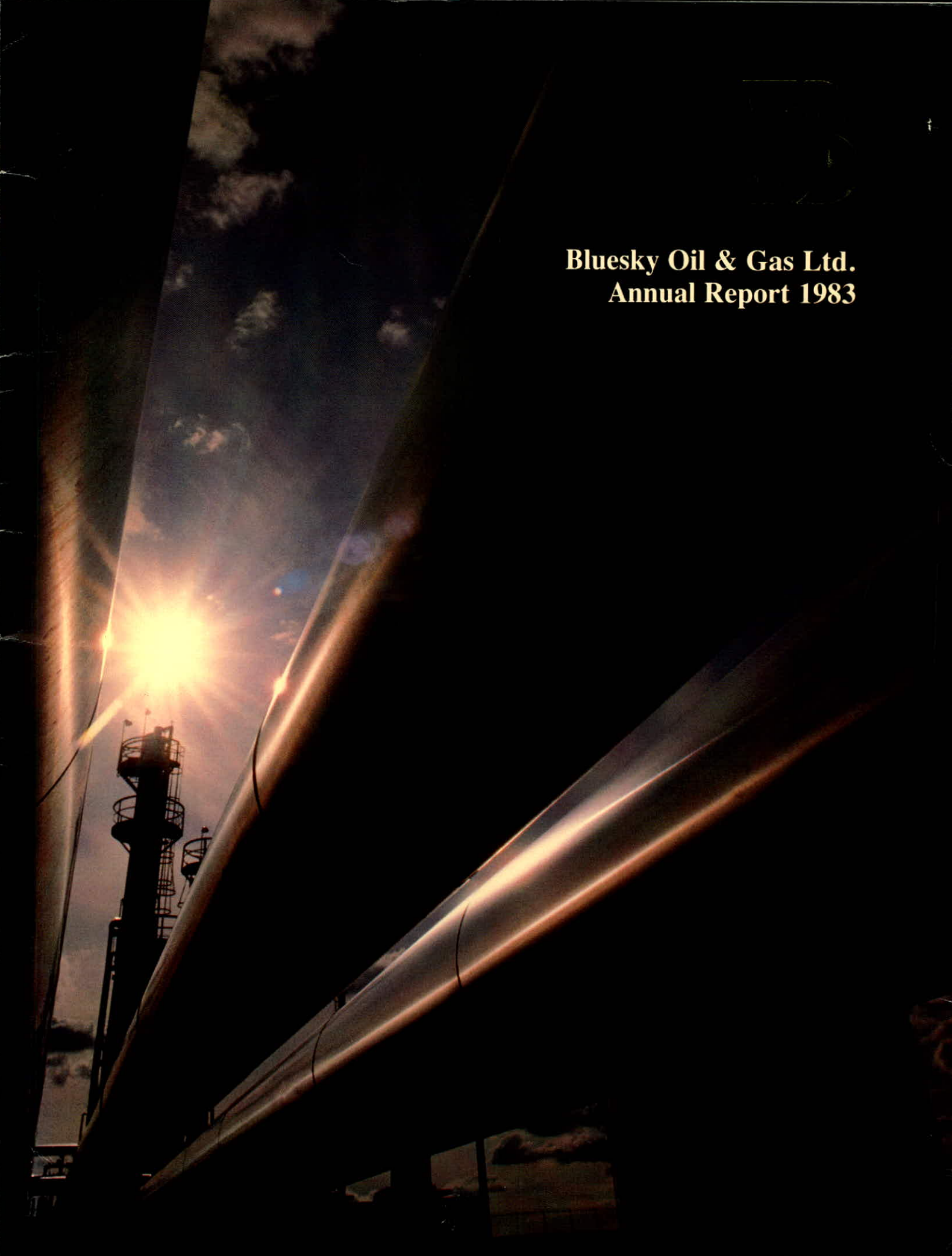




**Bluesky Oil & Gas Ltd.  
Annual Report 1983**



## Contents

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Bluesky's Annual Shareholders Meeting will be held October 18, 1983, at 3:00 P.M. in the Bonavista Room of the Westin Hotel, Calgary, Alberta.

## Highlights for 1983

### Financial Highlights

(12 month period ending April 30, 1983)

Net Revenues .....	\$18,615,712
Cash Flow from	
Operations .....	\$11,573,791
Per Share .....	45.0¢
Net Income .....	\$5,344,693
Per Share* .....	19.9¢

### Operational Highlights

#### Reserves

Natural Gas (million cubic feet) .....	263,900
Oil (barrels) .....	11,342,000

#### Years Production

Natural Gas (million cubic feet) .....	3,845
(million cubic feet per day) .....	10.53
Oil (barrels) .....	569,226
(barrels per day) .....	1,560

#### Drilling

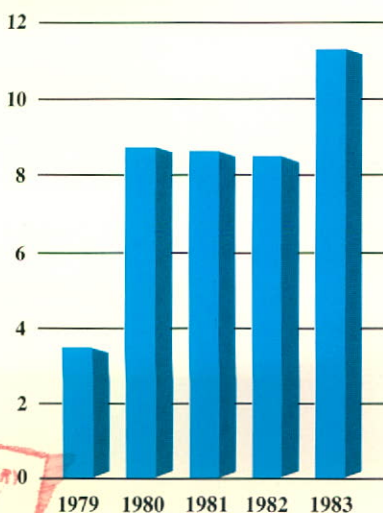
Total Wells .....	51
Gas Completions .....	15
Oil Completions .....	28
Other .....	1

\*See Note 9 in the Consolidated Financial Statements.



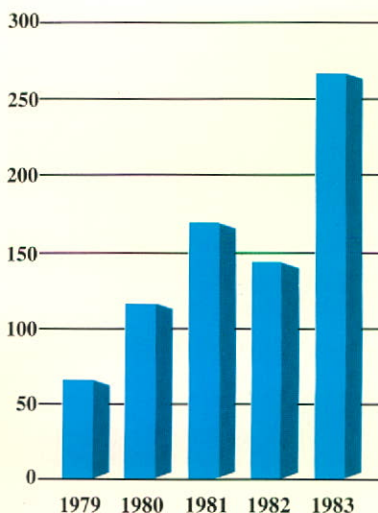
**NET RESERVES CRUDE OIL  
& NATURAL GAS LIQUIDS**

MILLIONS OF BARRELS



**NET RESERVES  
NATURAL GAS**

BILLIONS OF CUBIC FEET



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
SEP 18 1983  
MCGILL UNIVERSITY

## Report to Shareholders

October of 1981 marks the month that major changes were made in the corporate priorities of Bluesky Oil & Gas Ltd. In assessing the Company's financial position, it became apparent that the introduction of strict budgetary controls coupled with a need for increased cash flow were required to maintain financial stability and to permit sustained growth. In the previous twelve months, Bluesky had seen an erosion of its earnings and net asset value brought on by an alarming increase in bank debt combined with staggering interest rates, an increase in administrative overhead and poor exploration results related to the Company's expanded activities in the United States. Beginning in November, 1981, Bluesky implemented a thirty-month program designed to re-establish the Company as a strong and viable Canadian oil company.

