meeting, Mr. Stuart R. Horne was elected by shareholders to the Company's Board of Directors and Mr. Eugene F. Setka was appointed Vice-President, Finance and Treasurer of the Company. The Board accepted the resignation of Mr. Jack C. Lee as Vice-President, Land.

Effective April 1, 1980 Sceptre appointed Mr. Joseph S. Irwin, Jr. to the position of Executive Vice-President and Chief Operating Officer. Mr. Irwin brings extensive industry experience to the Company, will be responsible for supervision of the Company's exploration and production activities and will be proposed for election to the Company's Board of Directors.

We would like to take this opportunity to thank other Board members and the Company's staff for their diligent efforts during the past year. We would also like to extend our appreciation to the shareholders for their continued support.

Submitted on behalf of
The Board of Directors



A.A. Mackenzie
Chairman



R.A. Gusella
President and Chief Executive Officer

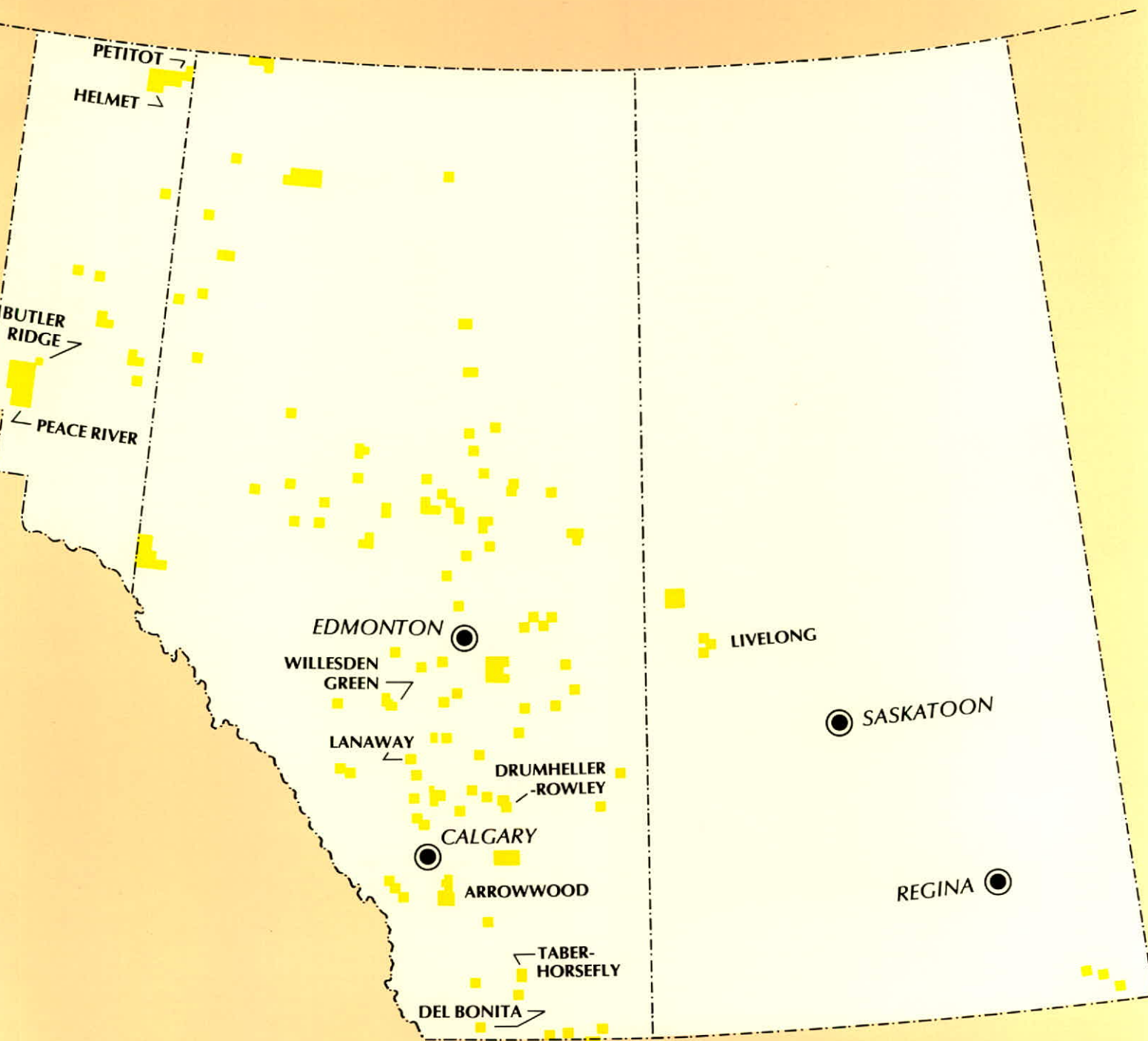
May 23, 1980

SCEPTRE RESOURCES LIMITED

WESTERN CANADIAN ACTIVITY



AREAS OF LAND INTERESTS



Exploration and Development

CANADA

The Company continued to actively explore its holdings in Canada during fiscal 1980. Sceptre participated in 77 gross wells which resulted in 18 oilwells, 30 gaswells and 29 wells were plugged and abandoned for an overall success ratio of 61%. During the year the Company participated in the purchase of 43,340 gross (9,610 net) acres at crown sales, resulting in a total cash outlay of \$1,185,250 or \$123 per average net acre. Sceptre acquired an interest in 121,510 gross acres equivalent to 15,000 net acres through the drilling of 26 farmin wells, while other companies drilled 26 wells on Sceptre's acreage which resulted in them earning 11,245 net acres of Sceptre's land inventory. Our considerable acreage inventory remains a significant asset of the Company.

Two of the properties highlighted in last year's Annual Report yielded disappointing results. The farmout wells at Limestone Mountain, Alberta and at Laprise, British Columbia, drilled at no cost to Sceptre, were abandoned. We are assessing the results with a view to further evaluation this year.

Areas of current and anticipated activity include the following:

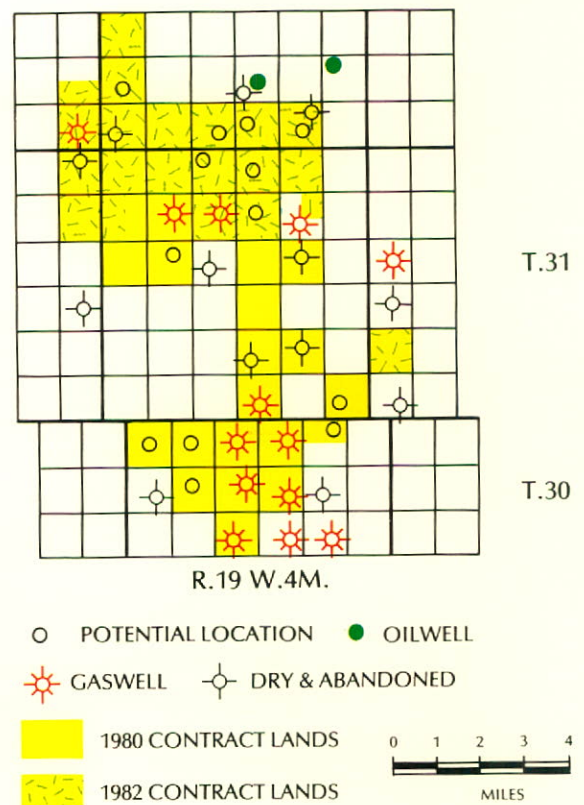
Lanaway, Alberta

Sceptre holds interests ranging from 5.6% to 16% in 2,400 gross acres situated along a thick Basal Quartz oil trend. Last year six Basal Quartz oilwells were drilled on this property, located in central Alberta, bringing to seven the

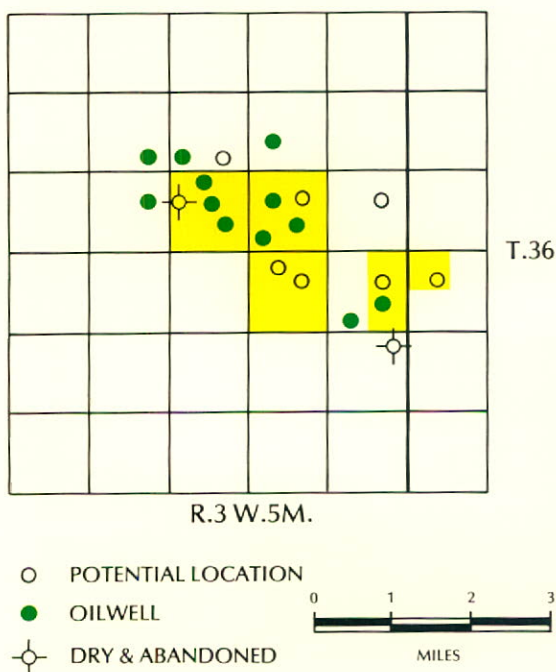
total in which the Company holds an interest. An additional five locations have been identified, of which two have been drilled subsequent to year end and a continuous drilling program is expected to fully develop the acreage. Competitive land conditions restrict a significant expansion of our acreage position but the Company is actively pursuing similar prospects along the trend.

