# BlueSky Oil & Gas Ltd.

**10th ANNUAL REPORT • 1984**

## *Contents*



Bluesky's Annual Shareholders Meeting will be held October 12, 1984, at 2:30 P.M. in the Mayfair Room of the Westin Hotel, Calgary, Alberta.

# *Highlights for 1984*

## *FINANCIAL HIGHLIGHTS*

(12 month period ending April 30, 1984)

| | |
|---|---|
| Net Revenues | $23,498,972 |
| Cash Flow from | |
| Operations | $18,387,738 |
| Per Share* | 68¢ |
| Net Income | $ 9,213,072 |
| Per Share* | 34¢ |

## *OPERATIONAL HIGHLIGHTS*

| | | |
|---|---|---|
| Reserves | | |
| Natural Gas (million cubic feet) | | |
| Proven | 159,076 | |
| Probable | 91,678 | 250,754 |
| Oil (barrels) | | |
| Proven | 9,711,000 | |
| Probable | 2,462,000 | 12,173,000 |
| Natural Gas Liquids (barrels) | | |
| Proven | 3,270,000 | |
| Probable | 2,167,000 | 5,437,000 |
| 1984 Production | | |
| Natural Gas (billion cubic feet) | | 5.3 |
| (million cubic feet per day) | | 14.6 |
| Oil (barrels) | | 679,338 |
| (barrels per day) | | 1,856 |
| 1984 Drilling | | |
| Total Wells | | 85 |
| Gas Completions | | 22 |
| Oil Completions | | 48 |
| Drilling | | 1 |

*See Note 6 in the Consolidated Financial Statements.

# Report to Shareholders

With this Annual Report, we mark a milestone in the corporate history of Bluesky Oil & Gas Ltd. This is the tenth anniversary of the Company's incorporation and the fifth anniversary for Bluesky's shares being listed for trading on a Canadian stock exchange. From a humble beginning in March of 1974, the Corporation has matured to a point where on the basis of net proven reserves it is ranked by an independent financial digest as the thirty eighth largest Canadian oil and gas company. The quality of our existing reserves, coupled with Bluesky's commitment to aggressive oil and gas exploration and development should result in continued growth for the company.

In Canada, it was another year of adjustment in energy policy. The amendment on the pricing of oil by the Alberta and Federal Governments had an excellent impact on the Company's earnings and cash flow. This policy change provided for the reclassification of special old oil to higher-priced new oil and for a redefinition and revised calculation of new oil prices. Such an adjustment affected 73% of Bluesky's oil production and its consequences will be felt by the Company for many years to come. During our second quarter, a volume related incentive price for natural gas exports to the United States was implemented by regulatory authorities. This change, when coupled with the ultimate realization by government that there is a need for Canada to develop a form of market sensitive pricing in order to increase natural gas sales to the United States, should have favourable long term impact on our gas reserves.

Fiscal 1984 was a year of solid progress in putting Bluesky on the road to sustained growth. Net Income for the year was $9,213,072 or 34¢ per share, a 72% increase over net income in the previous year. Cash flow, the yardstick used by the investment community for measuring oil and gas stocks, increased 59% from $11,573,791 or 45¢ per share in fiscal 1983 to $18,387,738 or 68¢ per share during fiscal 1984. The Company's 1984 production derived income, after accounting for Petroleum and Gas Revenue Tax (PGRT) increased 30% to $17,412,739. Bluesky's share of its average 78% interest in ten West German Energy Limited Partnerships added additional revenue of $4,555,270 for total production derived income of $21,968,009. Total revenue for the year was $23,498,972 as compared to $18,615,712 in 1983, a 26% increase.

For the past 12 months, we have concentrated our drilling activities on oil exploration and development mainly in Canada. As a result of that drilling, the Company added 1,570,000 barrels of oil reserves which at 1984 production rates, added 2.3 years of oil production to the Company's reserve life index. In addition, Bluesky added 1.09 billion cubic feet of natural gas to the Company reserves, 65% of which was located in the United States. During 1984, the Company's share of net crude oil and condensate production, before royalties, increased to 679,338 barrels, an average of 1,856 barrels per day while net natural gas production for the same period increased to 5.3 billion cubic feet, an average of 14.6 million cubic feet per day.

Bluesky's oil and gas reserves as at April 30, 1984 as calculated by independent engineering consultants reflect combined Canadian and United States oil reserves of 12,173,000 barrels and natural gas reserves of 251 billion cubic feet. For the first time natural gas liquids have been calculated as a separate reserve item to reflect the recent approval to strip liquids from our production in the Alberta Deep Basin. The Company's liquid natural gas reserves stand at 5.4 million barrels as at April 30, 1984. Total reserves of oil, natural gas and liquids have a future undiscounted cash flow estimated at $1,871,705,000. The present value of future cash flow attributable to these reserves, discounted at 15% is $320,518,000. Discounted at 20%, the present value of this cash flow is $229,482,000. Our undeveloped land which totals 352,680 net acres has been evaluated at a further $27,372,000 with no land value being attributed to our foreign holdings in Colombia.

During the year the Company participated in the drilling of 85 wells, resulting in 48 oil wells and 22 gas wells, for an overall success ratio of 82%. In Canada, the Company drilled 73 wells, 40 oil wells and 21 gas wells for a 83.5% success ratio. In the United States, Bluesky participated in 12 wells, resulting in 8 oil wells and 1 gas well for a 75% success ratio. One well was still drilling as at April 30, 1984. We will continue our concentration on oil plays and we expect that in fiscal 1985 60% of our wells will be drilled as development wells, while 40% will be drilled as exploratory tests.

Canada will experience a general election in September of 1984. Both leading parties have clearly stated that a review of energy policy ranks as a top priority if they are to form our next government. While it is true that this past year has seen positive amendments to the ill founded 1980 National Energy Program, further adjustments are necessary. A change in the fiscal regime regarding industry taxes, especially PGRT, the deductibility of royalties for tax purposes, and an increased write-off for the acquisition of mineral rights would greatly assist the industry by generating increased cash flow. In addition, a change in policy and/or government should have positive impact on the attitude of foreign investors toward Canadian investment. Either or both of these changes would be a positive step toward increasing activity within our industry.

No organization can succeed without the contribution of its staff. Bluesky is no exception to this statement and the Board of Directors extends its thanks to its employees who have worked hard to make 1984 a most successful year. Fiscal 1985 presents a new challenge in our attempt to achieve our goal of being an efficient well managed intermediate Canadian producer which offers its investors better than average potential for capital growth. Next year will be exciting as we adapt to the changing environment within the energy sector. Long term needs for oil and gas continue to make our industry attractive notwithstanding any short term weakness in the demand for product. At current rates of production, Bluesky has a life index of 18 years for oil and in excess of 50 years for natural gas. At projected rates of natural gas production our life index for liquids is 24 years. These assets should present to shareholders an attractive cash flow inventory and encouragement for the future.

We invite you to read the balance of this report and we look forward to further discussion on the affairs of the Company at our annual meeting to be held at Calgary in early October of this year.

On Behalf of the Directors

BARRY W. HARRISON
President & Chief Executive Officer

July 26, 1984
Calgary, Alberta

# *Exploration Highlights*

During the financial year ended April 30, 1984, the Company participated in the drilling of 85 wells which represents a 40% increase in drilling activity over the 51 wells drilled during the same period of fiscal 1983.

In Canada, the Company participated in the drilling of 73 wells which resulted in 40 oil wells and 21 gas wells for an 83.5% success ratio. In the United States, Bluesky participated in 12 wells resulting in eight oil wells and one gas well for a success ratio of 75%. One well was drilling as of April 30, 1984. It should be noted that the Company's success ratio reflects not only wells drilled by Bluesky but also wells drilled by industry competitors on the farmouts of Company acreage.

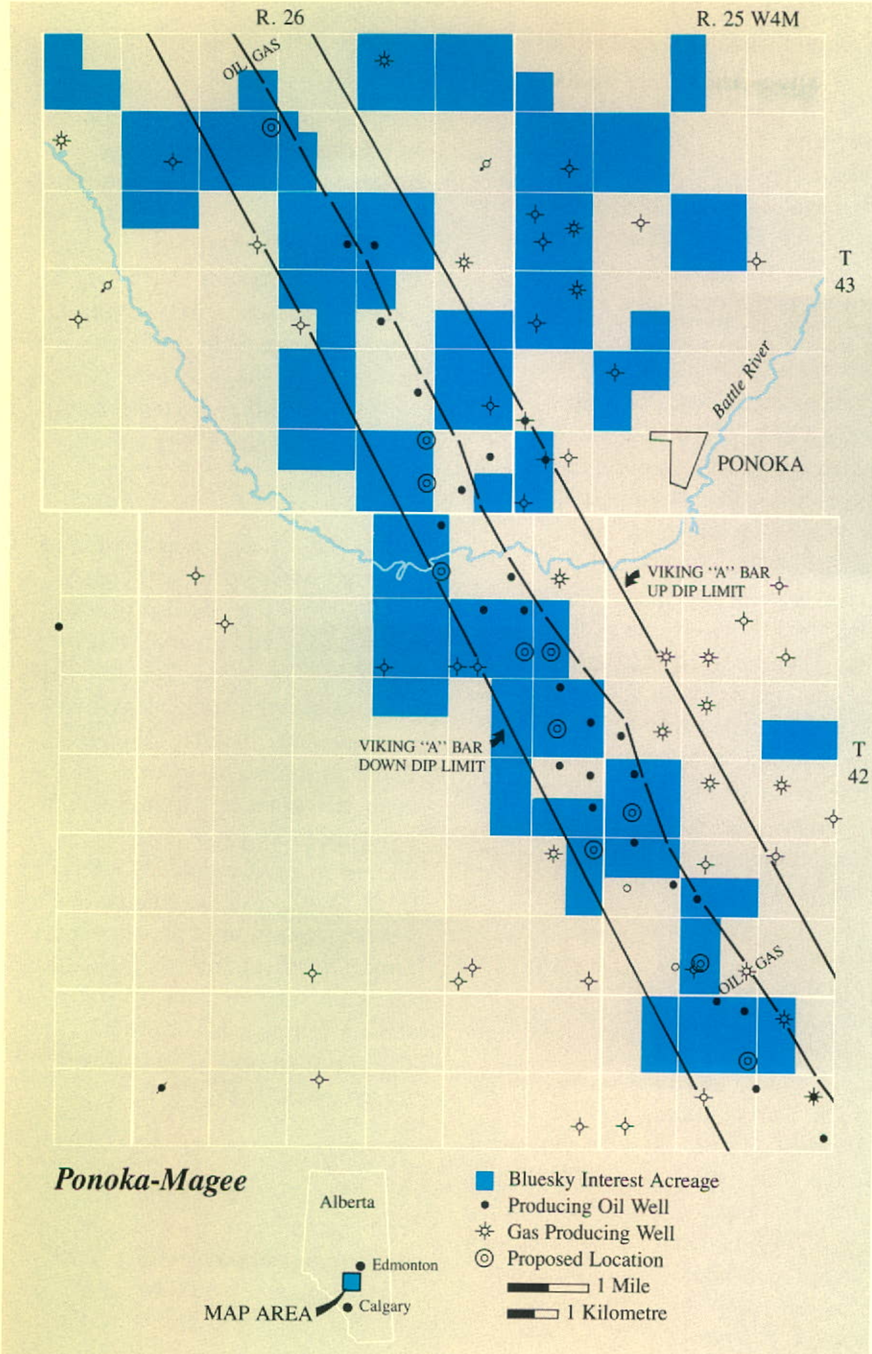
The Company's gross drilling budget for fiscal 1984 was $26,600,000 with Bluesky's net share equalling $5,900,000. In addition, we participated in seismic programs totalling $1,300,000 and expended $1,700,000 on the acquisition of new mineral rights. Capital expenditures on tangible equipment totalled $2,300,000. In fiscal 1985 our gross drilling budget will increase to $38,400,000 with Bluesky's net share equalling $10,300,000. Seismic programs are budgeted at $1,200,000, projected land acquisitions at $2,500,000 and tangible equipment acquisitions and/or capital projects at $3,100,000.