It is with pleasure that we present to our Shareholders the 1983 Annual Report which reflects on our efforts after eighteen months into this program. We are satisfied with the results to date and we remain confident that the next twelve months will see a continuation of Bluesky's growth toward the achievement of its goal.

The fiscal year 1983 saw substantial improvements in Bluesky's financial position over the previous twelve-month period. Production derived income, net of royalties and PGRT, totalled \$13,441,000 with cash flow from operations equalling \$11,573,791. This represents a 39% and a 258% increase, respectively, over corresponding figures for fiscal 1982. Net Income for the year, after taxes, was \$5,344,693 as compared to a loss of \$144,250 during fiscal 1982. Earnings per share equalled 19.9¢ per share against a loss of 6.6¢ per share in the preceding period. For the first time, our income statements reflect resource earnings which flow from the Company's acquisition during the year of a limited partnership interest in ten West German Limited Partnerships (an average of 78%). These interests purchased in part to enhance our cash flow, were acquired in August and September of 1982 in exchange for 9,972,509 common shares of Bluesky. The limited partnerships carry on business within the energy sectors of Canada as well as the United States and, in most instances, the partnerships owned interest in properties already operated by Bluesky.

Bluesky's production, before royalties, for the year, including its proportionate share of the production attributed to the West German Limited Partnership interests, was 569,226 barrels of oil, an average of 1,560 barrels per day, and 3,845 million cubic feet

of gas, a daily average of 10.53 million cubic feet. In fiscal 1983, Bluesky concentrated its drilling activities on oil exploration and development. As a result of this drilling, the Company added 985,800 barrels of oil reserves which at current production rates, add 1.73 years of oil production to the Company's reserve life index.

The Company's oil and gas reserves at year-end, as calculated by independent engineering consultants, reflect combined Canadian and United States oil reserves of 11,342,000 barrels and natural gas reserves of 263.9 billion cubic feet. These reserves, which include Bluesky's share of its West German limited partnerships, have a future undiscounted cash flow estimated at \$1,849,771,000. The present value of the future cash flow attributable to the Company's reserves, discounted at 15% is \$301,108,000.

Bluesky's commitment to petroleum exploration and development in Western Canada and the United States has resulted in success during 1983. Our drilling activities in Canada at Utikuma North, Utikuma South, Clairmont Lake, Ponoka and Red Earth and at North Numa in the United States have resulted in discoveries that will add to our immediate cash flow. For fiscal 1984, we project a \$3.5 million increase in the Company's cash flow and a \$1.3 million or a 23 percent increase in our net earnings. The Company's natural gas holdings in the Elsworth-Wapiti gas contract area of Alberta continue to be developed in anticipation of a rebound in natural gas consumption beginning in 1985. We are of the opinion that the weakness in natural gas demand has bottomed and that the

decline in sales brought about by the recession; mild winter temperatures during the past year, and fuel switching by large industrial consumers within North America will stop, resulting in increased gas sales during late 1984 and early 1985. Our high percentage of contracted natural gas reserves should hold us in good stead to benefit from this expected improvement.

During the year, the Company participated in the drilling of 51 wells, resulting in 28 oil wells and 15 gas wells, for an overall success ratio of 84%. At year-end, one well on the Leopard Creek prospect in Texas, was being completed. Bluesky will, during fiscal 1984, continue its emphasis on oil exploration in recognition of the current energy market wherein oil can generally be marketed sooner than natural gas, resulting in quicker cash flow.

As of October 31, 1982, Bluesky's commitment to the Canyon U.S. mining joint venture was concluded. The Company acquired during the term of the joint venture a 60% interest in 19 prospects, of which 14 have been successfully marketed to third parties in exchange for work commitments and advance royalty payments. Two additional properties are being negotiated for farmout and one property has been dropped. The Company's mining properties will have exploration work to a value of \$996,000 U.S. conducted upon them by industry participants and Bluesky will receive during 1983 advance royalties of \$140,000 U.S.

In Australia and New Zealand, the Bluesky-Canyon Resources Pty. joint venture continued to acquire properties and presently holds an interest in 60 prospects, of which

36 are gold. All prospects, with the exception of a gold property at Scotlands Point, New Zealand, will be promoted to third parties with the joint venture retaining a carried interest. Bluesky has a 25% share of the program which calls for expenditures for \$167,000 U.S. per year to December 31, 1984. At Scotlands Point, a placer gold deposit will be placed on production in November of 1983. This property has a five-year mine life with gross revenue at current world prices expected to be \$2,950,000 U.S. The joint venture will have a 25% interest in this operation.

Despite the uncertainty of international oil prices, Bluesky's management believes that the Company has excellent opportunity for sustained growth. As this report is being written, the Alberta and Federal Governments have announced a new pricing agreement with respect to oil discovered after April 1, 1974 but prior to December 31, 1980. This agreement has the effect of increasing the portion of Bluesky's Canadian oil production that qualifies for the New Oil Reference Price (N.O.R.P.) to 96% from 23%. The previous projections of fiscal 1984 cash flow and earnings do not reflect this recent change which will add an estimated \$1.68 million to our before tax income.

Prior reference has been made to natural gas and we have expressed our opinion on its future. Recent announcements by the Federal government in introducing the Volume-Related Incentive Pricing

Program will add further stimulus to natural gas recovery. This program will help prevent an erosion of existing markets and will offer the opportunity for an increase in export volumes in from two to three years.

Fiscal 1983 marks the first year that Dr. Ulrich Christopeit and Dr. Dietrich Welte have been members of Bluesky's Board of Directors. We acknowledge their contributions as well as the contributions of all directors and staff who have worked to make this year the turnaround year for the Company. It is with enthusiasm that we look to fiscal 1984.

On Behalf of the Directors



BARRY W. HARRISON  
President & Chief  
Executive Officer

July 28, 1983  
Calgary, Alberta

## Exploration Highlights

During the reporting period, drilling activity was restricted to those areas that offered medium to low risk oil potential or the infill of gas contracted areas for deliverability purposes. Bluesky participated in a total of 51 wells resulting in 28 oil wells and 15 gas wells for a success ratio of 84%. One well, the Canusa Hubberd #1 well in McMullen County, Texas, was being completed at year end. Of the total, 18 wells are a result of Bluesky's participation in the Canadian Hunter Joint Venture which concentrated its efforts in the Elmworth gas trend of northwestern Alberta. Bluesky concentrated its exploration program in the Alberta Basin which resulted in 23 oil wells.

The Company maintained a conservative approach to exploration in the United States while continuing to generate new prospects and acquire acreage through its Denver office. Bluesky plans to increase its exploration efforts within the United States during fiscal 1984.