Completion of the Company's recently drilled wells along with installation of flowlines to tie-in all the oilwells capable of production and construction of a central battery for storage purposes is underway. Once the project is finalized, it should enhance our oil production considerably.

DRUMHELLER-ROWLEY



LANAWAY



Drumheller-Rowley, Alberta

Sceptre maintained its level of activity in this gas-prone region of south central Alberta. The Company holds an interest in 15,520 gross acres equivalent to 6,820 net acres and recently agreed to a farmin which could earn Sceptre a further 2,560 gross (610 net) acres upon drilling of an obligation and an option well. Three of eight previously completed gaswells in which Sceptre holds an interest were production tested and two additional gaswells were drilled last year. Plans are underway to install a gas processing plant and pipeline facilities, with production scheduled to commence November, 1980, from lands

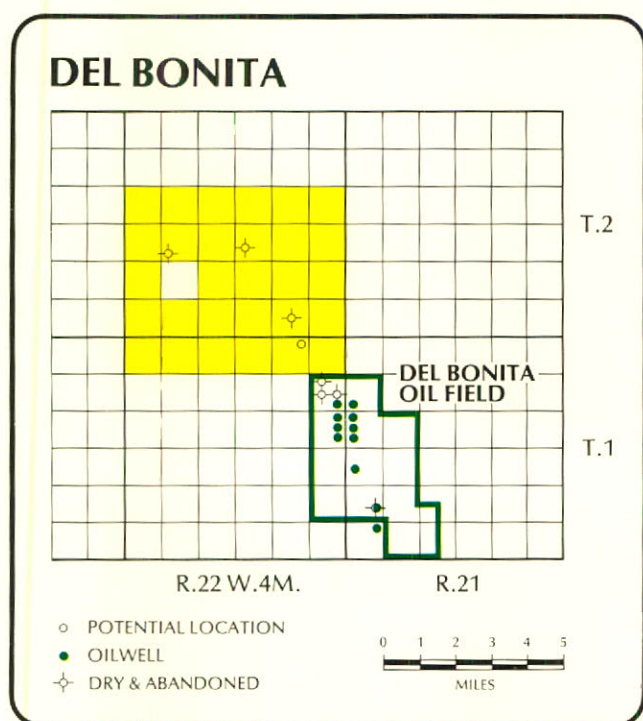
subject to a take-or-pay reserve-based contract with TransCanada Pipelines. Additional drilling on this contracted acreage will be conducted, if required, to meet the established contract rate of 3.76 MMcf per day and further drilling to establish additional reserves is anticipated. If this drilling proves successful a redetermination of the contract rate would take place.

Sceptre as operator of the "1982 contract lands", has proposed the drilling of at least three exploratory wells on these properties during 1980. This program is the continuation of our evaluation of the reserve potential of these properties which are scheduled to be placed onstream by November, 1982.

Del Bonita, Alberta

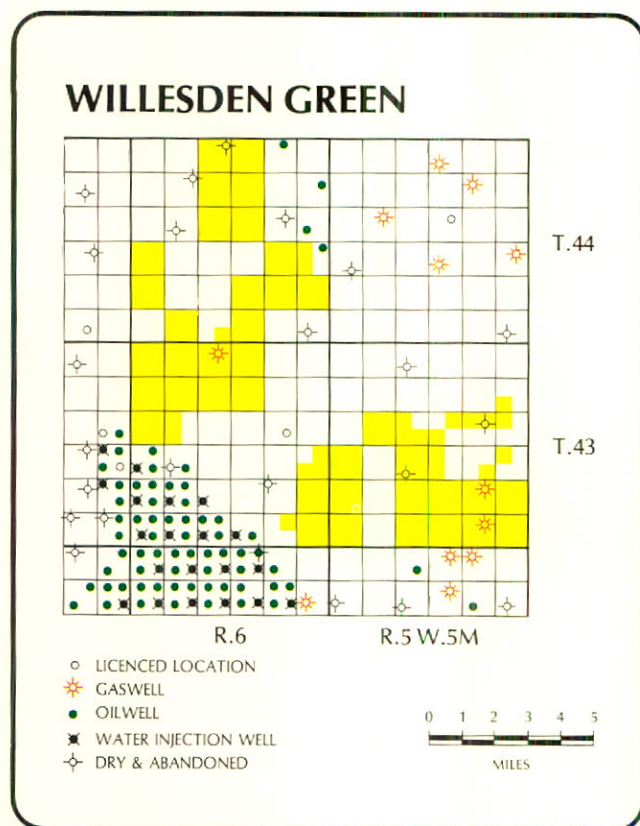
This area of southern Alberta continued to attract considerable industry drilling and land acquisition activity last year. Sceptre holds a 20% interest in an 18,560 acre lease, which was acquired in 1978, situated 12 miles south of the Blood Indian Reserve. The Company's lands lie along a major structural trend which has been defined geophysically. Mississippian Rundle oil is produced in the Del Bonita Field along this same fault system less than one mile to the southeast of Sceptre's property. A 9,900 foot Precambrian exploratory well is scheduled for drilling on the lease this year under farmout to two other companies. The well will evaluate prospective oil bearing zones in the Mississippian, Upper Devonian and Middle Devonian carbonates.

In early May, Sceptre participated as to a 25% working interest in the purchase of a 4,900 acre licence acquired for approximately \$1.5 million. This property is located northwest of current holdings and drilling will commence in the near term.



Willesden Green, Alberta

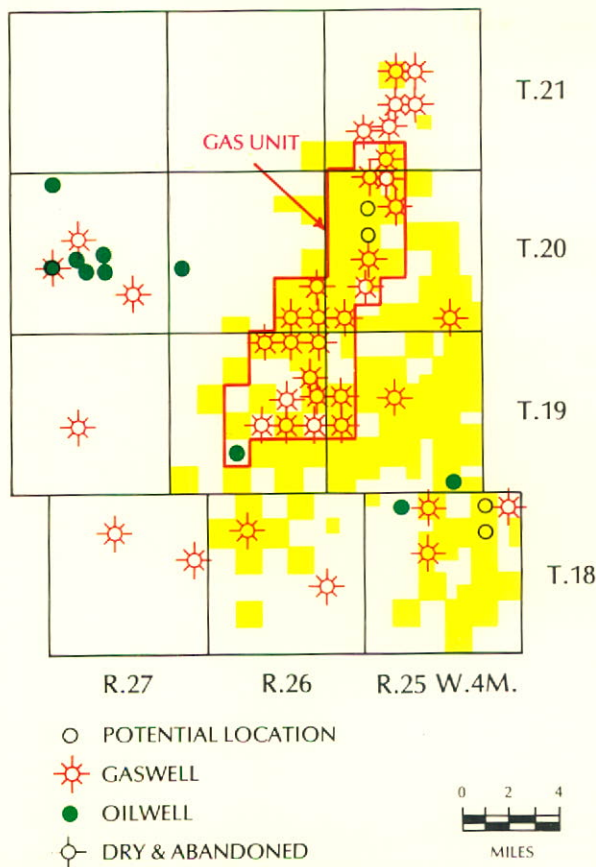
Sceptre holds interests ranging between 16 2/3% and 33 1/3% in 30,240 gross acres in the Willesden Green area of west-central Alberta. These lands were originally acquired at an average cost of \$20 per acre and recent crown sales have seen the industry pay considerably larger bonuses for offsetting lands. Significant accumulations of oil and gas in the Cardium, Blairmore and Mississippian Pekisko have been discovered in proximity to the property. Sceptre presently holds interests in three shut-in natural gaswells located on the lands. Two exploratory wells, located within one mile of Sceptre's holdings, have recently been licenced by competitors. The Company and its partners anticipate an active exploratory program during calendar 1980 to evaluate multiple objectives.



Arrowwood, Alberta

Sceptre holds a 26.07% interest in the Arrowwood Basal Belly River Gas Unit which contains 25,440 gross acres and 16 producing natural gas wells. In addition, the Company holds 5,505 net acres which are adjacent to the Unit boundary. The Company through farmouts participated in the drilling of two Mississippian exploratory wells on non-Unit properties in the first quarter of 1980. The second of these tests was completed as an Elkton oilwell and additional drilling of option wells to evaluate this deeper potential will await production testing of the discovery well. Evaluation of both the Unit and non-Unit acreage is expected to continue in 1980 through the drilling of four Basal Belly River tests. The Company has also identified other prospects on the properties and is attempting to secure farmouts to evaluate these by drilling.