## NORTH AMERICA

### *Ponoka-Magee*

Our exploration and development program continued at Magee during fiscal 1984. Twelve wells were drilled and all were completed as oil wells which defined a new Viking oil pool. Bluesky will drill an additional twelve wells in this area prior to December 31, 1984. The Company is continuing to acquire leases along this trend on which approximately 10,000 acres have been secured since the initial discovery well was completed. Our working interest in the newly acquired acreage averages 40%.

Recoverable reserves, based on a 10% recovery factor, are estimated to be 142,000 barrels per 160 acre spacing unit with each well having an initial allowable of 50 barrels per day. This may vary slightly from well to well due to a variance in the gas/oil ratio. Allowables will increase when sufficient wells have been drilled to gain official pool status and as the reservoir quality is established from additional core data. Core data will also determine the feasibility of waterflood which should enhance both the ultimate recoverable reserves and daily allowables.




## *Undeveloped Land Holdings*
**As of April 30, 1984**

| | Gross | Net |
|---|---|---|
| **CANADA** | | |
| Alberta . . . . . | 520,212 | 110,745 |
| British Columbia . . | 169,354 | 22,426 |
| Saskatchewan | 1,920 | 755 |
| Sub-Total . . . | 691,486 | 133,926 |
| **UNITED STATES** | | |
| California . . . | 5,809 | 184 |
| Colorado . . . | 3,839 | 2,079 |
| Maryland . . . | 2,773 | 528 |
| Montana . . . . | 1,440 | 101 |
| Nebraska . . . | 4,080 | 1,318 |
| New Mexico | 80 | 80 |
| New York . . | 82,648 | 14,572 |
| North Dakota | 5,356 | 161 |
| Oklahoma . . . | 18,374 | 3,696 |
| Pennsylvania | 55,615 | 11,412 |
| Texas . . . . . . | 4,644 | 1,107 |
| West Virginia | 6,039 | 1,297 |
| Wyoming . . . | 2,039 | 592 |
| Sub-Total . . . | 192,736 | 37,127 |
| **JOINT VENTURE** | | |
| Canadian Joint Ventures . . . | 1,250,165 | 28,888 |
| US Joint Ventures . . . | 2,716,906 | 42,024 |
| Sub-Total . . . | 3,967,071 | 70,912 |
| **INTERNATIONAL** | | |
| Colombia . . . | 889,057 | 110,715 |
| TOTAL . . . . | 5,740,350 | 352,680 |

## *Utikuma Lake*

During fiscal 1984, Bluesky continued an aggressive exploration program throughout the Peace River Arch area of north-central Alberta. This resulted in the acquisition of 5,760 gross acres in which the Company's average working interest is 75%. We participated in the drilling of seven wells, resulting in four oil wells and three dry holes. In addition, 66 miles of seismic was shot in pursuit of the acquired acreage and in developing prospects on these lands. The Company will continue its exploration program during fiscal 1985 and we expect to participate in the drilling of nine wells in this general area. Prospects of specific interest are:

**a) Utikuma South — Gift**

In the past three years, the Company has drilled eight wells in this remote area resulting in five oil discoveries, two of which enjoy royalty-free status. An all-weather road was completed in October of 1983 which now permits year round production. Previously, production was limited to five months per year and thus the cash flow from these wells will double during the next twelve months. Three of the wells drilled have a production allowable of 80 barrels of oil per day while the remaining two wells drilled during the winter drilling season are awaiting re-completion following disappointing initial results. A thorough review of this prospect will be made before any further drilling takes place. Our geophysical information identifies the existence of three features on the Company's acreage and drilling on these prospects will be pursued during fiscal 1985. Bluesky has an average 36% interest in 32,480 acres in this prospect.

**b) Nipisi North West**

The most significant well in which Bluesky participated during fiscal 1984 was the Lsd. 14-7-81-8 W5M Keg River oil discovery located in this prospect. This well has estimated recoverable reserves of 985,000 barrels of oil on a 160 acre spacing unit. Bluesky has a 50% working interest in this discovery which was drilled on a 320 acre lease acquired in January of 1984. In addition, the Company acquired an average 80% interest in 3,680 acres within this general prospect area during fiscal 1984. It is anticipated that an offset well will be drilled once the production capabilities of the discovery well have been firmly established. On test, the well flowed at rates in excess of 800 barrels per day and it is expected that it will be assigned an allowable of 200 barrels per day. Similar results are expected from the offset location and if this well is successful, the possibility of a third location on adjoining acreage does exist.

**c) Utikuma North**

During fiscal 1983, the Company participated, to the extent of a 40% working interest, in the drilling of a Slave Point oil well at Lsd. 6-19-82-9 W5M. During the past winter,. additional seismic has been shot and a further offset well will be drilled during this coming year. Bluesky, in fiscal 1984, purchased a 50% working interest in an additional 1,760 acres, bringing its total holdings to 4,480 acres on this prospect. A second exploratory well is planned for fiscal 1985 to evaluate a seismic feature located on the Company's northern acreage within this prospect.

## *Chigwell*

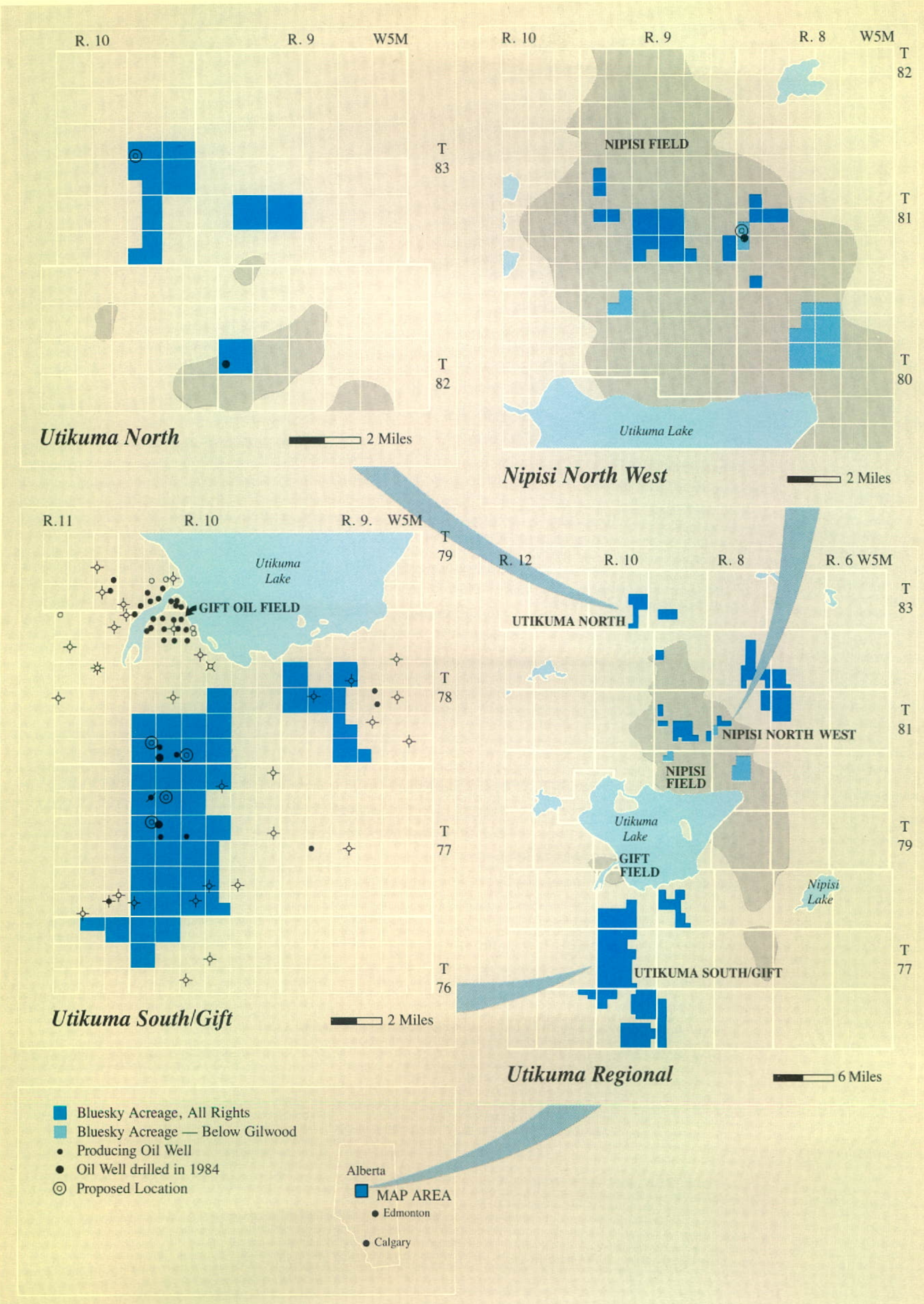
During 1984, the Company participated in two wells in the Chigwell area of central Alberta, both of which encountered a porous oil-bearing Leduc Reef. The wells have 35 feet of net oil pay with estimated recoverable reserves for the pool of 625,000 barrels. Bluesky has a net 17.9% and 16.4% working interest in these wells, which have a base allowable of 110 barrels per day. No further drilling is planned as two wells are sufficient to drain the pool.

## *Clairmont Lake*

At Clairmont Lake, in northwestern Alberta, the Company participated in the drilling of three wells offsetting the fiscal 1983 discovery located at Lsd. 6-10-73-6 W6M. The new wells all encountered porous oil-bearing dolomite in the Triassic Doig formation and all have been completed as oil wells. Each well has estimated recoverable reserves of 280,000 barrels and a daily allowable of 112 barrels. Bluesky has an 18.75% working interest after payout in the discovery well and an 18.75% working interest in the three offsets located on this ten section lease. It is anticipated that two additional wells will be drilled during fiscal 1985.