As of April 30, 1983, Bluesky held 7,993,621 gross acres and 479,343 net acres in Canada, the United States and Colombia, South America. Acquisitions were made in the oil prone areas of Rainbow Lake, Joffre North, Red Earth, Grande Prairie and Ponoka in Alberta, Stoddart in British Columbia, Banner and Kimball Counties in Nebraska and Grant County in Oklahoma. The most significant of these acquisitions was in the Ponoka area of Alberta where Bluesky increased its holdings by 5,882 acres. Bluesky now owns varying interests in approximately 38,000 gross acres in the general Ponoka-Bonnie Glen area of central Alberta.

In 1983, Bluesky committed to its first oil venture outside of North America, this being the acquisition of 432,250 gross acres in the Llanos Basin of central Colombia, South America. The Company has a 20 percent working interest in this prospect referred to as the "Rio Ariporo Association Contract".

During the past year, the Company surrendered its high rental non-producing acreage in the Austin Chalk trend of Texas and all of its acreage in the high risk exploration area of Nechako Basin in British Columbia.

### Canadian Drilling

In Canada, the Company participated in 43 wells of which 15 are gas wells and 23 are oil wells. The most significant of these are oil wells at Utikuma South, Utikuma North, Red Earth, Clairmont Lake and Ponoka. Oil discoveries were also made on the Josephine and Cyn-Pem prospects.

#### Utikuma South

In the Utikuma South area of north-central Alberta the Company drilled one well which defined a new Slave Point oil pool. Bluesky has a 25 percent working interest in the discovery well (4-20-77-10 W5M) which, pursuant to government regulations, is royalty free for five years. This is the third oil well drilled on this prospect and the second oil pool discovery in the area to enjoy a royalty free holiday. Utikuma South is located in a remote area of Alberta and, to date, production has been restricted to winter months. An all-weather road, which will permit year-round production, is under construction and is

expected to be completed in August 1983.

To date, Bluesky has been cautious with its drilling program on this prospect due to the complexity of the geophysical interpretation. However, based on the Company's recent successes and the information gained by drilling two additional wells in fiscal 1982, the Company anticipates the drilling of three wells in this area during fiscal 1984.

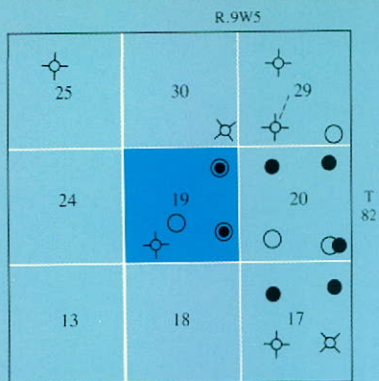
The major objective of these tests is the Slave Point formation with average recoverable reserves estimated at 300,000 barrels per well. Bluesky has an average 36 percent working interest in 32,480 acres in this area.

#### Utikuma North

At Utikuma North in north-central Alberta the Company participated in two wells, the most significant being located in Lsd. 8-19-82-9 W5M. This well encountered 24 feet of porous Keg River Sandstone with estimated recoverable reserves of 1,115,000 barrels. Bluesky has a 40 percent working interest in the two wells and the surrounding 640 acres. One additional well is anticipated in fiscal 1984.

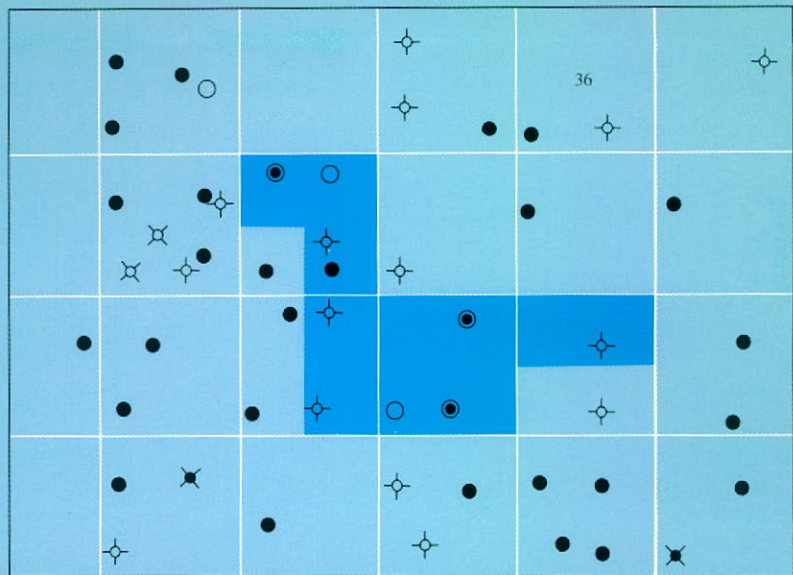
#### Red Earth

In the Red Earth area of north-central Alberta, Bluesky successfully participated in three wells (2-23-87-8 W5M, 15-23-87-8 W5M and 14-27-87-8 W5M) during fiscal 1983. The Company has a 7.875 percent, 11.25 percent and 25 percent working interest in the wells respectively. Two wells are dual oil producers producing from the Slave Point and Keg River formations while the third (15-23-87-8 W5M) is a Slave Point producer. The Slave Point's



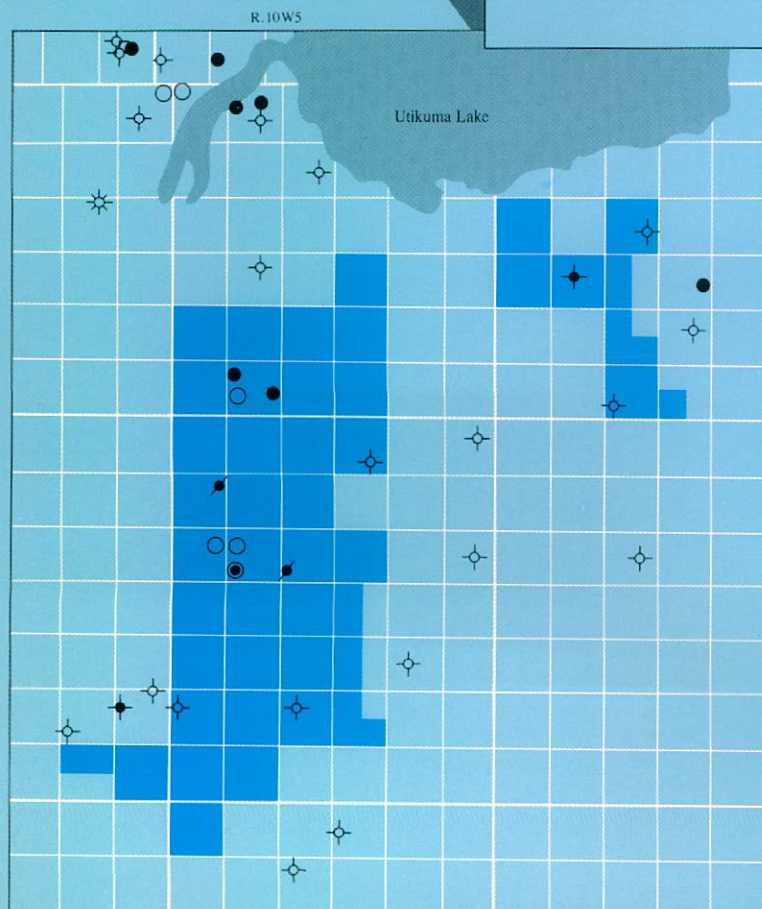
**UTIKUMA NORTH**

- Bluesky Interest Acreage
  - Producing Oil Well
  - Oil Wells Drilled in 1983
  - Proposed Locations
- Scale 1 Mile  
 1 Kilometre