ARROWWOOD

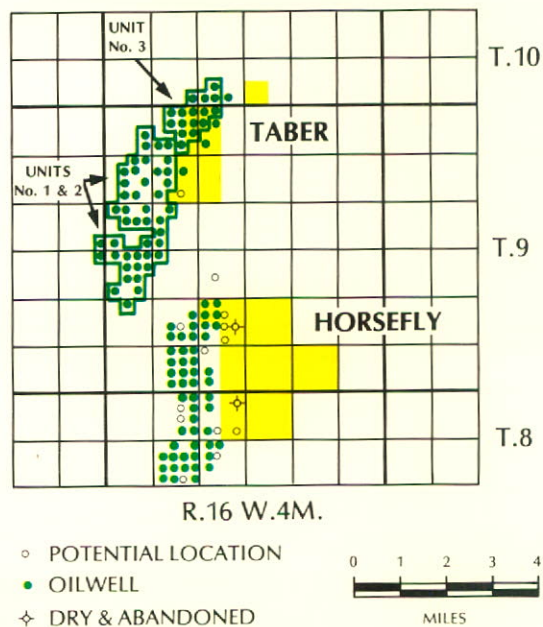


Taber-Horsefly, Alberta

Negotiations to unitize certain of Sceptre's wells in the Taber area of southern Alberta have been completed and have resulted in the formation of the East Taber Mannville 'D' Unit #3. Sceptre's interest in the Unit is 8.22%. A waterflood program which is forecast to materially enhance production will be initiated shortly. The Unit members are also considering a polymer flood program which, if undertaken, is expected to further improve productivity.

Three Taber Sand oilwells were drilled on the Horsefly acreage and production should commence in the near future. A minimum of three additional wells will be drilled on the Taber-Horsefly acreage during 1980, with the Sceptre-operated 2-33-8-16 W4M well scheduled to spud immediately.

TABER-HORSEFLY



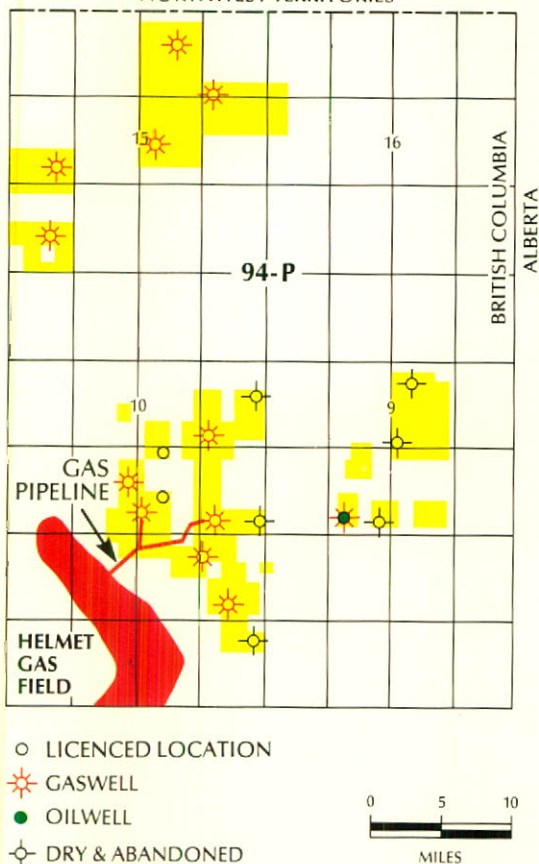
Helmet-Petitot, British Columbia

During fiscal 1980, Sceptre participated in the drilling of 14 wells in its continuing regional evaluation of the potential of the Devonian Jean Marie carbonate in the general Helmet-Petitot area of northeastern British Columbia. Nine of the 14 tests were completed as natural gaswells with the remaining 5 wells being abandoned. The Company now holds varying interests in 93,023 gross acres



HELMET-PETITOT

NORTHWEST TERRITORIES



equivalent to 11,444 net acres and interests in 12 gaswells including one also capable of production from the Keg River formation. As at March 31, 1980, two additional wells were drilling on these properties in the vicinity of the Helmet gas field and have since been completed as natural gas discoveries.

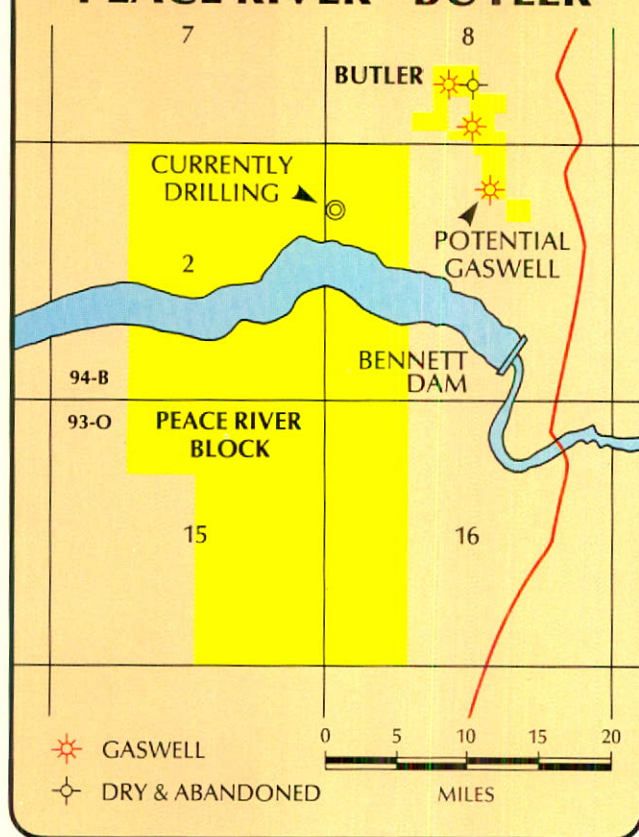
During the early part of 1980, Sceptre and its partners received an interim gas sales contract from BCPC and as a result constructed a 13 mile, 6" pipeline (with a rated capacity of 25 MMcf per day) running from certain of its properties to the Helmet field where gas is delivered to Westcoast Transmission. To date, two wells have been tied in and at year end were producing at a rate of 2.4 MMcf per day. Additional drilling will be conducted in the vicinity of the contract lands and the Company anticipates increased production from this area during the 1980's.

Peace River-Butler, British Columbia

Sceptre currently holds an 8% interest in 386,858 gross acres in the Peace River area located in the Rocky Mountains of northeastern British Columbia. A deep Middle Devonian test is currently being drilled by another company on a large, seismically-defined structure. If the initial well which is being drilled at no cost to Sceptre is successful, two additional wells could be drilled.

In the Butler Ridge area, immediately northeast of the Peace River block, Sceptre participated in the drilling of three wells during the past year. Two wells were completed as potential Triassic gaswells and one well was a dry hole. During 1980, two of the gaswells in this area were stimulated and production tested. During the production test a high water/gas ratio was recorded. The Company is engaged in discussions with the operator of the property to determine whether further testing or remedial work can resolve the excessive water/gas ratio. Additional evaluation drilling will await the outcome of these investigations.

PEACE RIVER - BUTLER



Livlong, Saskatchewan

Sceptre holds interests ranging from 16 2/3% to 33 1/3% in 38,400 gross acres in the Livlong heavy oil area of central-western Saskatchewan. Last year one exploratory oilwell was drilled on the property. The well was placed on-stream in November, 1979, with a satisfactory and steady production performance. Since that time interpretation of a seismic program over the property has resulted in the identification of several additional prospects and a four-well exploratory program is planned.

In addition to the above activities, Sceptre is:

currently participating in a well in the Lethbridge region of southern Alberta (offsetting the Blood Indian Reserve);

planning an exploratory drilling program at Burns Lake in central Alberta where the Company holds an interest in 31,915 gross acres;

connecting five existing gaswells to production facilities and planning to drill six additional wells in the Joarcam-Kingman region;

participating as to a 20% interest in a deep, high-potential exploratory farmin well in the Brewster Creek area of central-western Alberta;

planning to participate as to a 20% interest in an exploratory test on lands acquired last January in the Harmattan South area of central Alberta;

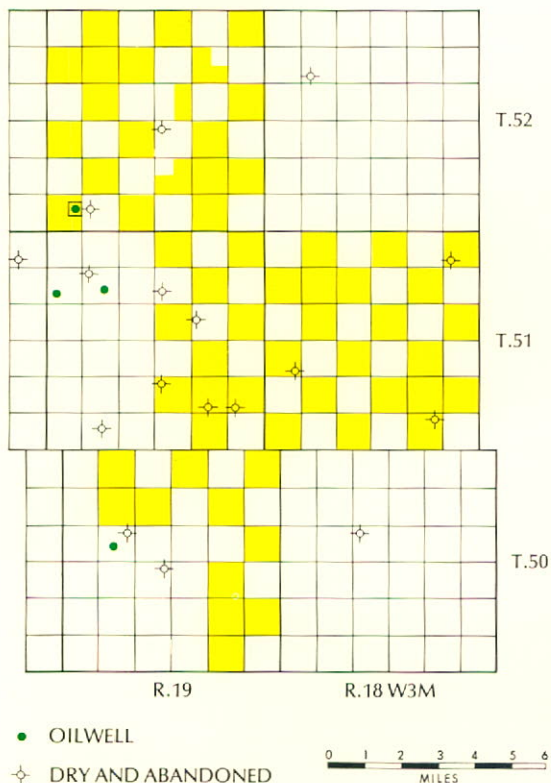
originating a seismic program covering its extensive acreage holdings in the Keg River Basin of northern Alberta;

planning to conduct a seismic program over 100% owned lands at Laprise Creek in northeastern British Columbia with a view to near-term drilling;

pursuing a variety of oil prospects (several of which are nearing the drillable stage) in Saskatchewan; and

placing three additional gaswells on-stream in the Sage Creek area of Montana.