## *Josephine*

Bluesky, through its Limited Partnership interest, participated in the drilling of two oil wells in the Josephine area of northwestern Alberta bringing to nine the total number of producing oil wells on this prospect. The producing formation is the Boundary Lake Carbonate at a depth of 1,400 meters with average recoverable reserves of 113,000 barrels per spacing unit. This area is presently being unitized in order to place this production under waterflood thereby increasing the recoverable reserves and daily allowables. The Limited Partnership has a 16.875% working interest in 3,840 gross acres on this prospect.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Utikuma
Lake
GIFT
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Lake
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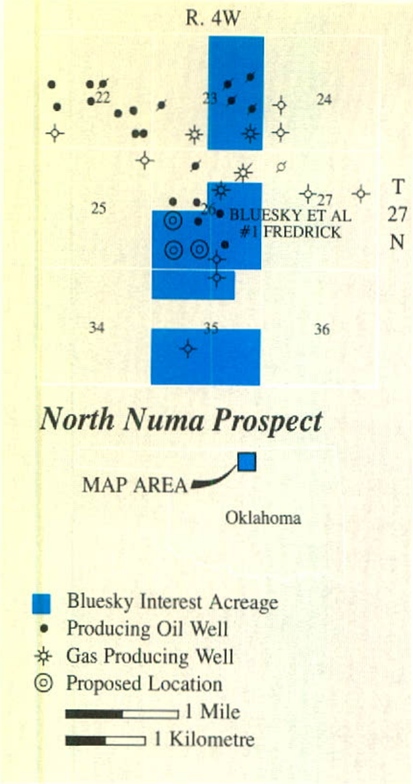
UTIKUMA SOUTH/GIFT
Utikuma Regional
6 Miles
Bluesky Acreage, All Rights
Bluesky Acreage — Below Gilwood
Producing Oil Well
Oil Well drilled in 1984
Proposed Location
Alberta
MAP AREA
Edmonton
Calgary




*North Numa Prospect*

### *North Numa, Oklahoma*

The Company's drilling activity in the United States was concentrated on the North Numa prospect in Grant County, Oklahoma. This drilling has resulted in the discovery of one gas well and three oil wells. The three oil wells each produce an average of 200 barrels per day adding a net 150 barrels a day to our U.S. subsidiary. Bluesky has a 25% interest in an additional 560 acres located on this prospect and we anticipate that three additional wells will be drilled during fiscal 1985.

## INTERNATIONAL OPERATIONS

### *Colombia, South America*

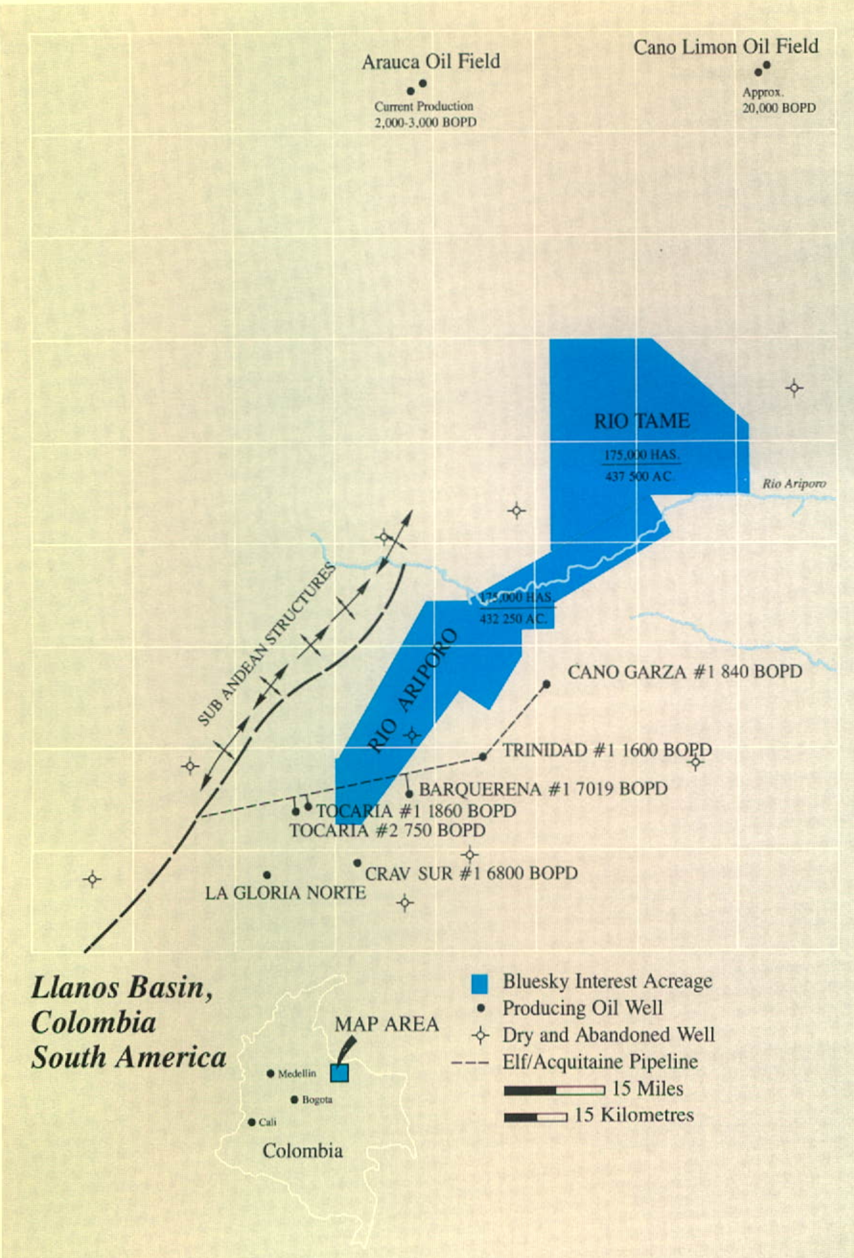
The initial well on the company's 432,000 acre block in the Llanos Basin of Colombia was dry and abandoned. This well represents the Company's first adventure into international exploration. Bluesky recovered substantially all of its costs associated with this prospect and was carried for a 5% working interest in the drilling of the initial test well on this contract. Further seismic will be conducted to evaluate our acreage at which time the Company will make a decision regarding future drilling. Our acreage remains geologically attractive with the Elf Aquitaine group having drilled five successful wells within ten miles of the Company's lands. These wells each averaged in excess of 3,000 barrels per day on test. Provided that a favourable seismic lead is located, one additional well, in which the Company will be a working interest partner, will be considered for fiscal 1985.

Subsequent to farming out the Rio Airporo concession, Bluesky acquired a 20% working interest in a second association contract in the Llanos Basin, the Rio Tame Contract, which encompasses 437,500 acres. This acreage is located between the Rio Airporo concession and three recently announced wells drilled by Occidental Petroleum which have each tested in excess of 11,000 barrels of oil per day. The Occidental discoveries are located approximately 20 miles north of Rio Tame in an identical geological environment. A major international oil explorer has shown serious interest in the geological and geophysical data covering this property and a formal seismic option agreement is currently being negotiated. If this contract is finalized, the major will shoot 200 kilometers of seismic at no cost to Bluesky and reimburse the Company for all its costs associated with the prospect. It will also acquire the right to drill and earn a 75% interest in the Rio Tame Contract. If a well is to be drilled it will be drilled during fiscal 1985.

## MINING

During the term of the Bluesky/Canyon Joint Venture, which was concluded late in fiscal 1983, Bluesky acquired a 60% interest in 19 prospects, 16 of which were successfully marketed to third parties in exchange for work commitments and advance royalty payments. A total of $1,050,000 U.S. was expended by third parties on exploration during the past 18 months on these mining properties. In addition, Bluesky received advance royalties of $156,000 U.S.

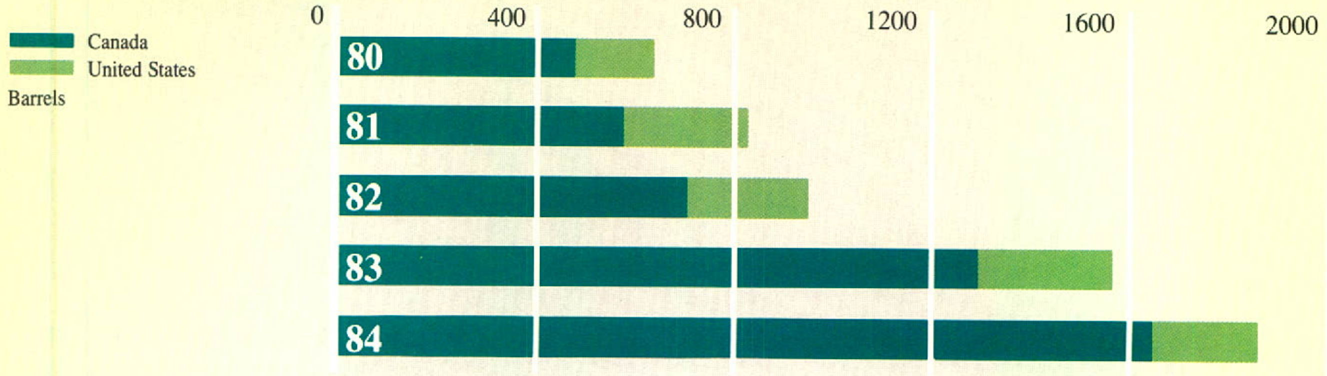
Last year's exploration program resulted in eight prospects encountering anomalous precious metal values while six properties were disappointing, eliminating the likelihood of future exploratory evaluations being conducted thereon. Two prospects are awaiting assay results. Exploration will continue on those properties showing encouragement and it is estimated that $500,000 U.S. will be expended on exploration efforts during fiscal 1985, all at no cost to Bluesky.