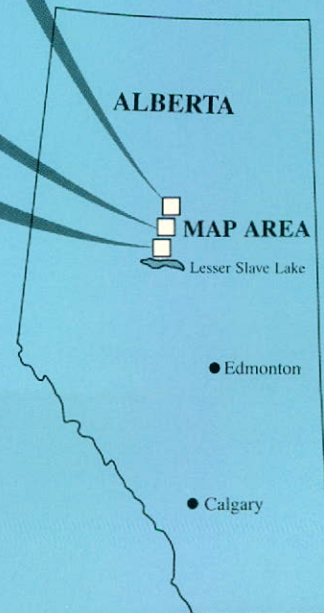
**RED EARTH**

- Bluesky Interest Acreage
  - Producing Oil Well
  - Oil Wells Drilled in 1983
  - Proposed Locations
- Scale 1 Mile  
 1 Kilometre



**UTIKUMA SOUTH**

- Bluesky Interest Acreage
  - Producing Oil Well
  - Oil Wells Drilled in 1983
  - Proposed Locations
- Scale 1 Mile  
 1 Kilometre



## Exploration Highlights

recoverable reserves per spacing unit average 100,000 barrels and the Keg River averages 350,000 barrels. Bluesky holds a 7.875 percent to 25 percent interest in 1,760 acres on this prospect and we anticipate the drilling of two wells on this prospect in fiscal 1984.

### Clairmont Lake

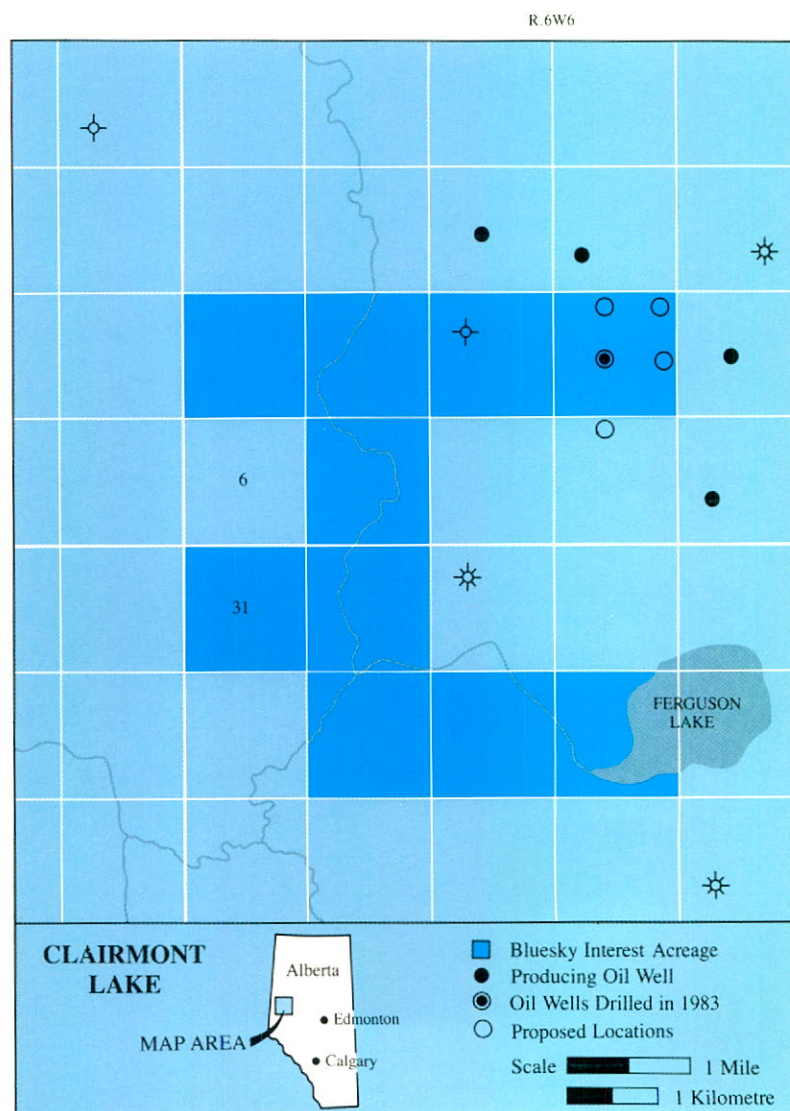
At Clairmont Lake in northwestern Alberta, Bluesky participated, through farmout, in the drilling of a test well which encountered 28 feet of porous, oil bearing sand in the Triassic Doig formation. The discovery well, 6-10-73-6 W6M, has estimated recoverable reserves of 222,000 barrels and a daily allowable of 65 barrels. The Company has an 18.75 percent working interest after payout in the well and an 18.75 percent working interest in a ten section lease containing the discovery well of which two sections are highly prospective for oil production. Bluesky anticipates the drilling of an additional three wells at Clairmont Lake during fiscal 1984.

### Ponoka

In early 1982, Bluesky operated the drilling of a well (8-24-42-26 W4M) in the Ponoka area of central Alberta which was completed as a Glauconite oil well. This well experienced a high gas/oil ratio and a decision was made to complete the well in the uphole Viking formation. This completion was successful and this zone is capable of a stabilized production rate of 80 BOPD.