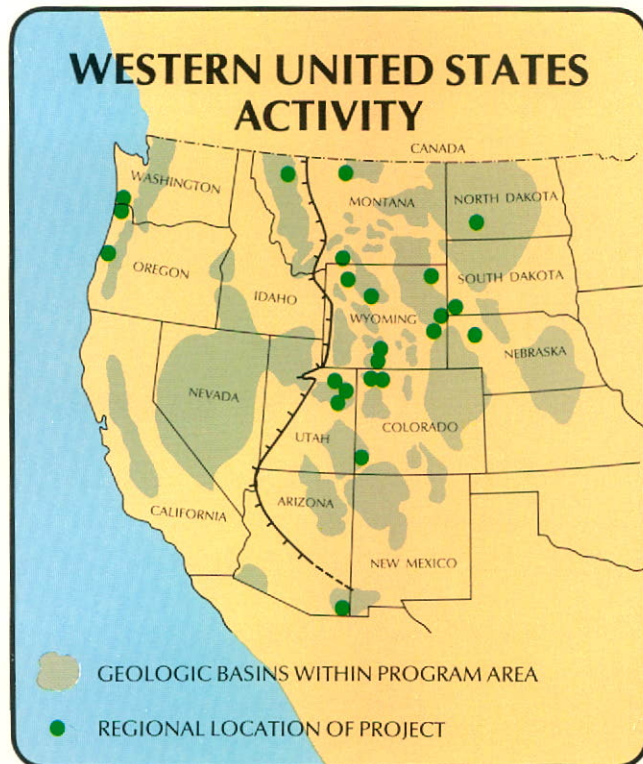
LIVELONG



UNITED STATES

Western United States

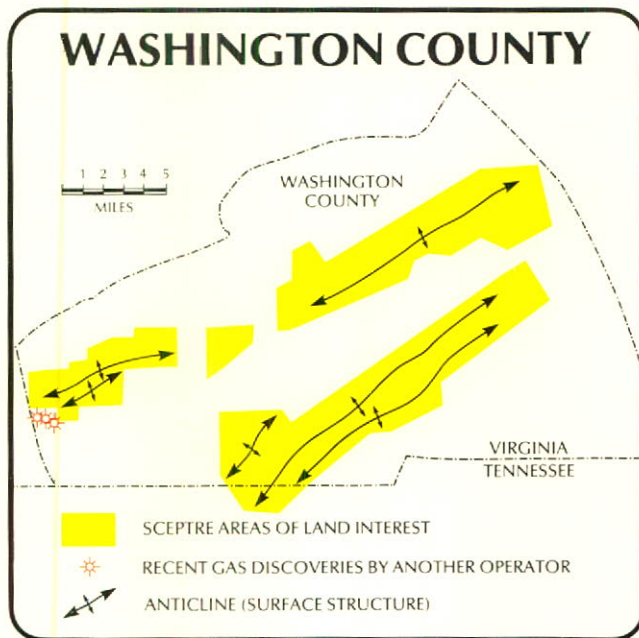
Through its wholly-owned subsidiary, Petroquest Inc., Sceptre is a 7.14% participant in a joint venture with Snyder Oil Company, a Denver based independent oil company. The primary objective of the joint venture is to develop prospects and acquire acreage in the general Rocky Mountain region of the United States. To date,



interests in 316,805 gross (22,620 net) acres on 27 project areas in nine states have been acquired. The projects range in scope from well-defined oil development prospects, such as the Horseshoe Bend prospect in the Uinta Basin, Utah, to broader, high-potential exploratory prospects such as those defined through geophysical surveys which have led to large acreage acquisitions in Oregon. Plans are being formulated for the Oregon acreage, to evaluate Tertiary sands which recently yielded significant natural gas discoveries by other operators. Last year, a primary emphasis was placed on securing land representation within the 27 project areas. During the coming year it is expected that a multi-well drilling program will be initiated to evaluate the prospects. Sceptre plans to participate in a similar acreage acquisition program with the same operator during the upcoming year.

Washington County, Virginia

Sceptre recently entered into an agreement with a U.S. based independent oil company to acquire an undivided 23 1/3% interest in 41,250 gross acres, primarily located in Washington County, Virginia. The agreement also provides for a joint venture to conduct a 45-mile seismic program and the drilling of three 8,000 foot test wells. Upon completion, Sceptre's interest would increase to 33 1/3% in the acreage. The property is located along the western margin of the Appalachian Overthrust Belt, which until recently had seen only limited drilling. Washington County is an area characterized by surface expressions of anticlinal structures. Recent drilling of three wells along the western county line, in close proximity to Sceptre's acreage, has proven the presence of natural gas accumulations in the Mississippian, one of three primary objectives which have been identified to date. Sceptre understands that two of the wells located less than one mile from Sceptre's acreage, have tested 4.2 MMcf per day and 2.5 MMcf per day respectively from the Mississippian Price formation. In addition to the Mississippian, objectives include the Devonian and Silurian ranging in depth from 4,500 feet to 10,000 feet subsurface. The seismic program will commence this summer to be followed by the three initial exploratory wells this fall.



Elk County, Kansas

Subsequent to year end, Sceptre agreed to a 10% participation in an initial 15-well drilling program on leases primarily situated in Elk County, Kansas. The program will develop shallow oil prospects at depths up to 1,500 feet. Following completion of the first phase, a further 35 wells may be drilled to fully develop the lease block and also increase the Company's net interest in the project. To date, five wells have been drilled and are under evaluation.

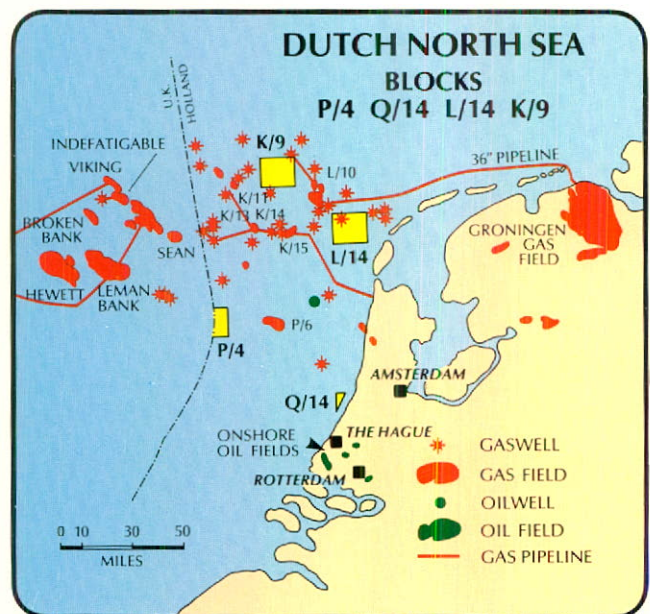
INTERNATIONAL ACTIVITIES

In addition to our activities in Canada and our escalating involvement in oil and gas exploration in the United States, Sceptre currently participates in joint ventures in six countries, has submitted application for additional concessions in France and Italy and is actively engaged in negotiations to acquire additional lands in southeast Asia and the Middle East. Our staff in London and Abu Dhabi have extensive experience in international exploration and production activities. They are monitoring developments in additional areas and are conducting various technical studies aimed at identifying new prospects and areas of involvement against a backdrop of the availability of world prices and the potential for identifying large accumulations in relatively unexplored regions.

Current areas of activity and recent developments include:

North Sea - Dutch Sector

Sceptre supplemented its representation offshore the Netherlands during fiscal 1980 and plans an active program on recently acquired properties during the balance of the year. In addition to its 8.34% interest in Block P/4, operated by Mobil, the Company acquired interests ranging from 3.625% to 7.5% in Blocks K/9, L/14 and Q/14. Subsequently, Sceptre agreed to purchase for cash additional interests in Block Q/14 and with its partners submitted an application to acquire a licence covering Block K/9c, which has since been awarded. The Company now holds interests in 248,830 gross acres equivalent to 15,503 net acres.