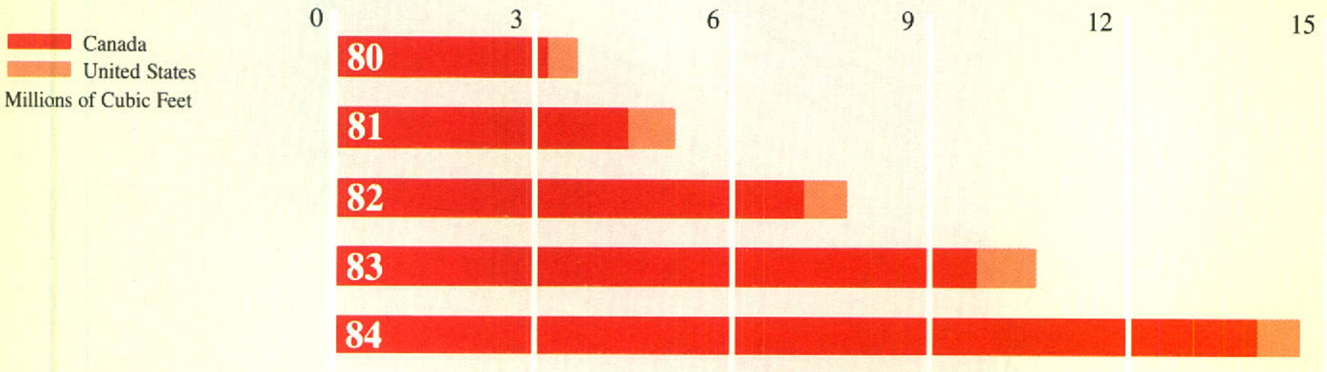

***Llanos Basin,***
***Colombia***
***South America***

In Australia, the Joint Venture in which Bluesky participates sold 12 gold properties to an Australian exploration company, Delta Gold N.L. The Joint Venture, in which the Company holds a 25% interest, received a cash consideration of $140,000 plus 9,000,000 shares and 9,000,000 warrants of Delta Gold. Delta Gold successfully concluded an underwriting in October, 1983, grossing approximately $3 million. The proceeds from that underwriting will be used to conduct exploration work on the acquired properties and on other gold properties held by Delta Gold. The Joint Venture holds an additional 55 mining properties in Australia, New Zealand and the South Pacific. Efforts will continue during the next twelve months to farm out these properties or, in the alternate, to arrange for third party financing to explore same. The acquisition stage of the Joint Venture will terminate on December 31, 1984. It is not the intent of Bluesky to enter further mining exploration programs and every effort will be made during the next year to sell our mining assets.

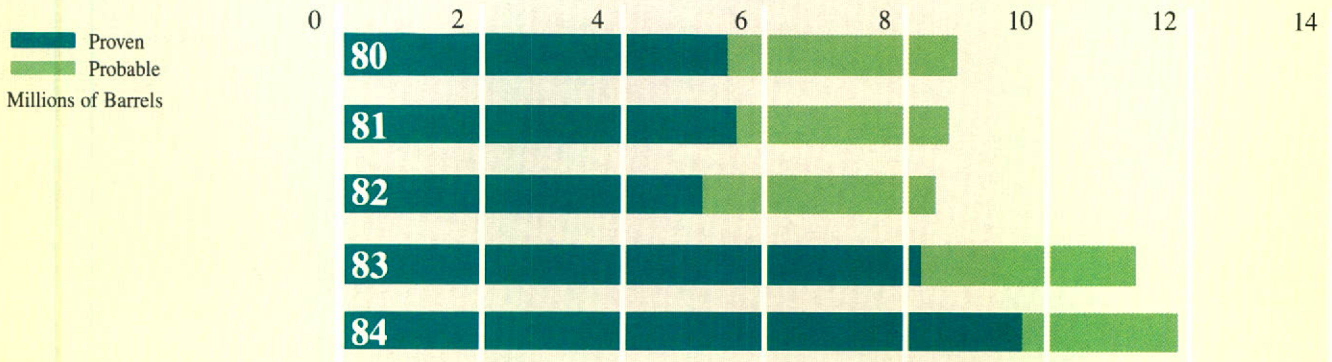
## *Average Daily Oil Production*



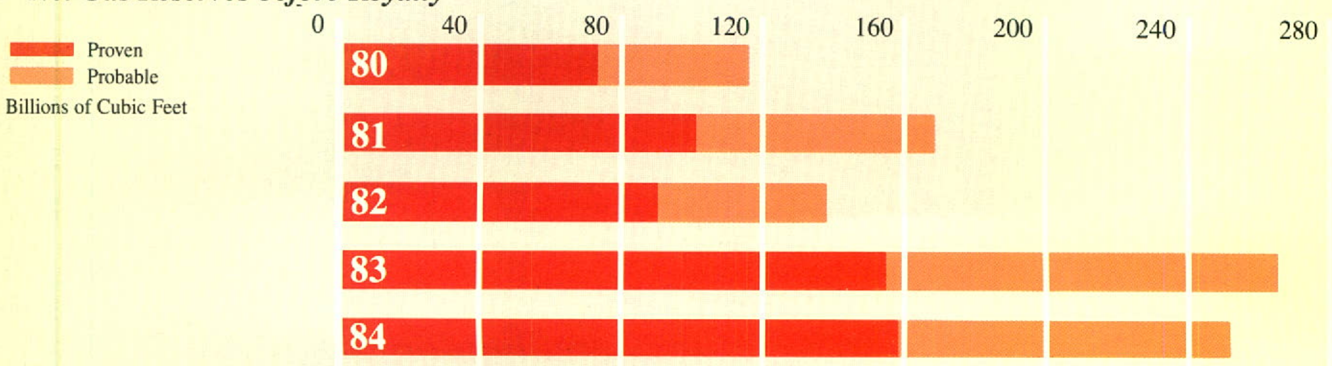

## *Average Daily Gas Production*




## *Net Oil Reserves before Royalty*




## *Net Gas Reserves before Royalty*



# *Operations — Production*

Alberta continues to be the major producing and drilling area for the company with our larger oil producing properties being located at Utikuma Lake, Winfield, Ponoka, Lacombe, Twining, Grande Prairie and Pembina. The majority of our natural gas is produced at Elmworth, Wapiti, Drumheller, Karr and Keg River.

In British Columbia the company has several excellent oil properties in the Stoddart and West Eagle area while Louise and Yo Yo are the major gas producers.

Oil production continues to increase at Steelman, located in Saskatchewan, and by fall this property will also be marketing natural gas.

## OIL PRODUCTION

Bluesky produced a total of 679,338 barrels of oil in the twelve months ending on April 30th, 1984, for an average of 1856 barrels per day, an increase of 18.9 percent over the previous year and an increase from two years ago of 98 percent.

Oil allowables in Alberta during the reporting period have been very constant with only May of 1983 being lower by 23 percent. This is a new trend in yearly oil allowables and reflects the fact that Canada is a net importer of oil and as a consequence, there is a steady domestic market for medium gravity crude oil. It is our expectation that allowables will remain relatively steady in future years.

On February 1st, 1984, the Alberta Minimum Allowable was increased from 31 to 50 barrels per day. This change will benefit the company on certain older producing wells but most particularly on our new wells in the Ponoka Magee area.

At Ponoka in Central Alberta, the company placed seven new oilwells on production late in the current year so their contribution to the year's total production was not large but they will add substantially to the coming year. These wells produce on minimum allowable and Bluesky has an average working interest of 38 percent. Drilling is continuing and the addition to the company's production will be significant in the 1985 corporate year.

## GAS PRODUCTION

Natural gas production for the year totalled 5,339 million cubic feet for a daily average of 14.58 million cubic feet, an increase of 38.5 percent from the previous year.

This production reflects the dramatic effect that cold weather during the winter months had on the market for Alberta natural gas with contract nominations being near maximum levels for the period December through February. This increased level of production is reflected favourably in the company's production revenue.

In the coming year we expect the market for Canadian natural gas to remain at a level of approximately 50 percent of contracted volumes. A return to normal winter temperatures in the winter of 1984-85 would increase market demand and result in average production volumes higher than we currently anticipate. We do not expect the export market to the United States to improve substantially until their domestic supply-demand volumes approach a balanced position. There are many factors which will affect the timing of an improvement in the export market; the two main ones being the level of economic growth in the United States and the rate at which they develop new large volumes of natural gas reserves. It is our expectation that export sales to the United States will start improving in the 1986-88 period.

## RESERVES

The company's reserves of crude oil, natural gas liquids, and natural gas at April 30th, 1984, were determined by independent consulting engineers to be 12,173,100 barrels of oil, 5,436,500 barrels of natural gas liquids, and 251 billion cubic feet of natural gas which will generate an undiscounted future cash flow of $1,871,705,500. The present value of this future cash flow discounted at 15 percent is $320,518,400.

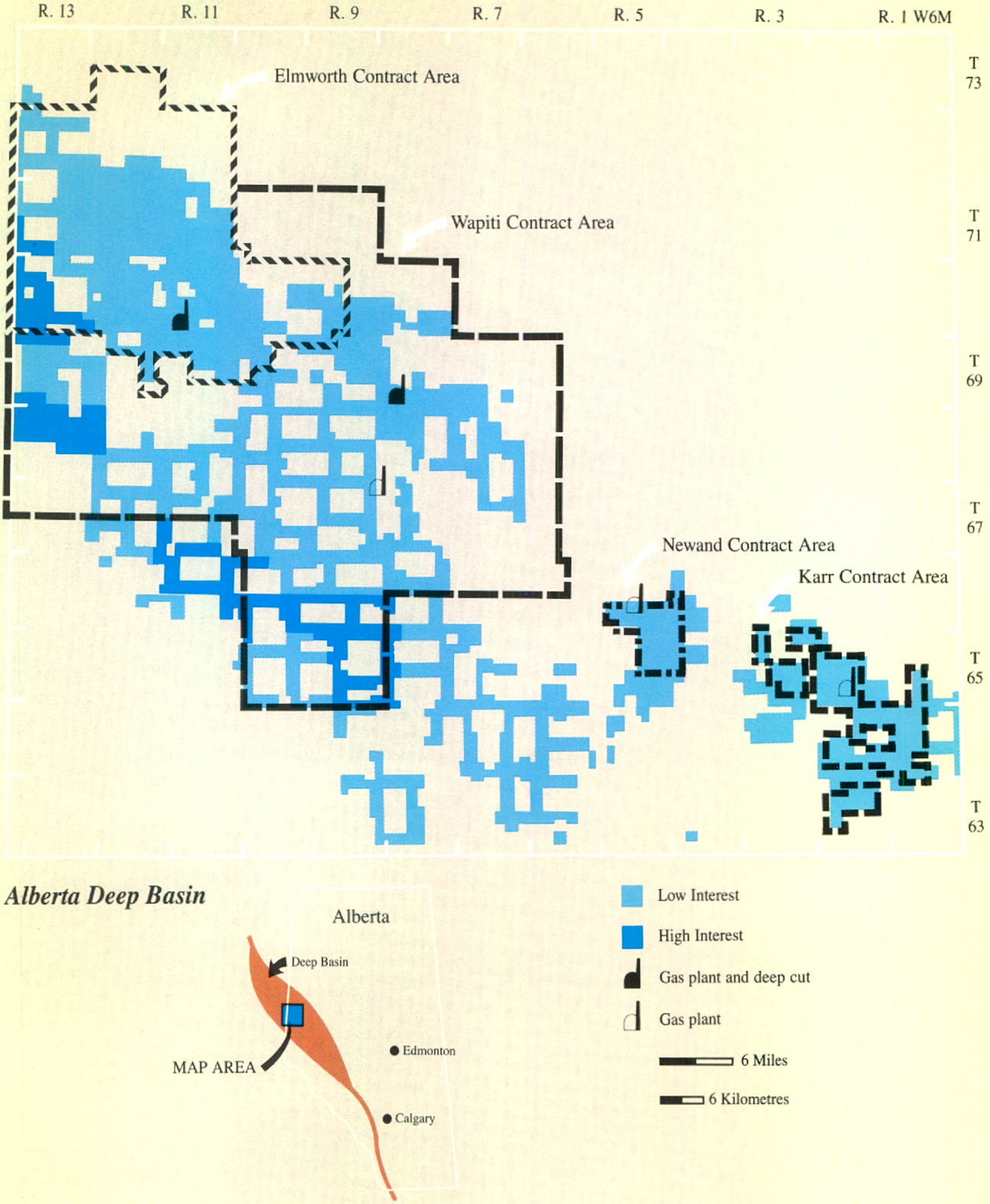
In this report Bluesky is reporting natural gas liquids reserves as a separate total for the first time. In previous reports natural gas liquids were included in the crude oil reserves but now with the construction of extraction facilities in the Deep Basin area these liquids become so significant that they are being reported separately. This is more fully explained under the discussion of the Deep Cut Facilities later in this report.