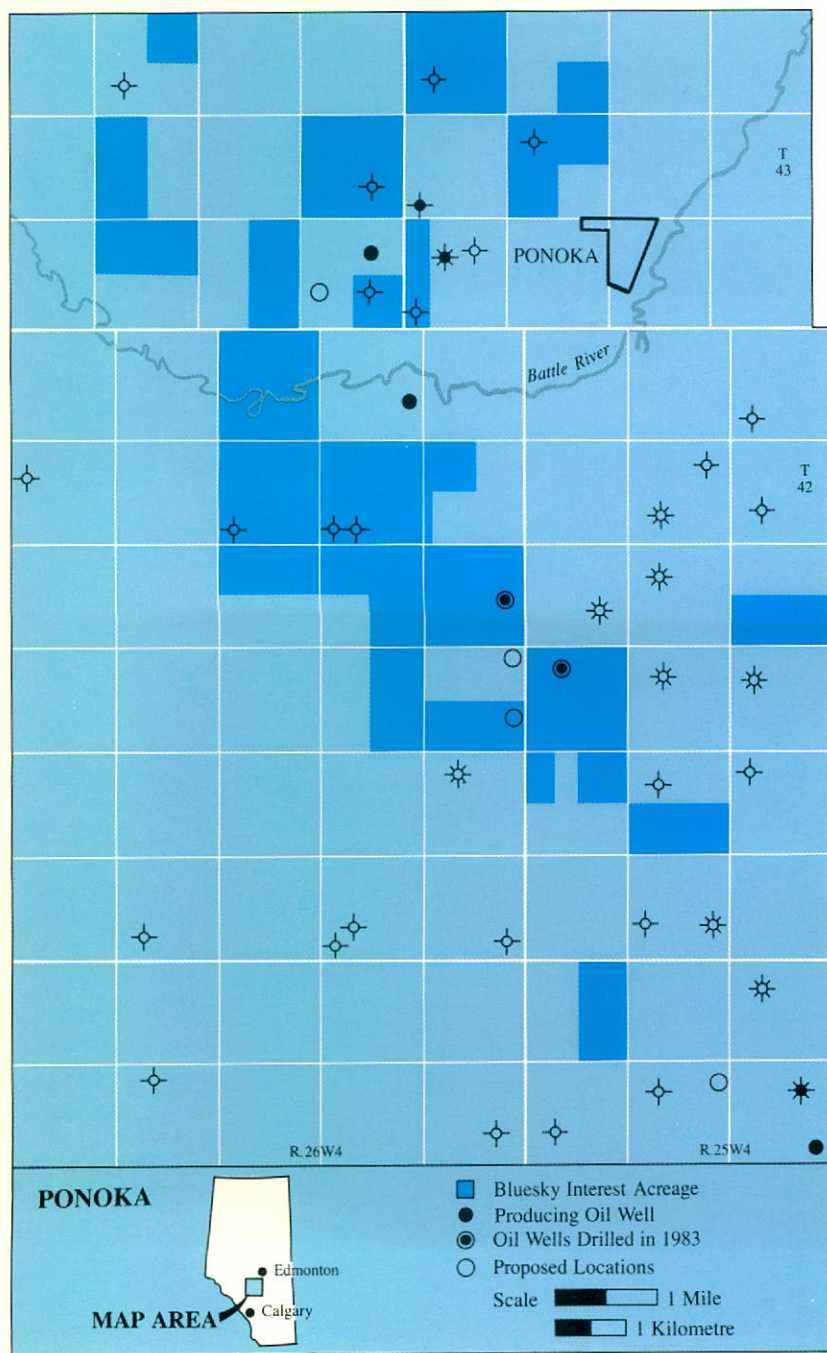
Based on the results of this well, a second well (14-18-42-26 W4M), located one mile southeast of the 8-24 discovery, was completed in the Viking formation with comparable production results. The Company has a 20 percent and 16.6 percent working interest in these wells respectively. During the year, the Company initiated a leasing program in the general Ponoka area which resulted in the acquisition of an additional 5,882 gross acres. Bluesky's working interest in the newly acquired lands ranges from 50 percent to 100 percent.

The recoverable reserves are estimated to be 142,000 barrels per 160 acre spacing unit, with each well having an initial daily allowable of 30 barrels. It is expected that this allowable will increase when sufficient wells have been drilled in this area to gain pool status and as the reservoir quality is established from additional core data. Core data will also determine the feasibility of waterflood which will enhance both the ultimate recoverable reserves and daily allowables.





## Exploration Highlights



### Josephine

Bluesky, through its Limited Partnership interest, participated in the drilling of four oil wells in the Josephine area of northwestern Alberta. Proven production has been established from the Boundary Lake Carbonate with average recoverable reserves of 113,000 barrels per spacing unit. The Limited Partnership has a 16.875 percent working interest in 3,840 gross acres. One additional well is planned for fiscal 1984.

### Cyn-Pem

The Company participated, through farmout, in the drilling of one well in the Cyn-Pem area of central Alberta. The discovery well (Texaco et al Cyn-Pem 11-2-52-11 W5M) encountered a thick Cardium bar with estimated recoverable reserves of 286,000 barrels of oil. Bluesky has a 10 percent working interest in the well and the surrounding 640 acres. Bluesky will participate in the drilling of one additional well in fiscal 1984.

# Exploration Highlights

## Land Holdings as of April 30, 1983

Canada	Gross	Net
Alberta . . . . .	695,828	158,301
British Columbia . . . . .	251,976	44,276
Saskatchewan . . . . .	4,240	1,665
Sub-Total . . . . .	952,044	204,242

## United States

California . . . . .	6,225	233
Colorado . . . . .	11,149	1,965
Maryland . . . . .	2,273	528
Montana . . . . .	2,064	190
Nebraska . . . . .	4,880	1,778
New Mexico . . . . .	240	111
New York . . . . .	141,728	20,914
North Dakota . . . . .	6,707	339
Oklahoma . . . . .	30,221	5,075
Pennsylvania . . . . .	79,073	16,104
Texas . . . . .	31,517	5,937
West Virginia . . . . .	6,039	1,297
Wyoming . . . . .	1,879	493
Sub-Total . . . . .	323,995	54,964