Block L/14

Sceptre holds a 7.5% interest in this 101,805 acre block and in the L/14-1 natural gas discovery which was drilled in 1975 and tested 18 MMcf per day from the Rotliegendes formation. Placid International Oil, Ltd., the operator, is completing its technical appraisal of the discovery and a decision to apply for approval of a development program and a production licence is anticipated shortly. If approved, the Dutch Government retains the right to acquire up to a 40% interest in the production licence by paying its proportionate share of previously incurred exploration costs and costs to construct a production platform, drill development wells and construct a pipeline to tie-in to existing facilities for delivery onshore. Gas produced would be sold to Gasunie and the wellhead price is established with reference to Rotterdam fuel oil prices; royalties are set at 5%. If the production licence is granted, production could commence in 1982.

In addition to the L/14-1 structure, other prospects have been identified on the Block. A detail seismic survey was recently completed to clarify closure on an additional structural target and an exploratory well is tentatively scheduled for the fall of 1980 if rig availability permits.

Block K/9

Sceptre holds a 3.625% interest in 101,064 acres within Block K/9. An exploratory well K/9-4, is expected to spud shortly using the Penrod 80 jack-up rig. Further evaluation will await the outcome of this well.

Block Q/14

A 14.59% interest is held in this 5,930 acre block. A seismic survey to delineate a structural target is scheduled for this summer after which drilling plans should be finalized. Industry activity in this quadrant has accelerated recently with a number of reported discoveries.

Block P/4

Sceptre owns a 8.34% interest in this 40,031 acre concession which is operated by Mobil. Activity in the region has accelerated with the discovery of a significant natural gas accumulation on Block P/6 and planned drilling on P/5 east of Sceptre's property. New seismic data covering a prospect on the southern half of the block is currently being interpreted and drilling, if warranted, will be undertaken prior to 1982.

North Sea - United Kingdom Sector

Sceptre is a 4.9% participant in a joint venture which acquired Block 13/14, situated in the Outer Moray Firth, during the Fifth Round of awards in 1977. The Block is located in 350 feet of water approximately 40 miles from the Claymore and Piper producing oil fields. The operator, The British National Oil Company, has completed a marine seismic program which resulted in the identification of a promising structural target. A well will be drilled on the Block prior to April, 1982.

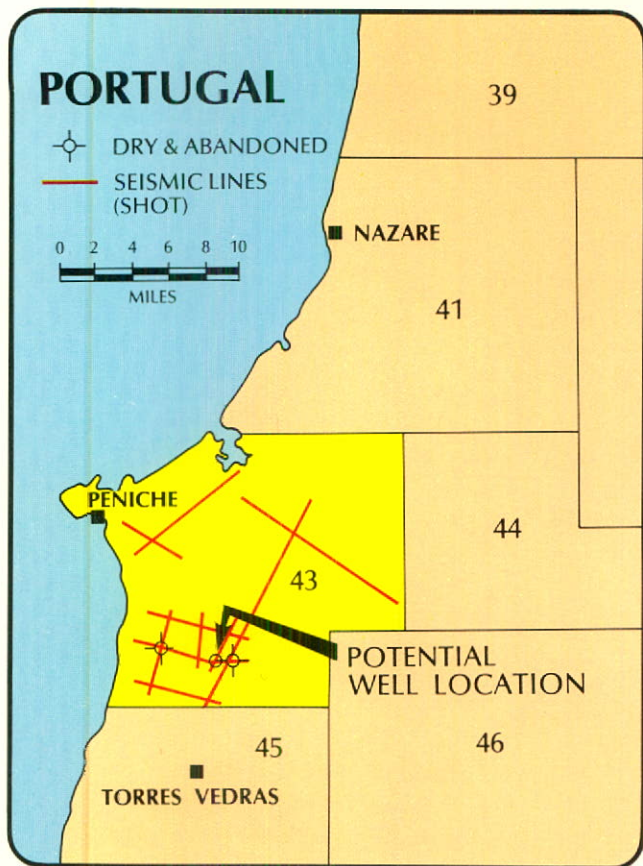
With the announcement of the impending Seventh Round of licencing in United Kingdom waters, Sceptre and its affiliate company, Candecca Resources Limited, are engaged in active discussions with various companies with a view to participating in applications for additional acreage.

Offshore Ireland

During fiscal 1980 Sceptre participated in an oil discovery on Block 26/28 in the Porcupine Basin offshore the west coast of Ireland. The well operated by British Petroleum and drilled at no cost to Sceptre, flowed in excess of 5,000 barrels of oil per day from three separate sands each of approximately 10 metres thickness. Subsequently, a detail seismic program was completed and a follow-up well, 26/28-2, in which Sceptre will participate to a modest 0.17% interest, is scheduled to spud in late July, 1980. The discovery is situated in 1,250 feet of water about 100 miles offshore and accordingly a decision on the prospects of commercial exploitation will necessarily await the outcome of step-out drilling.

Socialist Republic of Vietnam

The Company holds a 10% interest in a joint venture which was awarded Blocks 28 and 29 in the South China Sea by the Socialist Republic of Vietnam during 1978. The joint venture is committed to spend \$15 million over three years, including the drilling of three wells on Block 28 and one well on Block 29. To date, a dry hole has been drilled on each block at an aggregate cost of \$11.4 million. During 1980, the joint venture will continue its analysis of seismic and drilling results.



Portugal

Sceptre is the operator and holds a 33 1/3% interest in a 180,634 acre concession covering Block 43 ("Caldas da Rainha") in the Lusitanian Basin north of Lisbon, onshore the Republic of Portugal. Following the reprocessing of approximately 300 kilometres of seismic data and completion of extensive geological studies, a 103 kilometre-seismic program was completed in the fall of 1979. This new data is being interpreted and integrated with previously acquired information. Several prospects have been identified and drilling of a deep exploratory well on the Campelos prospect is anticipated to commence prior to November, 1980.

The Company and its joint venture partners, Bow Valley (Portugal) Inc. and Siebens Oil and Gas (Portugal) Inc., have recently been offered Concession 41, located northeast of Concession 43, on a seismic option basis. Final terms are being negotiated. The joint venture group is also investigating the possibility of securing additional concessions onshore Portugal and in the Algarve, offshore Portugal, the latter of which is in proximity to recent discoveries of natural gas by other operators offshore Spain in the Gulf of Cadiz.

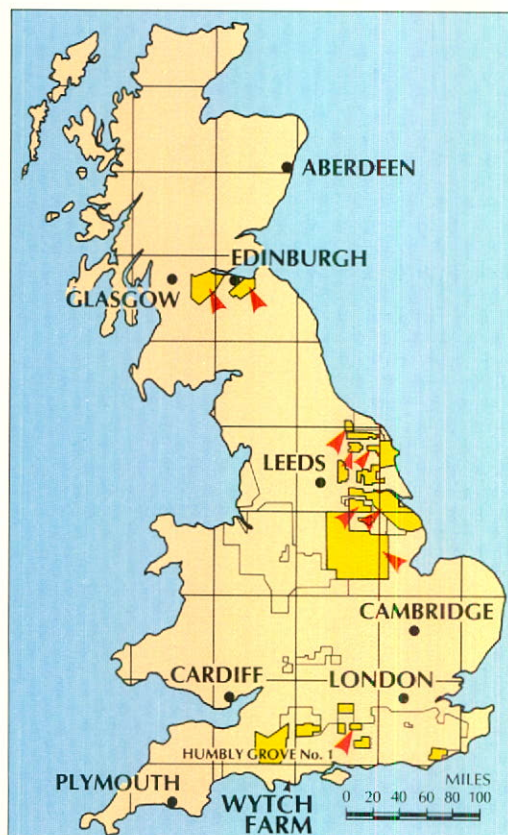
Philippines

Sceptre holds a 15% interest in a geophysical contract and has completed an extensive seismic survey over approximately 3.6 million acres in the South Sulu Sea. A number of prospects have been identified and a 600-kilometre detail seismic program is currently being interpreted, after which a decision will be made prior to September, 1980 whether to convert to a service contract with attendant well commitments.

Other Areas

Sceptre, as operator, has submitted applications for new concessions offshore Sicily and onshore France in the Paris Basin. The Company holds a 50% interest in the Sicilian joint venture and a 33 1/3% interest in the French joint venture. Efforts are continuing to expand representation in the Middle East, Europe (onshore and offshore), southeast Asia and in certain parts of Africa.