Bluesky's reserves of crude oil have increased by 7.3 percent from year ago levels after replacement of the year's production. If crude oil and natural gas liquids are added together the total reserves are 17,609,600 barrels which is a 55 percent increase since April 30th, 1983. Natural gas reserves have been reduced by 5.3 percent from year ago levels mainly as a result of a projection of shrinkage which will occur due to the extraction of natural gas liquids when the Deep Cut Facilities are in operation.

## OPERATIONS

Approval was received during August, 1983 from the various regulatory agencies for the construction of Deep Cut Facilities in both the Elmworth and Wapiti gas contract areas. These plants have been designed and the construction phase is proceeding with a target date of June 1985 for the commencement of operations.

At Elmworth 93 gas wells have been drilled of which 50 are connected by gathering system to a gas plant with a maximum capacity of 575 million cubic feet per day of raw gas of which 275 million cubic feet per day will be processed through the Deep Cut Facility. When fully operational, the Deep Cut will increase extraction capacity to 15,200 barrels per day of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T 73
T 71
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T 67
T 65
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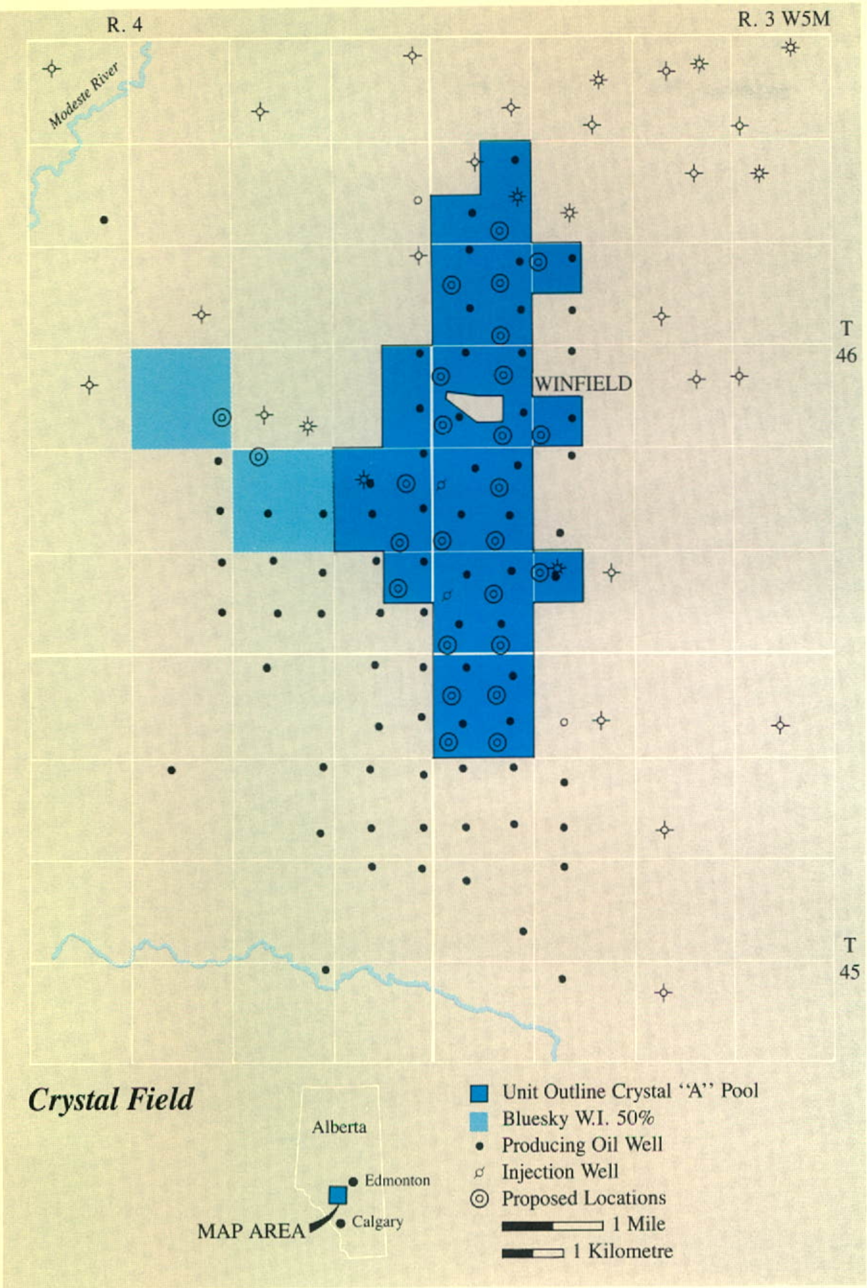
Elmworth Contract Area
Wapiti Contract Area
Newand Contract Area
Karr Contract Area
Alberta Deep Basin
Alberta
Deep Basin
MAP AREA
Edmonton
Calgary
Low Interest
High Interest
Gas plant and deep cut
Gas plant
6 Miles
6 Kilometres




natural gas liquids of which Bluesky's net capacity will be 600 barrels per day.

At Wapiti the company has an interest in 90 gas wells, 31 of which are tied into the production facilities. The Wapiti Deep Cut will have a maximum capacity of 320 million cubic feet per day of raw natural gas from which approximately 15,800 barrels per day of liquids can be extracted giving Bluesky a net capacity of 285 barrels per day.

Bluesky's share of the cost of the two deep cut facilities will be $1,248,000 and will give the company the capacity to extract up to 885 barrels per day of natural gas liquids when the plants are fully operational.

Due to the depressed gas markets in North America we expect throughput at these plants to be in the range of 50 to 60 percent of gas contract volumes during the first year of operation, resulting in an estimated 450 barrels per day to the company's account. As gas markets improve and deliverability increases, the plant capacity will be available to process the additional volumes.

Unitization of the Crystal Field at Winfield in Central Alberta became effective on April 1st, 1984, and work is proceeding to install production and water flood facilities and to complete the drilling of 26 infill wells which will develop most of the unitized area on 80 acre spacing. It is expected that water injection will start in September of this year. Ultimate oil recovery from this project is expected to be between 26 and 31 million barrels, netting Bluesky 1.9 to 2.3 million barrels of production over the life of the project. Primary production is currently averaging 2200 barrels per day and is predicted to increase to in excess of 5000 barrels per day when the water flood becomes fully effective. Bluesky's 7.5 percent interest will result in peak production, near 400 barrels per day, for the company's account. This will double the company's current daily production rate from this property.

Exploration drilling is continuing in the Winfield Area and Bluesky has participated in two wells offsetting the Unitized Area and two additional wells are planned for this summer. The company owns a 50 percent working interest in these wells and if successful they will add significantly to our oil production and to our reserves.

On August 1st, 1983 water injection commenced at the Steelman North Midale Unit in Saskatchewan in which Bluesky owns a 25 percent working interest. This unit currently produces 500 barrels per day and to increase the rate of response to the water flood, two additional water injection wells will be activated this summer. Construction is currently underway on gas conservation facilities which will provide for the sale of solution gas at 1.5 million cubic feet per day and add substantially to the production revenue.

# *Financial Review*

During the past year the Company continued its dramatic growth in production income, net income and cash flow while continuing to maintain tight controls over operating expenses and overhead.

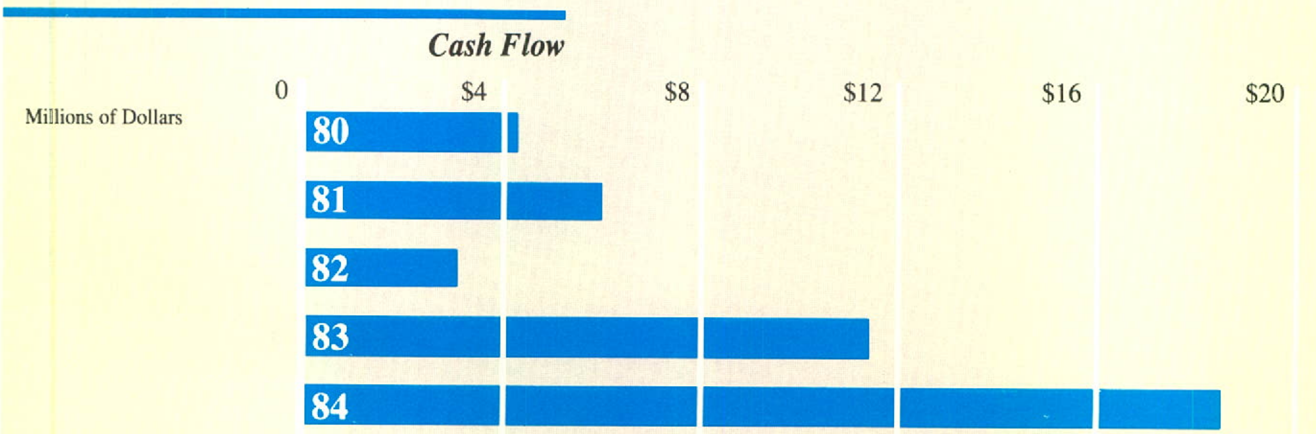
The 72% growth in net income, to an all-time record of $9,213,072, again reflects an increase in each quarter over the previous year, as follows (thousands of dollars):