## Joint Ventures

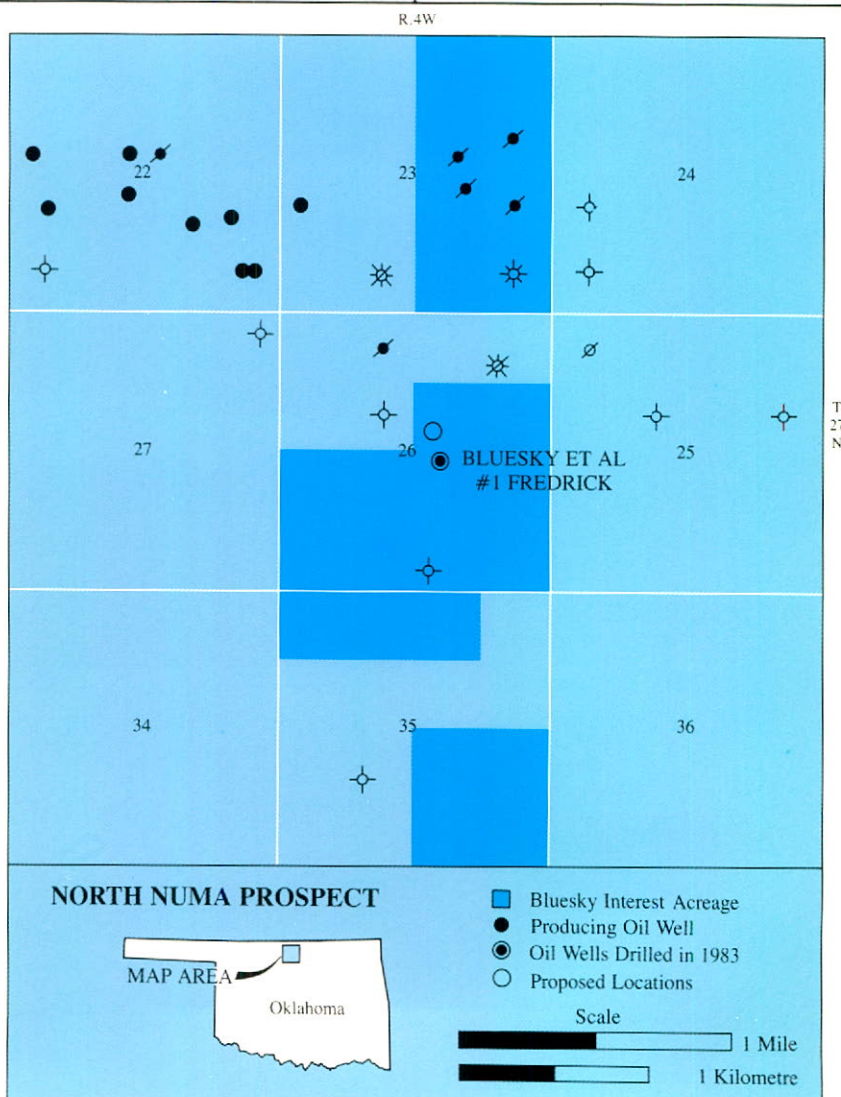
Canadian Joint Ventures . . . . .	2,718,777	48,949
US Joint Ventures . . . . .	3,566,555	84,738
Sub-Total . . . . .	6,285,332	133,687
Colombia . . . . .	432,250	86,450
TOTAL . . . . .	7,993,621	479,343

## United States Drilling

In the United States the Company participated in the drilling of eight wells, five being completed as oil wells. The most significant completion is the Fredrick #26-1 well located on the North Numa prospect in Grant County, Oklahoma. Bluesky has also entered into a seismic option agreement in Stephens County, Texas which will earn the Company an interest in 7,200 prospective acres.

During the past 18 months the Company's policy in the U.S. has

been to internally generate prospects through its Denver office and to acquire lands associated with these geological and geophysical leads. Bluesky attempts to expand its U.S. exploration budget by promoting its prospects to industry partners at the same time retaining a working interest for its own account. It is expected that the Company will participate in the drilling of seven wells in the United States during the next twelve months.



## Exploration Highlights

### North Numa Prospect, Grant County, Oklahoma

The North Numa prospect is located along the Nemaha Ridge of northern Oklahoma. Bluesky participated, as to a 33.3 percent interest, in the drilling of the Fredrick #26-1 discovery well. This well encountered porosity in

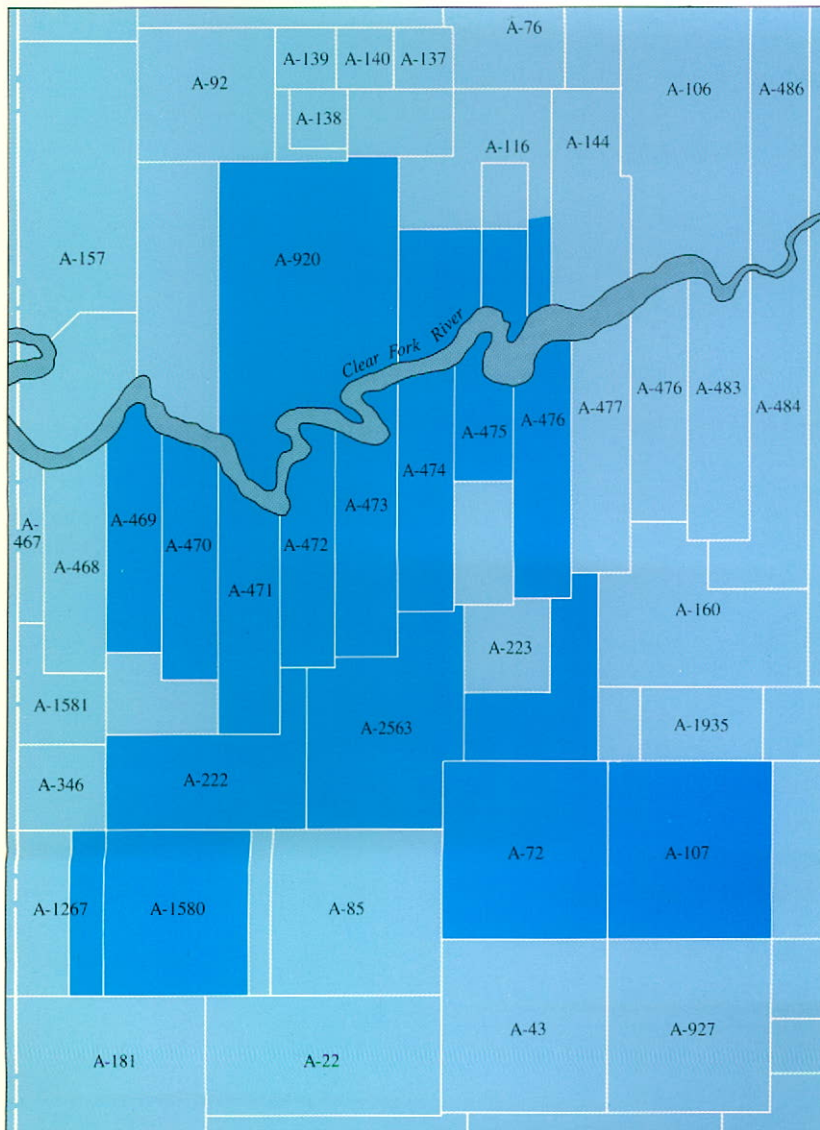
the Viola Carbonate with estimated recoverable reserves of 56,000 barrels. The well will be put on production at a rate of 75 BOPD. The Company has an interest in 7,242 gross acres on this prospect and one additional well will be drilled in fiscal 1984.

### Clear Fork Prospect, Stephens County, Texas

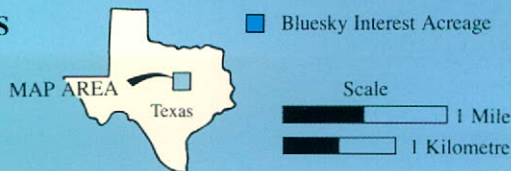
Early this year Bluesky entered into a seismic option agreement to shoot 53 miles of 30 fold seismic to earn an interest in 7,200 acres in the northwest quadrant of Stephens County, Texas. The area is known for its shallow Mississippian Chappel Limestone reefs, which although small in area, have up to 200 feet of oil pay with per well average reserves of 150,000 barrels.

There is additional potential in the overlying beds affected by the reef buildups and these secondary objectives produce in the immediate area.

Bluesky will earn a 6.25 percent working interest by shooting the seismic and, upon completion, will have the right to increase its interest to a maximum of 25 percent. Drilling will commence in the fall of 1983.