CANDECCA ACREAGE HOLDINGS ONSHORE UNITED KINGDOM



- CANDECCA ACREAGE
- POTENTIAL LOCATION

Acreage Holdings

The following table provides an area summary of the Company's gross and net leasable acreage holdings as at April 1, 1980:

	Petroleum and Natural Gas Leases		Reservations, Permits and Licences		Total		Royalty and Other Interest Gross Acres
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres	
CANADA (1)							
Alberta	724,943	231,584	111,360	27,440	836,303	259,024	148,960
British Columbia	160,751	28,014	437,970	62,546	598,721	90,560	9,064
Saskatchewan	15,820	7,001	76,640	24,692	92,460	31,693	196
Ontario	24,120	2,300	—	—	24,120	2,300	—
Arctic Islands	—	—	217,012	44,921	217,012	44,921	54,464
Beaufort Sea	—	—	—	—	—	—	824,638
	<u>925,634</u>	<u>268,899</u>	<u>842,982</u>	<u>159,599</u>	<u>1,768,616</u>	<u>428,498</u>	<u>1,037,322</u>
FOREIGN							
Ireland	—	—	185,250	315	185,250	315	—
Netherlands	—	—	248,830	15,503	248,830	15,503	—
United Kingdom	—	—	53,375	2,615	53,375	2,615	—
United States	367,478	38,526	—	—	367,478	38,526	—
Vietnam	—	—	3,396,714	339,671	3,396,714	339,671	—
Portugal	—	—	180,634	60,211	180,634	60,211	—
Philippines	—	—	3,583,012	537,452	3,583,012	537,452	—
	<u>367,478</u>	<u>38,526</u>	<u>7,647,815</u>	<u>955,767</u>	<u>8,015,293</u>	<u>994,293</u>	<u>—</u>
TOTAL ACRES	1,293,112	307,425	8,490,797	1,115,366	9,783,909	1,422,791	1,037,322

Note (1) Klopfer & Associates Ltd., independent petroleum consultants of Calgary, Alberta, have evaluated the undeveloped lands where reserves were not assigned. The value assigned was \$21,328,390.

Candecca Resources Limited

Sceptre holds an approximate 45% equity interest in Candecca Resources Limited, an independent British based oil and gas exploration and production company with extensive holdings onshore the United Kingdom. During fiscal 1980 Candecca acquired the issued share capital of Cambrian Exploration Limited through a successful share exchange tender offer. As a result, Candecca issued 1,501,300 ordinary shares thereby reducing Sceptre's interest from 49% to its current level. Cambrian's principal assets consist of licence interests in acreage located in southern England and an interest in the Bletchingly gas field south of London, England. This exposure complements Candecca's extensive holdings in Yorkshire, the Midlands and Humberside regions of England.

Recently Candecca was a 25% participant in the Humbly Grove No. 1 well situated on Production Licence 116b. This well encountered oil below 3,000 feet and production testing is presently underway.

During the year, Candecca completed its agreement with a consortium led by Taylor Woodrow Energy Limited and including R.T.Z. Oil and Gas Limited, James Finlay and Company Limited and Haoma North West Oil and Gas (U.K.) Limited for a joint venture oil and gas exploration and appraisal program over certain of Candecca's onshore licences. A 60-mile seismic program in the Yorkshire Moors was initiated. Additionally, a 33-mile seismic program was commenced in the Midlands and a further program of 21 miles in the North Humberside area is planned. These programs prelude the start of an extensive drilling program covering as many as nine additional wells in which Candecca expects to participate onshore the United Kingdom this year.

Candecca is also presently engaged in discussions with various groups which intend to apply for licences in the Seventh Round of North Sea awards by the United Kingdom. If its participation is finalized and the groups are successful in securing acreage, this will mark Candecca's initial foray into exploration activity in areas outside the onshore United Kingdom play.

Operations Report

The Company presently has an interest in 35 producing oilwells and 45 producing natural gaswells. During fiscal 1980, the Company produced 51,533 barrels of oil (141 barrels per day) and 1,927 MMcf of natural gas (5.3 MMcf per day). To improve this level of production, the Company has completed remedial or development work in a number of projects, a few of which are highlighted below:

East Siphon, British Columbia

A 600-horsepower compressor with a capacity of 8 MMcf per day was installed by Sceptre, as operator, to handle production from the East Siphon Bluesky Pool. The compressor was installed in March, 1980 at an estimated gross cost of \$700,000, Sceptre's share was 31.25%. The unit is functioning satisfactorily and will substantially improve the annual natural gas sales from the area.

Siphon, British Columbia

Sceptre et al Siphon 10-16-86-16 W6M frequently experienced shutdowns due to the contactor tower becoming plugged with asphaltenes, requiring chemical treatments in order to restore flowing conditions.

In March, 1980, a separation unit consisting of a conventional vertical separator and a cyclone separator was installed ahead of the dehydration unit. The well has produced continuously since the installation and a considerable improvement in production is anticipated as a result of the remedial work.

Island Lake, Alberta

Sceptre participated in the drilling and completion of two successful Colony gaswells in 7-3-67-24 W4M and 10-8-68-24 W4M. On test, flow rates stabilized at 2.48 MMcf per day and 1.30 MMcf per day respectively. Flowlines are presently being installed to connect the wells to the gas plant located in 10-21-67-24 W4M. The Company believes that sufficient reserves have now been established with the drilling of the two wells, to maintain the present deliverability of approximately three MMcf per day, even if the contract reverts to a reserve basis.

Killam, Alberta

The Sceptre PCP Killam 11-19-44-11 W4M well was drilled and dually completed in the Viking and Glauconite horizons. Initial flow tests from the two zones, yielded 415 Mcf per day and 951 Mcf per day respectively. Production equipment has been ordered and the necessary operating agreements finalized. The well will be placed onstream this summer.

PETROLEUM AND NATURAL GAS WELLS

The Company has interests in the following number of petroleum and natural gas wells:

	Gross	Net	Status	
	Wells	Wells	Producing	Capped
Oil Wells				
Alberta	43	6.956	30	13
Saskatchewan	9	2.778	5	4
Ireland	1	0.002	—	1
	53	9.736	35	18
Natural Gas Wells				
Alberta	146	37.549	30	116
British Columbia	38	8.323	11	27
Saskatchewan	2	0.333	—	2
United States	10	4.030	4	6
North Sea —				
Dutch Sector	1	0.075	—	1
	197	50.310	45	152

PRODUCTION

The Company's interest in crude oil, natural gas liquid and natural gas production (before royalties) during the indicated fiscal periods are as follows:

	1980	1979	1978
Natural Gas			
Total — MMcf	1,927	3,470	3,031
Daily average — MMcf per day	5.3	9.5	8.3
Crude Oil and Natural Gas Liquid			
Total — Barrels	51,533	84,645	60,930
Daily average — Barrels per day	141	232	167
Sulphur			
Total — long tons	23	4,115	2,293
Daily average — long tons per day	—	11	6

Note: Effective June 1, 1979, the Company sold its interest in certain resource properties located in the Quirk Creek area of Alberta, which represented approximately 28% of oil and gas revenue during 1979.

DRILLING ACTIVITY

The Company has drilled or participated in the drilling of wells during the years ended March 31 as follows:

	1980	1979	1978
Natural gas wells	30	45	23
Oil wells	19	6	12
Dry holes	30	27	13
Total wells	<u>79</u>	<u>78</u>	<u>48</u>
Success ratio	62%	65%	73%

Petroleum and Natural Gas Reserves

The following table summarizes the reserve volumes and the interest of the Company in future net cash flow from its petroleum and natural gas properties in Canada and the United States to which reserves have been assigned.

	Previously reported reserves April 1, 1979 (1)	Revision of previous estimates	Production (2)	Extensions, discoveries and other additions	Reserves April 1, 1980 (3)
PROVEN NET RESERVES (4) & (5)					
(before royalty)					
Petroleum and natural gas liquids (barrels)	358,400	(125,952)	(51,488)	245,540	426,500
Natural gas (MMcf)	68,301	(37,565)	(1,913)	5,030	33,853
PROBABLE NET RESERVES (4) & (5)					
(before royalty)					
Petroleum and natural gas liquids (barrels)	390,200	(214,800)	—	91,800	267,200
Natural gas (MMcf)	11,832	5,550	—	2,533	19,915
COMBINED PROVEN AND PROBABLE NET RESERVES					
(4) & (5) (before royalty)					
Petroleum and natural gas liquids (barrels)	748,600	(340,752)	(51,488)	337,340	693,700
Natural gas (MMcf)	80,133	(32,015)	(1,913)	7,563	53,768
FUTURE NET CASH FLOW OF COMBINED					
PROVEN AND PROBABLE RESERVES					
(000's) (4) (5) & (6)					
Undiscounted	\$149,221				\$213,899
Discounted at the rate of:					
12%	\$ 49,144				\$ 57,433
15%	\$ 40,286				\$ 46,767
20%	\$ 30,360				\$ 35,179

- (1) The previously reported reserves were estimated and evaluated by Sproule Associates Limited and John Blain Engineering Ltd., independent consultants both of Calgary, Alberta.
- (2) Adjusted to reflect the disposition, effective June 1, 1979, of the Company's interest in properties located in the Quirk Creek area.
- (3) The April 1, 1980 reserves were estimated and evaluated by Kloefer & Associates Ltd., independent petroleum consultants of Calgary, Alberta.
- (4) In addition, the Company has 49,600 MMcf of Proven Reserves in the Arctic Islands/Beaufort. Kloefer & Associates Ltd. have not estimated the Future Net Cash Flow on these properties, due to the uncertainty of production volumes or a realistic knowledge of timing for start of production.
- (5) The Company has proven and probable reserves offshore Ireland and in the Dutch Sector of the North Sea. Reserve volumes and Future Net Cash Flow projections have not been included for these areas.
- (6) Calculated after deduction of royalties, capital and operating costs, but before income tax.