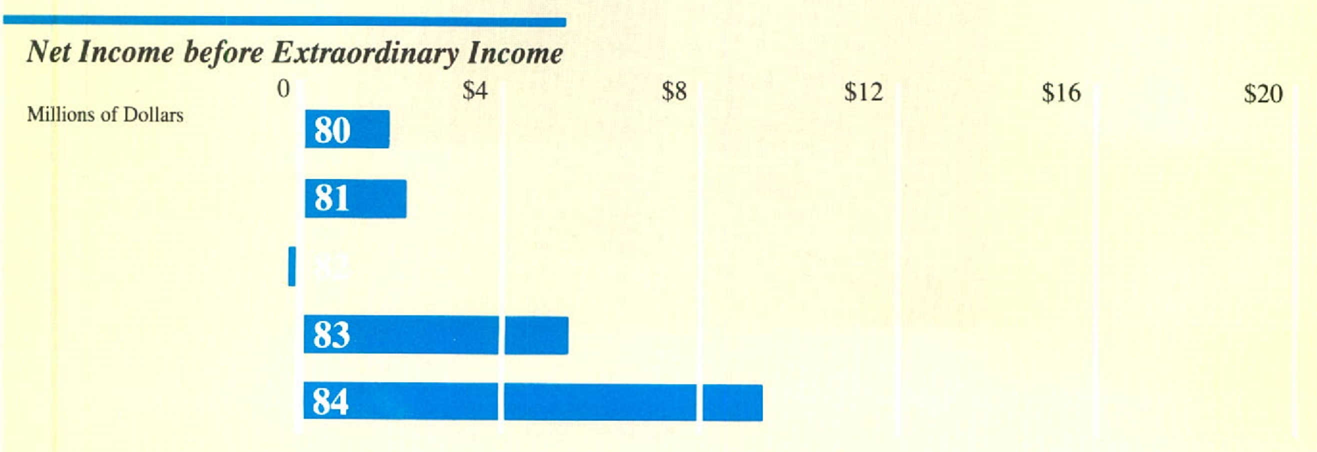
| **Net income** | **1984** | **1983** |
|---|---|---|
| First Quarter . . . . . . | **$1,528** | $ (47) |
| Second Quarter . . . . | **2,110** | 1,989 |
| Third Quarter . . . . . | **2,513** | 1,846 |
| Fourth Quarter . . . . | **3,062** | 1,557 |
| TOTAL . . . . . . . . | **$9,213** | $5,345 |

The continued increase in the Company's quarterly net income, as shown above, is the result of the very successful drilling program which resulted in 48 oil wells and 22 gas wells, with the oil wells providing immediate production income. The Company's average net ownership participation has increased to 24%, which is in accordance with the Company's objective set approximately two years ago, and resulted in a total addition of 1,570,000 barrels of oil reserves. As a result of the past year's drilling, an additional 600,000 barrels of oil was transferred to "proven status" from "probable status" which also has added substantially to the present worth of our reserves. Bluesky's oil production averaged 2,062 barrels per day in the last quarter of 1984, and is budgeted to average 2,400 barrels per day for our fiscal year 1985 based on wells completed as at March 31, 1984.

The Company also continued a very tight budgeted control of its capital expenditures during the year, in accordance with the Company's objective to limit the capital expenditures to the amount of our cash flow. Due to our 1984 production income exceeding budget, the long-term debt was reduced during the year by $2,561,140 to $39,567,570.

Subsequent to the year end, on July 3, 1984, the Company received $2,418,723 as the initial payment under an Agreement for the redemption of the Company's investment in preferred shares which has also been applied to reduce that bank debt. Under the terms of the Agreement, the Company also



received irrevocable bank letters of credit for $2,828,368 due January 31, 1986 and $2,457,714 due January 31, 1987 which will result in a gain on the redemption of $192,235 which will be reported in the first quarter of 1985.

The Company has budgeted for the redemption of its 1,190,924 Series A preferred shares presently outstanding which must be redeemed on September 30, 1984 at $5.00 per share (for a total of $5,954,620) if they have not been converted to common shares as at that date. The proceeds from the early redemption of the Company's investment in preferred shares has been designated to partially finance the redemption of the Series A preferred shares which, together with the 1984 reduction of the bank debt, should result in a relatively small increase in interest expense during 1985. The recent increases in the bank prime rate to 13½% appears to have levelled off and with the expected positive effect of the Federal election in Canada on modifications to the Natural Energy Program and to changes to the foreign investment rules, the Company has budgeted that interest rates will not continue to increase and could decline slightly due to the U.S. election in November, 1984.

The Company will continue its financial and budget controls and projects a continued growth in gross revenue, net income and cash flow for the 1985 fiscal year as follows (thousands of dollars):

| | **Projected 1985** | **Actual 1984** |
|---|---|---|
| Gross revenue . . . | **$29,700** | $23,499 |
| Net income . . . . . | **12,000** | 9,213 |
| Cash flow from operations . . . . | **23,200** | 18,388 |

The above projections for 1985 were prepared based on the following assumptions:

(1) Production derived income is entirely from completed wells as at March 31, 1984.

(2) Crude oil and gas prices and production rates:

**Oil Pricing (per barrel)**

| | |
|---|---|
| Canadian — COOP | $29.00 |
| Canadian — NORP | 38.50 |
| U.S.A. | 30.25 |

**Gas Pricing (per MCF)**

| | |
|---|---|
| Canadian — Alberta | $ 2.83 |
| — B.C. — New | 1.87 |
| — B.C. — Old | 1.81 |
| U.S.A. | 3.50 |

**Gas Production (% of contract)**

| | |
|---|---|
| Alberta | 50% |
| B.C. | 52% |

(3) U.S. exchange rate to Canadian funds has been estimated at 1.23:1 for the year.

(4) Interest expense has been calculated at the bank prime rate and has been projected to average 11½% for Canadian funds and 12% for U.S. funds for the year.

(5) Alberta Royalty Tax Credit has been calculated at the reduced maximum claim of $2,000,000.

(6) All Series A preferred shares to be redeemed September 30, 1984.

(7) No cash distributions from Limited Partnerships have been projected for 1985.

Bluesky Oil & Gas Ltd.

# *Consolidated Five Year Summary*

**For the Years Ended April 30.**

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|---|---|---|---|---|
| | (Thousands of Dollars) | | | | |
| **Financial** | | | | | |
| Earnings | | | | | |
| Production derived income, net of royalties | **$ 17,413** | $ 13,441 | $ 9,649 | $ 8,021 | $ 3,434 |
| Total revenue | **$ 23,499** | $ 18,615 | $ 14,656 | $ 11,074 | $ 6,387 |
| Net income (loss) before extraordinary income | **$ 9,213** | $ 5,345 | $ (144) | $ 2,170 | $ 1,605 |
| Cash flow from operations | **$ 18,388** | $ 11,574 | $ 3,231 | $ 6,653 | $ 4,221 |
| Earnings (loss) per share, before extraordinary income | **34.0¢** | 19.9¢ | (6.6)¢ | 11.5¢ | 8.9¢ |
| Cash flow per share | **67.9¢** | 45.0¢ | 15.8¢ | 40.6¢ | 30.1¢ |
| | (Thousands of Dollars) | | | | |
| Capital | | | | | |
| Property and equipment | **$213,152** | $197,359 | $151,161 | $108,116 | $ 95,830 |
| Total assets | **$221,881** | $204,747 | $179,041 | $187,866 | $136,984 |
| **Operational** | | | | | |
| Reserves | | | | | |
| Natural gas (million cubic feet) | **250,754** | 263,900 | 147,530 | 168,900 | 116,600 |
| Oil (thousands of barrels) | **12,173** | 11,342 | 8,453 | 8,609 | 8,688 |
| Natural gas liquids (thousands of barrels) | **5,437** | — | — | — | — |
| Year's production | | | | | |
| Natural gas (million cubic feet) | **5,339** | 3,845 | 2,797 | 1,872 | 1,016 |
| (million cubic feet per day) | **14.59** | 10.53 | 7.66 | 5.13 | 2.77 |
| Oil (thousands of barrels) | **679** | 569 | 342 | 297 | 162 |
| (barrels per day) | **1,856** | 1,560 | 937 | 812 | 443 |
| Drilling | | | | | |
| Total wells | **85** | 51 | 126 | 297 | 242 |
| Gas completions | **22** | 15 | 43 | 145 | 125 |
| Oil completions | **48** | 28 | 49 | 95 | 73 |
| Success ratio (percentage) | **82%** | 84% | 76% | 81% | 82% |
| Land holdings | | | | | |
| Gross (thousand acres) | **5,740** | 7,994 | 13,005 | 12,843 | 8,913 |
| Net (thousand acres) | **353** | 479 | 415 | 480 | 499 |

Bluesky Oil & Gas Ltd.

# *Consolidated Financial Statements*

**Year Ended April 30, 1984**

**Bluesky Oil & Gas Ltd.**

# *Consolidated Balance Sheet*

**As At April 30, 1984**

| | 1984 | 1983 (Note 2) |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash in bank | **$ 78,425** | $ 80,357 |
| Accounts receivable, trade | **9,825,621** | 6,997,785 |
| Alberta royalty tax credit receivable | **465,143** | 1,542,523 |
| Investment in shares, at cost (Note 5) | **2,286,246** | — |
| Marketable securities, (market value $107,755; $3,750) | **107,755** | 3,750 |
| Inventories | **208,786** | 543,996 |
| Current portion of loans receivable | **2,620,562** | 2,028,684 |
| Prepaid expenses | **99,452** | 130,721 |
| Share of Limited Partnerships' working capital (Note 3) | **3,492** | — |
| | **15,695,482** | 11,327,816 |
| Property and equipment, at cost | | |
| Petroleum and natural gas properties including well development expenditures | **148,719,257** | 136,494,273 |
| Share of Limited Partnerships' petroleum and natural gas properties (Note 3) | **38,454,311** | 36,551,046 |
| Plant and equipment (Note 4) | **23,298,139** | 21,494,754 |
| Mineral properties | **2,680,203** | 2,818,615 |
| | **213,151,910** | 197,358,688 |
| Less accumulated depreciation and depletion | **14,399,601** | 10,798,838 |
| | **198,752,309** | 186,559,850 |
| Loans receivable on sale of petroleum and natural gas properties | **30,922,669** | 31,144,822 |
| Less deferred net income thereon | **30,922,669** | 31,144,822 |
| | **—** | — |
| Other assets | | |
| Other loans receivable | **1,383,911** | 180,502 |
| Notes receivable (Note 12(b)) | **1,657,000** | — |
| Investment in shares, at cost (Note 5) | **4,392,282** | 6,678,528 |
| | **7,433,193** | 6,859,030 |
| | **$221,880,984** | $204,746,696 |

On Behalf Of The Board

Director

Director

The accompanying notes form an integral part of this statement.

| | 1984 | 1983 (Note 2) |
|---|---|---|
| **Liabilities** | | |
| Current | | |
| Accounts payable and accruals | **$ 14,189,364** | $ 6,914,534 |
| Deposit on future services | **195,506** | 658,782 |
| Deferred income | **212,189** | 234,171 |
| Petroleum and gas revenue tax payable | **849,194** | 491,278 |
| Income tax payable | **80,310** | — |
| Notes payable | — | 20,222 |
| Share of Limited Partnerships' working capital deficiency | — | 3,668,372 |
| | **15,526,563** | 11,987,359 |
| Deferred take-or-pay income | **6,773,625** | 6,693,474 |
| Deferred income taxes | **18,646,134** | 12,793,925 |
| Long term debt (Note 7) | **39,567,570** | 42,128,710 |
| Deferred exchange gain | **50,868** | — |
| | **80,564,760** | 73,603,468 |
| **Shareholders' Equity** | | |
| Share capital (Note 6) | | |
| Common | | |
| Authorized | | |
| 100,000,000 shares without par value | | |
| Issued and outstanding | | |
| 25,328,379 shares | **109,599,680** | 108,994,876 |
| Preferred | | |
| Authorized | | |
| 3,000,000 shares with a par value of $5.00 each | | |
| Issued and outstanding | | |
| 1,190,924 7% Series A cumulative redeemable convertible shares | **5,954,620** | 5,954,620 |
| Contributed surplus (Note 6 A(c)) | **771,945** | — |
| Retained Earnings | **24,989,979** | 16,193,732 |
| | **141,316,224** | 131,143,228 |
| | **$221,880,984** | $204,746,696 |

Bluesky Oil & Gas Ltd.