### CLEAR FORK, TEXAS



## Exploration Highlights

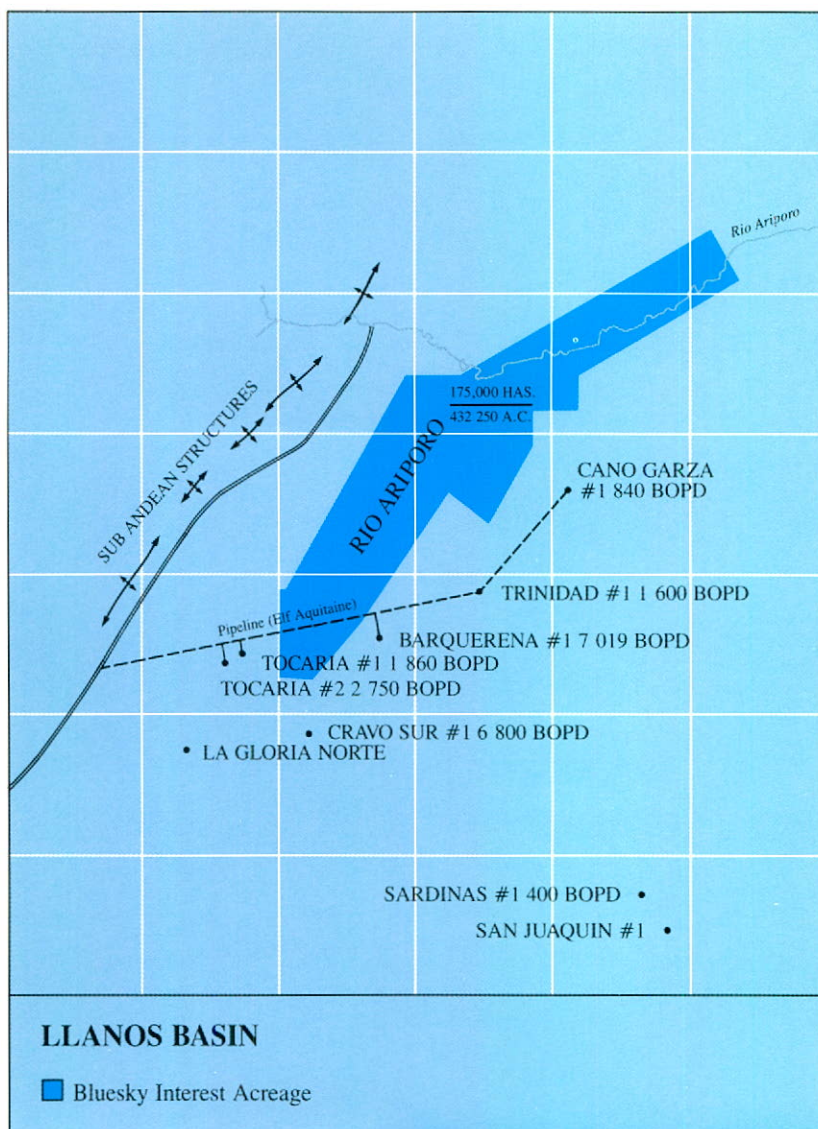
### International Operations

#### Rio Ariporo Association Contract, Colombia, South America

New developments in the energy industry of Colombia have indicated significant hydrocarbon potential in the lightly explored Llanos Basin. This basin, located in the plains east of the Andes Mountains, contains the same stratigraphic sequence as the prolific Lake Maracaibo Basin and Eastern Venezuelan Basin where the bulk of Venezuela's oil reserves are located.

The "Rio Ariporo Association Contract" is a 175,000 hectare (432,250 acres) land block in the central portion of the Llanos Basin approximately 350 km (220 miles) northeast of Bogota. The Company has entered into an exploration agreement whereby Bluesky will participate in the shooting of 100 km of seismic and will have the option to participate in the drilling of a 12,000 foot well to fulfill the first-year commitments to the Colombian state-owned oil company, Ecopetrol. Bluesky's working interest in this prospect is 20 percent.

The contracted lands lie in close proximity to six Elf-Aquitaine discoveries averaging 3,145 BOPD. The closest well, Elf-Aquitaine Banquerena #1 lies within 2.5 miles and has tested flow rates of 7,019 BOPD. Bluesky anticipates that if the election to drill is made following the seismic survey, the first well will be drilled prior to April 1984.



## Exploration Highlights



holes are scheduled to commence in late July. An advance royalty payment of \$125,000 (U.S.) is due to the Bluesky-Canyon Joint Venture in mid-August.

The other properties optioned to industry participants will realize additional work commitments totalling \$596,000 (U.S.) through 1983 plus advance royalty payments to the Joint Venture of \$109,000 (U.S.). To date, two of the properties have been drill tested and contain no significant precious metals while four additional properties will be drill tested later this year. The Joint Venture will continue to review this data and monitor the farmout partners activities on the various properties.

### Mining Activities

#### United States

As of October 31, 1982, Bluesky's commitment to the Canyon U.S. Mining Joint Venture was concluded. The Company holds a 60 percent interest in 19 properties of which 14 have been successfully marketed to the industry in exchange for work commitments, while two have secured letters of farmout intent and are in the formal contract stage. One property has been dropped.

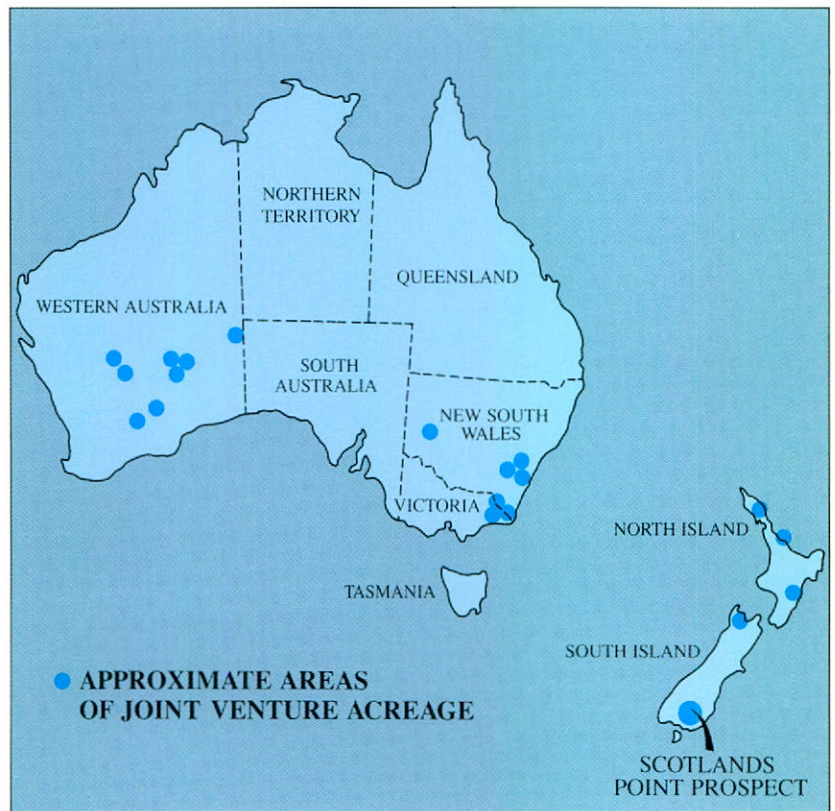
Tennessee Pass, Colorado, the largest of the properties, was optioned to two major mineral explorers who have spent \$200,000 (U.S.) on the property and have made an advance royalty payment of \$100,000 (U.S.) to the Joint Venture. These companies have a continuing option to spend \$1.6 million (U.S.) prior to February 14, 1988 to earn the Joint Venture's interest subject to a 5 percent net smelter return. The property is in its second exploration year and the farm-in companies having committed to spend \$400,000 between February 14, 1983 to February 14, 1984. Five or six deep exploration core