FINANCIAL REVIEW

OPERATIONS

Net earnings for fiscal 1980, before extraordinary items and dividends on preferred shares of subsidiary companies were \$1,231,215 (18¢ per share) compared to \$430,690 (8¢ per share) last year. The loss for the year before extraordinary items was \$581,685 (8¢ per share) an improvement of \$543,382 over the prior year. Net Earnings for 1980 were \$568,315 (8¢ per share) compared to a loss of \$5,499,058 (\$1.03 per share) in 1979. Cash flow reached \$3,742,908 (54¢ per share) from \$3,230,703 (60¢ per share) in fiscal 1979. Revenue increased to \$5,369,378 from \$4,752,211, a 13% increase. The Company's capital expenditures were \$9,657,069. Working capital at the year end was \$12,863,981. The Company has no bank indebtedness.

CHANGES IN ACCOUNTING POLICIES

During fiscal 1980, the Company revised its method of accounting for its oil and gas operations. Under this method, all costs of exploring for and developing oil and gas reserves are capitalized on a country by country basis and are depleted using the unit-of-production method based on estimated recoverable oil and gas reserves as determined by the Company. This change in accounting has resulted in the reduction of the prior years' deficit by \$389,958 and has increased the current year's earnings by \$184,000 (2¢ per share).

During 1980, the Company's United Kingdom affiliate, Candecca Resources Limited, acquired all the issued and outstanding ordinary shares of Cambrian Exploration Limited. As a result, the Company's interest in Candecca was reduced to approximately 45%. The Company has deconsolidated the accounts of Candecca for the current year and has restated the prior years' accounts. This change in accounting had no effect on earnings.

CHANGE IN YEAR END

The Company has made the decision to change its year end from March 31 to December 31. Accordingly, the next report will be for the nine months ended December 31, 1980.

MAJOR FINANCIAL TRANSACTIONS

During the 1980 fiscal year, the Company:

Issued and sold 1,841,047 common shares of the Company at a price of \$6.50 per share, pursuant to a rights offering. Attached to these shares were 920,523 share purchase warrants entitling the holders to purchase 920,523 common shares of the Company at a price of \$8.75 per share, up to the close of business on August 10, 1981.

Issued and sold 1,000,000 common shares of the Company at a price of \$10 per share, by way of private placement, to Consolidated-Bathurst Inc. In addition, the Company granted an option to Consolidated-Bathurst to purchase 500,000 common shares at a price of \$12 per share, by August 10, 1981.

Sold all of its interests in resource properties located in the Quirk Creek area of Alberta for an aggregate consideration of \$12,000,000, \$4,000,000 payable in cash and the balance payable in equal annual installments of \$2,000,000. Interest is received on a quarterly basis at the bank's prime rate plus 1% (17½% at March 31, 1980).

Repaid all of its current and long term bank indebtedness.

Entered into joint ventures with two limited partnerships aggregating \$7.8 million. Activities will be conducted in Alberta, British Columbia and Saskatchewan.

SCEPTRE RESOURCES LIMITED

Consolidated Balance Sheet

As at March 31, 1980

ASSETS		1980	1979
			(note 2)
CURRENT ASSETS			
Cash and short term deposits		\$10,432,631	\$ 238,392
Accounts receivable		3,016,922	1,682,458
Current portion of long term receivable		2,000,000	—
		15,449,553	1,920,850
LONG TERM RECEIVABLE (note 3)		6,000,000	—
DUE FROM DIRECTOR AND OFFICER (note 7)		961,500	—
INVESTMENT IN CANDECCA RESOURCES LIMITED		7,371,399	6,081,363
FIXED ASSETS (note 4)		42,512,565	44,155,221
		<u>\$72,295,017</u>	<u>\$52,157,434</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness		\$ —	\$ 3,240,577
Accounts payable and accrued liabilities		2,585,572	1,766,308
		2,585,572	5,006,885
DEFERRED PRODUCTION REVENUE		106,179	179,134
LONG TERM DEBT (note 5)		—	3,292,500
PREFERRED SHARES OF SUBSIDIARY COMPANIES (note 6)		21,225,000	22,100,000
DEFERRED INCOME TAXES		6,351,903	2,999,899
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 7)			
Issued			
8,380,438 common shares (1979 — 5,334,541 shares)		46,197,818	23,318,786
Less:			
39,780 shares held by a subsidiary and the company		(255,990)	(255,990)
		45,941,828	23,062,796
DEFICIT		(3,915,465)	(4,483,780)
		<u>42,026,363</u>	<u>18,579,016</u>
		<u>\$72,295,017</u>	<u>\$52,157,434</u>

Approved by the Board

R. A. Gusella

R.A. Gusella, Director

James S. Palmer

J.S. Palmer, Director

SCEPTRE RESOURCES LIMITED

Consolidated Statement of Earnings

Year Ended March 31, 1980

	1980	1979 (note 2)
Revenue		
Oil and gas	\$3,359,915	4,613,893
Interest	1,875,235	98,679
Share of earnings of Candecca Resources Limited	134,228	39,639
	<u>5,369,378</u>	<u>4,752,211</u>
Expenses		
Production	665,824	771,211
General and administrative	597,053	480,564
Interest on long term debt	165,619	369,984
Other interest	198,857	81,762
Depletion and depreciation	1,481,350	1,970,164
Deferred taxes	1,164,571	869,488
Alberta royalty tax credit	(135,111)	(221,652)
	<u>4,138,163</u>	<u>4,321,521</u>
Earnings before undernoted	1,231,215	430,690
Dividends on preferred shares of subsidiary companies	1,812,900	1,455,757
LOSS BEFORE EXTRAORDINARY ITEMS	<u>(581,685)</u>	<u>(1,025,067)</u>
EXTRAORDINARY ITEMS		
Provision for loss on sale of producing properties (note 3)	—	(4,700,000)
Gain on issue of shares by Candecca Resources Limited	1,150,000	226,009
	<u>1,150,000</u>	<u>(4,473,991)</u>
NET EARNINGS (LOSS)	<u>\$ 568,315</u>	<u>\$(5,499,058)</u>
EARNINGS (LOSS) PER SHARE , based on the weighted average number of shares outstanding during the year		
Before extraordinary items	\$(.08)	\$(.19)
Extraordinary items16	(.84)
Net earnings (loss)	<u>\$.08</u>	<u>\$(1.03)</u>

Consolidated Statement of Retained Earnings (Deficit)

Year Ended March 31, 1980

	1980	1979 (note 2)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR		
As previously reported	\$(4,873,738)	\$ 884,092
Adjustment resulting from changes in accounting (note 2)	389,958	131,186
As restated	<u>(4,483,780)</u>	<u>1,015,278</u>
Net earnings (loss)	\$ 568,315	(5,499,058)
DEFICIT AT END OF YEAR	<u>\$(3,915,465)</u>	<u>\$(4,483,780)</u>

SCEPTRE RESOURCES LIMITED

Consolidated Statement of Changes in Financial Position

Year Ended March 31, 1980

	1980	1979 (note 2)
WORKING CAPITAL DERIVED FROM		
Operations	\$ 3,742,908	\$ 3,230,703
Issue of common shares	22,879,032	673,789
Long term debt	1,250,000	1,192,500
Deferred production revenue	—	179,134
Sale of fixed assets	12,000,000	530,922
Other	—	58,112
	<u>39,871,940</u>	<u>5,865,160</u>
WORKING CAPITAL APPLIED TO		
Fixed assets	9,657,069	8,459,411
Preferred share dividends of subsidiary companies	1,812,900	1,455,757
Redemption of preferred shares by a subsidiary	875,000	—
Long term receivable	6,000,000	—
Reduction of long term debt	4,542,500	—
Due from director and officer	961,500	—
Deferred production revenue	72,955	—
Other	—	16,870
	<u>23,921,924</u>	<u>9,932,038</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>15,950,016</u>	<u>(4,066,878)</u>
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR		
As previously reported	2,341,248	1,022,808
Adjustment resulting from changes in accounting (note 2)	(5,427,283)	(41,965)
As restated	<u>(3,086,035)</u>	<u>980,843</u>
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$12,863,981</u>	<u>\$(3,086,035)</u>

SCEPTRE RESOURCES LIMITED

Notes to Consolidated Financial Statements

Year Ended March 31, 1980

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 follows the equity method of accounting for its investment in Candecca Resources Limited (Candecca) which is 45.4% owned (1979 - 49.1% owned). Under this method, the Company's investment is recorded on the balance sheet at cost plus its share of undistributed earnings or losses.

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

(b) Fixed Assets

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

The costs related to a cost centre from which there is production, together with the costs of productive equipment, are depleted and depreciated on the unit of production method based on the estimated recoverable reserves of each jurisdiction 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 area 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.

(c) 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.