# *Consolidated Statement of Income and Retained Earnings*

**For The Year Ended April 30, 1984**

| | 1984 | 1983 (Note 2) |
|---|---|---|
| Revenue | | |
| Production derived income, net of royalties | **$17,412,739** | $13,441,299 |
| Turnkey drilling and land net income | **268,413** | 548,040 |
| Management fees | **104,112** | 65,172 |
| Interest income | **174,550** | 211,155 |
| Dividend income | **514,405** | 514,405 |
| Other income | **469,483** | 224,210 |
| Share of Limited Partnerships' income (Note 3) | **4,555,270** | 3,611,431 |
| | **23,498,972** | 18,615,712 |
| Expenses | | |
| Production | **1,608,778** | 1,538,825 |
| General and administrative | **1,719,224** | 1,945,918 |
| Interest | **4,997,696** | 6,688,943 |
| Lease carrying costs of exploratory properties | **—** | 1,169 |
| Depletion and depreciation | **2,944,950** | 2,573,540 |
| | **11,270,648** | 12,748,395 |
| Net income before exchange loss and income tax | **12,228,324** | 5,867,317 |
| Exchange loss, net of $395,352 of deferred tax | **—** | 922,489 |
| Net income before income tax | **12,228,324** | 4,944,828 |
| Income tax | | |
| Alberta royalty tax credit | **(2,992,940)** | (3,791,290) |
| Income tax provision (Note 8) | **6,008,192** | 3,391,425 |
| Net income | **9,213,072** | 5,344,693 |
| Retained earnings, beginning of period | **16,193,732** | 11,297,064 |
| Preferred share dividends | **(416,825)** | (416,825) |
| Issuance cost of shares | **—** | (31,200) |
| Retained earnings, end of period | **$24,989,979** | $16,193,732 |

The accompanying notes form an integral part of this statement.

Bluesky Oil & Gas Ltd.

# Consolidated Statement of Changes in Financial Position

**For The Year Ended April 30, 1984**

| | 1984 | 1983 (Note 2) |
|---|---|---|
| Financial resources were provided by | | |
| Operations | | |
| Net income | $ 9,213,072 | $ 5,344,693 |
| Add non-cash items | | |
| Depletion and depreciation | 3,600,763 | 3,234,023 |
| Deferred income tax | 5,573,903 | 2,995,075 |
| | 18,387,738 | 11,573,791 |
| Proceeds on sale of securities | 1,057,000 | — |
| Less notes applicable thereto | (1,057,000) | — |
| | — | — |
| Decrease in loans receivable | 222,153 | 2,789,311 |
| (Decrease) in deferred income thereon | (222,153) | (2,789,311) |
| | — | — |
| Increase in deferred take-or-pay | 80,151 | 5,271,302 |
| Increase in deferred exchange gain | 44,123 | — |
| Proceeds on issue of shares | | |
| Common | 604,800 | 1,000 |
| Less notes applicable thereto | (600,000) | (1,000) |
| | 4,800 | — |
| Decrease in other loans | — | 36,100 |
| Decrease in investment in shares | 2,286,246 | 556 |
| | 20,803,058 | 16,881,749 |
| Financial resources were used for | | |
| Purchase of property and equipment | | |
| Petroleum and natural gas properties | 12,224,984 | 7,481,512 |
| Plant and equipment | 1,803,385 | 1,253,093 |
| Mineral properties, net of recoveries | (138,412) | 911,943 |
| Share of Limited Partnerships' petroleum and natural gas properties | 1,903,265 | 3,678,018 |
| | 15,793,222 | 13,324,566 |
| Acquisition of interest in Limited Partnerships | — | 32,873,028 |
| Less common shares issued | — | 29,046,499 |
| | — | 3,826,529 |
| Increase in other loans receivable | 1,203,409 | — |
| Purchase of common shares | — | 1,008,063 |
| Less reduction of notes applicable thereto | — | 964,863 |
| | — | 43,200 |
| Decrease in long-term debt | 2,561,140 | 2,189,290 |
| Issuance cost of shares | — | 31,200 |
| Preferred share dividend | 416,825 | 416,825 |
| | 19,974,596 | 19,831,610 |
| Increase (decrease) in working capital | 828,462 | (2,949,861) |
| Working capital (deficiency), beginning of period | (659,543) | 2,290,318 |
| Working capital (deficiency), end of period | $ 168,919 | $ (659,543) |

The accompanying notes form an integral part of this statement.

# *Notes to Consolidated Financial Statements*

**As At April 30, 1984**

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements have been prepared based on the April 30, 1984 financial statements of the Company and its wholly-owned subsidiaries Bluesky Oil & Gas Inc. and Bluesky Mining Ltd.

### Translation of foreign subsidiary accounts

The accounts of the Company's wholly-owned United States subsidiary Bluesky Oil & Gas Inc. have been translated to Canadian dollars on the following basis:

| | Classification | Rate of Exchange |
|---|---|---|
| a) | Current assets and liabilities | — rates in effect at balance sheet date |
| b) | Loans receivable and deferred income thereon | — rates in effect at balance sheet date |
| c) | Other non-current assets and liabilities | — historic rates in effect when incurred |
| d) | Revenue and expense accounts | — average rate in effect throughout the year. |

Unrealized exchange gains are deferred until earned, at which time they are recorded in income.

### Sale of interest in petroleum and natural gas properties

The Company has sold its interest in various petroleum and natural gas properties pursuant to a number of drilling program agreements. Under the terms of the agreements, the amounts receivable by the Company are due in annual installments over a period of 30 years commencing in 1978, 1979, 1981, 1982 and 1985. Because of the extended period over which these amounts are due, the Company intends to recognize income from the sale of its interests in these petroleum and natural gas properties in the year in which payments are received.

Under the various drilling program agreements, the Company earns an income calculated as the amount by which from 18% to 40% of the annual net production revenue to the purchaser from each petroleum and natural gas well, sold under the agreements, exceeds the loan principal payable during the year.

### Costs of interests in petroleum and natural gas properties

The Company accounts for its investment in exploration and development activities under the full cost method of accounting. All costs related to the acquisition and development of petroleum and natural gas properties are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease costs on non-producing properties, costs of drilling both productive and non-productive wells, and overhead related to exploration activities. These costs are reduced by the proceeds from the sale of oil and gas properties and by government grants.

### Mineral properties

Acquisition and exploration costs of mineral properties are capitalized pending further development of the properties and accordingly the recovery of this investment is dependent upon the discovery of mineral reserves in commercial quantities. These costs are reduced by royalty advances received pursuant to various farmout agreements.

### Inventories

Inventories consist of oilfield supplies and are carried at the lower of cost and net realizable value.

### Depletion

Exploration and development costs are accumulated in a North American cost centre and depleted under the revenue method of depletion.

### Depreciation

Depreciation of plant and equipment is provided under the straight-line method at rates considered to be sufficient to amortize the costs of these assets over their estimated useful lives.

**Deferred income**

Deferred income is comprised of drilling, geological and management fee income to be earned pursuant to various drilling program agreements. The Company follows the completed-well method of accounting for drilling income and costs, pursuant to the various drilling program agreements. Under this method the income and costs thereon of each well are deferred until the well is completed and all costs pertaining thereto have been approved and recorded, at which time they are taken into income. Management fee income is deferred until the well is spudded, at which time it is taken into income.

**Income Taxes**

The Company follows the tax allocation method of accounting for income taxes. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are deferred by claiming capital cost allowance and expensing exploration and development costs, for tax purposes, in excess of the depreciation and depletion provisions reflected in the financial statements.

## 2. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the current year's presentation.

## 3. INVESTMENT IN LIMITED PARTNERSHIPS

The Company holds interests in ten West German Limited Partnerships varying from 66.0% to 84.6% of the total Limited Partnerships' interest. Accordingly, the Company has recorded its proportionate share of increases and decreases of the Limited Partnerships' assets, liabilities and earnings since acquisition.

The Company's proportionate share of increases and decreases of the Limited Partnerships' assets, liabilities and earnings for the year ended April 30, 1984 are as follows:

**A. Investment in Limited Partnerships**

| | Share Of Working Capital (Deficiency) | Share Of Petroleum and Natural Gas Properties | Total |
|---|---|---|---|
| As at April 30, 1983, net | $(3,668,372) | $35,889,915 | $32,221,543 |
| Share of net income May 1, 1983 to April 30, 1984 | 4,555,270 | — | 4,555,270 |
| Share of petroleum and natural gas property additions | (1,903,265) | 1,903,265 | — |
| Depletion expense | 655,813 | (655,813) | — |
| Company's proportionate share of interest income eliminated against interest expense paid by the Company | 364,046 | — | 364,046 |
| As at April 30, 1984, net | $ 3,492 | $37,137,367 | $37,140,859 |
| Accumulated depletion as at April 30, 1984 | | 1,316,944 | |
| As at April 30, 1984, gross | | $38,454,311 | |

**B. Share of Limited Partnerships' income**

| | Year Ended Apr. 30, 1984 | Sixteen Months Ended Apr. 30, 1983 |
|---|---|---|
| Revenue | | |
| Production derived income, net of royalties | **$10,404,500** | $9,520,809 |
| Interest income | **232,179** | 180,840 |
| Other income | **80,565** | 172,978 |
| | **10,717,244** | 9,874,627 |
| Expenses | | |
| Production | **1,516,402** | 1,815,319 |
| General and administrative | **1,168,374** | 1,539,881 |
| Interest | **2,821,385** | 2,246,865 |
| Depletion | **655,813** | 661,131 |
| | **6,161,974** | 6,263,196 |
| Share of Limited Partnerships' income | **$ 4,555,270** | $3,611,431 |

## 4. PLANT AND EQUIPMENT

| | April 30, 1984 | | | April 30, 1983 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Production equipment | **$13,519,720** | **$3,807,836** | **$ 9,711,884** | $ 9,672,355 |
| Plant and gathering equipment | **7,859,228** | **2,361,915** | **5,497,313** | 5,151,230 |
| Office equipment | **1,919,191** | **908,000** | **1,011,191** | 1,258,306 |
| | **$23,298,139** | **$7,077,751** | **$16,220,388** | $16,081,891 |

## 5. INVESTMENT IN SHARES

The Company holds 381,041 cumulative 7½% convertible redeemable preferred shares in a private company with a par value of $18.00 per share. The preferred shares were redeemed pursuant to an agreement dated July 3, 1984, as referred to in note 13, with payments of principal due as follows:

| | |
|---|---|
| July 3, 1984 | $2,286,246 |
| January 31, 1986 | 2,286,246 |
| January 31, 1987 | 2,286,246 |
| | $6,858,738 |

Accordingly, $2,286,246 of the redeemable preferred share value has been classified as a current investment in shares as at April 30, 1984.

## 6. SHARE CAPITAL

### A. Common shares

(a) During the year, the Company issued the following common shares:

| | Number of Shares Issued | Amount |
|---|---|---|
| Pursuant to exercise of employee share options | 201,600 | $ 604,800 |
| Balance issued April 30, 1983 | 28,301,579 | 108,994,916 |
| | 28,503,179 | 109,599,716 |
| Less shares held by subsidiary at cost | | |
| At April 30, 1983 | 3,524,800 | 40 |
| Less shares sold as per Note 6A(C) | (350,000) | (4) |
| At April 30, 1984 | 3,174,800 | 36 |
| Issued and outstanding, April 30, 1984 | 25,328,379 | $109,599,680 |

As at April 30, 1984, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 3,174,800 shares of the Company's common shares which represents 11.14% of the common shares then issued. Under an Agreement dated October 11, 1979, the Company has granted an option to a Director to purchase 48,000 of the shares then owned by the subsidiary at a price of $5.00 per share. Under the Agreement, the Director may elect to purchase 25% of the shares each year commencing October 1, 1979 of which 12,000 have been exercised.

(b) Employee Stock Option Plan

| | |
|---|---|
| Options granted during the year at a price of $3.57 per share | 379,750 |
| Options granted during the year at a price of $3.70 per share | 369,350 |
| Options cancelled during the year | (361,750) |
| Net granted during the year | 387,350 |
| Options exercised during the year | (201,600) |
| Balance outstanding, April 30, 1983 | 493,000 |
| Balance outstanding, April 30, 1984 | 678,750 |
| Shares reserved under the Employee Stock Option Plan as at April 30, 1984 | 419,650 |

The above options are exercisable at prices ranging from $3.00 per share to $3.70 per share and expire within 2 or 4 years.

(c) During the year, the Company's subsidiary Bluesky Oil & Gas Inc. sold 350,000 shares of Bluesky Oil & Gas Ltd. to two officers of the Company at a price of $3.02 per share. Accordingly, the excess of the price paid, net of deferred income taxes of $278,306, over the cost of the shares held has been recorded as contributed surplus for purposes of consolidated financial statement presentation.

**B. Series A 7% cumulative, redeemable, convertible preferred shares**

| | |
|---|---|
| (a) Balance issued, April 30, 1983 | 1,190,924 |
| Balance issued, April 30, 1984 | 1,190,924 |

(b) The Series A preferred shares have the following conditions:

(1) Convertible at any time on the basis of one Series A preferred for one common share.

(2) Redeemable by the Company after March 30, 1982 at $5.00 per share. All Series A preferred shares outstanding on September 30, 1984 must be redeemed by the Company at $5.00 per share.

## 7. LONG TERM DEBT

During the year, the Company renewed its bank line of credit of $55,000,000 with interest at the bank prime rate, letter of credit availability of $5,500,000, tender credit facility of $1,000,000 for purposes of bidding at Crown lease sales and its $500,000 cheque cashing facility in New York for Bluesky Oil & Gas Inc. The bank line and additional credit facilities are secured by a debenture with a floating charge on the assets of the Company. The bank line may be utilized by the Company at any time up to December 1, 1985 and the Company has the option to convert the outstanding balance to a five year term loan with interest at bank prime rate plus ½%.

In accordance with the terms of the loan agreement, the April 30, 1984 loan balance of $39,567,570 has been classified as a long term debt. This amount includes $10,200,000 of U.S. dollar loans.

## 8. INCOME TAXES

The current year's income tax provision has been reduced by the amount of $126,729 (1983 - $1,262,742) with respect to investment tax credits.

## 9. NET EARNINGS PER COMMON SHARE

| | 1984 | 1983 |
|---|---|---|
| (a) Basic | | |
| Net earnings | **34.9¢** | 19.9¢ |
| (b) Fully diluted | | |
| Net earnings | **34.0¢** | — |

Net earnings per common share calculations exclude shares owned by the Company's wholly-owned subsidiary and are based on the monthly weighted average number of common shares outstanding after dividend requirements on the Series A preferred shares.

Where the conversion of the Series A preferred shares and the options referred to in Note 6 are non-dilutive, the fully diluted earnings have not been presented.

### 10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid to directors amounted to $10,000 and to senior officers (including the five highest paid employees) of the Company amounted to $615,741.

### 11. SEGMENTED INFORMATION

In view of the different economic environment under which the oil and gas industry operates in Canada and the United States, segmented information is presented on a geographical basis separating the Company's operations and total assets between Canada and the United States. The Company operates only in one business segment.

| | (Thousands of Dollars) | | | | | |
|---|---|---|---|---|---|---|
| | 1984 | | | 1983 | | |
| | Canada | United States | Total | Canada | United States | Total |
| Revenue | $ 20,781 | $ 2,718 | $ 23,499 | $ 15,232 | $ 3,384 | $ 18,616 |
| Expenses | | | | | | |
| Depletion and depreciation | 2,367 | 578 | 2,945 | 1,978 | 595 | 2,573 |
| Other | 2,935 | 393 | 3,328 | 2,858 | 628 | 3,486 |
| | 5,302 | 971 | 6,273 | 4,836 | 1,223 | 6,059 |
| Segmented income before undernoted items | $ 15,479 | $ 1,747 | $ 17,226 | $ 10,396 | $ 2,161 | $ 12,557 |
| Interest expense | | | 4,998 | | | 6,689 |
| Exchange loss (net of $395 of deferred tax) | | | — | | | 923 |
| Income tax (recovery) | | | 3,015 | | | (400) |
| Net Income | | | $ 9,213 | | | $ 5,345 |
| Total Assets | $191,854 | $30,027 | $221,881 | $176,538 | $28,209 | $204,747 |

### 12. RELATED PARTY TRANSACTIONS

(a) The various drilling program agreements under which the Company earns revenue, as referred to in note 1, are with the ten West German Limited Partnerships in which the Company holds an interest as per note 3.

(b) During the year, the Company granted interest free loans totalling $1,057,000 to two officers of the Company pursuant to the sale of 350,000 common shares of the Company as referred to in note 6A(c). In addition, the Company issued demand loans to the same two officers totalling $600,000 at an interest rate of 10% per annum pursuant to the exercise of share options as referred to in note 6A(b).

### 13. SUBSEQUENT EVENTS

On July 3, 1984, the Company entered into an agreement for the early redemption of the preferred shares held as referred to in note 5. Under the terms of the agreement, the shares were redeemed on July 3, 1984 with payment of the principal value of the preferred shares due in three equal instalments of $2,286,246 together with the accrued dividend to July 3, 1984 and interest thereafter at 7½% on the principal balance remaining outstanding.

The first payment was received July 4, 1984 with the remaining two payments of principal plus interest secured by irrevocable bank letters of credit.

# *Auditors' Report*

**To The Shareholders:**

We have examined the consolidated balance sheet of Bluesky Oil & Gas Ltd. as at April 30, 1984 and the consolidated statements of income and retained earnings and of 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 April 30, 1984 and results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants
Calgary, Alberta
July 5, 1984

# *Corporate Information*

**Directors**

Dr. Ulrich Christopeit
Managing Director, Deutsche Tiefbohr AG, Bad Bentheim, West Germany

Barry W. Harrison[1]
President & Chief Executive Officer
Calgary, Alberta

Klaus Hebben[1]
President, eee Gesellschaft zur Exploration von Erdol und Erdgas mbh
Munich, West Germany

John A. Masters
President, Canadian Hunter Exploration Ltd.
Calgary, Alberta

Ronald W. Springer[1]
Vice-President, Finance & Secretary
Calgary, Alberta

Dr. Dietrich H. Welte
Director of Institute of Research for Petroleum and Organic Chemistry at the Nuclear Research Centre
Juelich, West Germany

Robert A. Wisener[1]
Managing Partner, The MerBanco Group
Calgary, Alberta

[1]Member of the Executive Committee

**Key Employees**

Barry W. Harrison
President & Chief Executive Officer

Arthur C. Eastly
Vice-President, Production

Ronald W. Springer
Vice-President, Finance & Secretary

Wayne S. Tait
Vice-President, Land

Clem J. Benteau
Exploration Manager

Gordon Kerr
Corporate Controller

**Wholly-owned Subsidiaries**

Bluesky Oil & Gas Inc.
Bluesky Mining Ltd.

**Auditors**

Deloitte Haskins & Sells
#2300 Bow Valley Square III
255 - 5th Avenue S.W.
Calgary, Alberta
T2P 3G6

**Registrar & Transfer Agents**

The Canada Trust Company
Calgary, Alberta
Toronto, Ontario
Vancouver, B.C.

**Exchange Listings**

The Toronto Stock Exchange
Trading Symbol: BKYT

NASDAQ System
Trading Symbol: BLUSF

The Vancouver Stock Exchange
Trading Symbol: BKYV

**Head Office**

Bluesky Oil & Gas Ltd.
#700 BP House
333 - 5th Avenue S.W.
Calgary, Alberta
T2P 3B6 (403) 263-0690

**Metric Conversion Table**

| Traditional Unit | S1 Unit | Conversion Factor |
|---|---|---|
| Barrel | Cubic Metre ($m^3$) | 1 Barrel = 0.15891 Cubic Metre<br>1 Cubic Metre = 6.293 Barrels |
| Cubic Foot | Cubic Metre ($m^3$) | 1 Cubic Foot = 0.02817 Cubic Metre<br>1 Cubic Metre = 35.494 Cubic Feet |
| Foot | Metre (m) | 1 Foot = 0.30480 Metre<br>1 Metre = 3.281 Feet |
| Mile | Kilometre (km) | 1 Mile = 1.60934 Kilometres<br>1 Kilometre = .621 Mile |
| Acre | Hectare (ha) | 1 Acre = 0.40469 Hectare<br>1 Hectare = 2.471 Acres |

BlueSky Oil & Gas Ltd.

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