2. CHANGES IN ACCOUNTING

During the year the Company retroactively changed its methods of accounting for fixed assets and for its investment in Candecca to that described in note 1 above. Previously, the Company:

(a) followed a form of the full cost method of accounting under which costs were accumulated on a restricted area of interest basis. The costs of producing areas were depleted based upon the recoverable oil reserves for each area or were written off to earnings if exploration in the area was determined to be unsuccessful; and

(b) consolidated the accounts of Candecca with the financial statements of the Company.

As a result of the change in accounting for fixed assets, the loss for the year ended March 31, 1979 was reduced by \$258,772 (5¢ per share) and the deficit as at March 31, 1979 was reduced by \$389,958. Had this change not occurred, earnings for the year ended March 31, 1980 would have been reduced by \$184,000 (2¢ per share) to \$384,000 (6¢ per share). The change in accounting for the investment in Candecca had no effect on earnings.

3. SALE OF PRODUCING PROPERTIES

During the year the Company sold all of its interest in resource properties located in the Quirk Creek area of Alberta for an aggregate consideration of \$12,000,000, of which \$4,000,000 was received on closing. The balance of \$8,000,000 is receivable in equal installments of \$2,000,000 plus interest at bank prime rate plus 1% (17½% at March 31, 1980). During the year ended March 31, 1979 production from the Quirk Creek area represented approximately 28% of the oil and gas revenue of the Company. The loss on disposition was recorded as at March 31, 1979.

4. FIXED ASSETS

	1980			1979		
	Cost	Accumulated Depletion and Depreciation	Net	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon						
Canada	\$37,776,268	\$4,403,850	\$33,372,418	\$48,550,544	\$ 9,762,416	\$38,788,128
United States	1,512,371	203,978	1,308,393	855,813	93,978	761,835
Netherlands	1,976,414	—	1,976,414	17,479	—	17,479
Portugal	669,237	—	669,237	184,849	—	184,849
Vietnam	1,240,148	—	1,240,148	1,263,699	—	1,263,699
Ireland	2,080,564	—	2,080,564	1,972,020	—	1,972,020
Other areas	1,865,391	—	1,865,391	1,167,211	—	1,167,211
	<u>\$47,120,393</u>	<u>\$4,607,828</u>	<u>\$42,512,565</u>	<u>\$54,011,615</u>	<u>\$ 9,856,394</u>	<u>\$44,155,221</u>

5. LONG TERM DEBT

	1980	1979
Term bank loan	\$ —	\$3,000,000
Bank production loan (\$250,000 U.S.)	—	292,500
	<u>\$ —</u>	<u>\$3,292,500</u>

The term bank loan was secured as described in note 6 below. The bank production loan was secured by the assignment of certain petroleum and natural gas properties located in the United States.

6. PREFERRED SHARES OF SUBSIDIARY COMPANIES

During the year ended March 31, 1978, three subsidiaries issued a total of 221,000 cumulative, redeemable, non-voting preferred shares of a par value of \$100 each to a Canadian chartered bank. The holder of the preferred shares 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 (9.705% at March 31, 1980). 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 long term receivable and a floating charge debenture on all the assets of the Company. During the year, 8,750 shares in the aggregate principal amount of \$875,000 were redeemed by a subsidiary. The redemption requirements of the preferred shares for the next five years are as follows: 1981 — \$3,500,000; 1982 — \$3,500,000; 1983 — \$3,500,000; 1984 — \$4,650,000 and 1985 — \$6,075,000.

7. CAPITAL STOCK

(a) Authorized

On October 31, 1979 the Company was continued under the Canada Business Corporations Act. The authorized capital consists of common shares of no par value. Under this Act there is no limitation on the number of shares that may be issued.

(b) Issue of Shares

The following shares were issued for cash:

	Number of Shares	Consideration
Balance, March 31, 1978	5,201,958	\$22,644,997
On exercise of warrants	127,916	639,580
On exercise of stock options	4,667	34,209
Balance, March 31, 1979	5,334,541	23,318,786
Pursuant to rights issue	1,841,047	11,566,846
Pursuant to a share purchase agreement with a director and senior officer*	150,000	961,500
On exercise of warrants	1,750	15,312
On exercise of stock options	53,100	335,374
Pursuant to a share purchase agreement	1,000,000	10,000,000
Balance, March 31, 1980	8,380,438	\$46,197,818

* financed by a non-interest bearing loan from the Company which is repayable over five years.

(c) Shares Reserved for Options and Warrants

At March 31, 1980 the following shares are reserved:

- (i) 252,700 shares in respect of stock options granted to officers and employees, exercisable at prices ranging from \$6.19 to \$11.70 at various dates to September, 1984.
- (ii) 500,000 shares in respect of an option exercisable at a price of \$12 per share, to August 10, 1981.
- (iii) 918,773 shares in respect of share purchase warrants entitling the holders to purchase shares at \$8.75 per share to August 10, 1981.

8. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is contingently liable for a maximum of approximately \$850,000 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 \$211,000 per annum in respect of office premise leases which expire on various dates to 1984.

9. SUBSEQUENT EVENT

By agreement dated April 1, 1980 a senior officer agreed to purchase 100,000 common shares at a price of \$10.80 per share and was granted an option to purchase 100,000 common shares at a price of \$10.80 per share. The purchase of the shares is to be financed by a non-interest bearing loan from the Company which is repayable over five years.

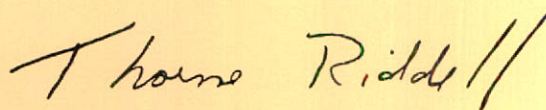
Auditors' Report

To the Shareholders of
Sceptre Resources Limited

We have examined the consolidated balance sheet of Sceptre Resources Limited as at March 31, 1980 and the consolidated statements of earnings, retained 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 March 31, 1980 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, after giving retroactive effect to the changes in accounting for fixed assets and the investment in Candecca Resources Limited described in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Canada
May 21, 1980

A handwritten signature in dark ink, reading "Thorne Riddell" followed by two slanted parallel lines.

Chartered Accountants

Personnel

The Company is pleased to report the following additions to its personnel.

Joseph S. Irwin, Jr.

Mr. Irwin was appointed Executive Vice President and Chief Operating Officer effective April 1, 1980. He has over 20 years oil and gas experience and has held senior management positions for 16 of those years. Mr. Irwin has been nominated to the Board of Directors.

Gordon H. Johnston

Gordon Johnston joined the Company as Land Manager in February, 1980. He holds a Bachelor of Commerce Degree from the University of Calgary. Mr. Johnston has had nine years of experience with both large international and independent oil companies.

Morris A. Spronk

Morris Spronk was appointed Senior Engineer in February, 1980. He is responsible for production and drilling functions and is co-ordinating the engineering evaluations for the Company. Mr. Spronk holds a Bachelor of Science Degree in Mechanical Engineering from the University of Alberta and has had 11 years of experience in the oil industry.

James R. Reynolds

Jim Reynolds joined Sceptre's geological department in September, 1979. Mr. Reynolds holds a Bachelor of Science in Geology from the University of Saskatchewan. He has six years industry experience.

Robert J. Guedo

Bob Guedo is a graduate of the University of Saskatchewan and holds a Bachelor of Science in Geology. He graduated in 1975 and since then worked for two companies prior to joining Sceptre in January, 1980. Mr. Guedo will concentrate on the Company's Saskatchewan exploration program.

Graham Lucas

K. Graham Lucas joined the Company on May 1, 1979 as geologist based at our international office in London, England. Mr. Lucas graduated in 1956 from the University of Queensland, Australia and brings to the Company 24 years postgraduate academic and industry experience. Mr. Lucas is concentrating on our joint venture in Portugal.

Bruce D. MacDonald

Bruce MacDonald was appointed Controller of the Company in April, 1980. He graduated from the University of Calgary in 1976 with a Bachelor of Commerce Degree. Mr. MacDonald was employed by Thorne Riddell since 1976 and was awarded his C.A. in 1979. Mr. MacDonald is a senior member of the Company's financial department and will be primarily responsible for the financial reporting requirements of the Company.

STOCK MARKET PRICES AND VOLUMES

The Company's common shares and share purchase warrants are listed for trading on The Toronto Stock Exchange. The trading range of these securities is as follows:

	Common Shares			Share Purchase Warrants		
	High	Low	Volume	High	Low	Volume
Quarter ending:						
June 30, 1979	\$ 9.00	\$6.75	1,120,167	—	—	—
September 30, 1979	\$ 9.50	\$6.875	2,296,339	\$4.40	\$3.15	437,371
December 31, 1979	\$10.875	\$7.125	2,206,966	\$4.70	\$3.10	601,062
March 31, 1980	\$15.75	\$9.75	3,986,051	\$8.75	\$4.45	1,229,057

Annual General Meeting

The Annual General Meeting of the Shareholders of Sceptre Resources Limited will be held in Calgary in the Lakeview Room of the Calgary Inn at 3:00 p.m. on June 20, 1980.