## Exploration Highlights

### Australia and New Zealand

In Australia and New Zealand, the Bluesky-Canyon Resources Pty. Joint Venture continued to acquire properties and presently holds an interest in 60 prospects of which 36 are gold. All prospects, except the Scotland's Point gold property in New Zealand, will be promoted to third parties with the Joint Venture retaining a carried interest. Bluesky has a 25 percent share of the program which calls for expenditures of \$167,000 (U.S.) per year. The Company's contracted commitment will be fulfilled as of December 31, 1984.

At the Scotland's Point prospect in New Zealand, the Joint Venture is participating in the building of facilities to place this placer gold deposit into commercial production by November 1983. The facilities will require a capital investment of \$185,000 (U.S.) with estimated five year mine-life revenues, after operating costs, of \$2,950,000 (U.S.). The Joint Venture has a 25 percent interest in this property.



## Operations — Production Report

### Oil Production

Oil production before royalties for the twelve month period ending April 30, 1983, totaled 569,226 barrels for an average of 1,560 barrels per day, a 66.5 percent increase over the previous year and the highest level of production in the Company's history. Part of this increase is attributable to the Company's acquisition during the year of an average 78 percent interest in ten West German Partnerships.

During fiscal 1983 the Company continued its success in increasing production volumes by developing new production and by maintaining and improving existing producing properties. The year's new high volume of production was attained despite the severe disruptions caused by the National Energy Policy during the first quarter of the fiscal period which reduced the market demand for Alberta crude oil by 40 percent.

As of April 30, 1983, Western Canadian oil production was priced

on a three tier system which classifies crude oil as "Conventional Old Oil Price" (C.O.O.P.) "Special Old Oil Price" (S.O.O.P.) or as "New Oil Reference Price" (N.O.R.P.). Oil from pools discovered before April 1, 1974 is classified as C.O.O.P., oil from pools discovered after April 1, 1974 but before December 31, 1980 is classified as S.O.O.P. and oil from

pools discovered after December 31, 1980 is classified as N.O.R.P.

In the accompanying table the Company's crude oil production, before royalties, is shown in barrels per day, a percentage of the total production in the three Canadian categories is determined and the average price received is specified. The United States production is also shown.

	<u>Barrels Per Day</u>	<u>Percent of Total</u>	<u>Average Price Per Barrel</u>
C.O.O.P. ....	57	4.0	\$28.55
S.O.O.P. ....	939	73.0	\$29.95
N.O.R.P. ....	291	23.0	\$43.85
<b>TOTAL CANADA . . . .</b>	<u>1,287</u>	<u>100.0</u>	<u>\$33.03</u>
UNITED STATES . . . .	273		\$30.80(U.S.)
<b>TOTAL . . . . .</b>	<u>1,560</u>		

On June 30, 1983, a new Ottawa-Alberta Energy Pact was signed to update the existing pricing agreement on Western Canadian crude oil. This new agreement reclassified Special Old Oil (S.O.O.P.) so it can collect the New Oil Reference Price (N.O.R.P.) starting on July 1, 1983. This agreement has the effect of increasing the portion of Bluesky's Canadian oil production that qualifies for N.O.R.P. from 23 percent to 96 percent. We estimate that the increased oil price will average \$9.35 per barrel, before royalty, on 73 percent of our Canadian oil production and provided production rates remain constant for the remainder of the year, Bluesky's production derived income will be increased by an estimated \$1,681,000, after royalty and Petroleum and Gas Revenue Tax (P.G.R.T.) in the year ending April 30, 1984.



## Operations — Production Report

### Natural Gas Production

Natural Gas Production for the twelve month period totaled 3,845 million cubic feet before royalties for a daily average of 10.53 million cubic feet, an increase of 38.6 percent from the year before. The increase in gas sales was mainly due to the Company's acquisition of the Limited Partnerships and was achieved despite the reduced demand for natural gas in North America due to milder than normal winter temperatures, reduced levels of activity in the economy, energy conservation, and a short term over supply of domestic gas in the United States which has reduced the volume of Canadian exports.

As a result of the reduced demand for energy in North America the Canadian Industry's gas sales during the past year have averaged a maximum of 65 percent of contracted volumes and it is anticipated that the Industry will average approximately 50 percent in the coming year. Bluesky is expecting its natural gas production in the coming year to

remain at the levels of the past twelve months with no additional properties coming on stream before the winter of 1984-85.

On July 6, 1983, the Federal Energy Minister announced the "Volume-Related Incentive Pricing Program" for natural gas exports to the United States. This program reduces the export price from \$4.40 (U.S.) to \$3.40 (U.S.) per thousand cubic feet on any additional volumes taken for export in excess of last years purchases. It is Bluesky's expectation that this program will prevent further erosion of the market for Canadian natural gas in the United States but we do not foresee any dramatic increase in export volumes until the U.S. domestic gas bubble has been reduced in 1985.

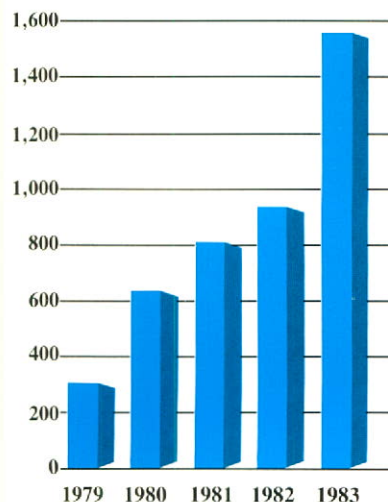
On a positive note, at Elsworth in the prolific gas producing section of the Deep Basin area of Alberta, approval was received from the Alberta Energy Resources Conservation Board in December, 1982, for a project to install Deep Cut Facilities for the extraction of Natural Gas Liquids from 275

million cubic feet of Natural Gas per day. The participants in this project, including Bluesky, are currently awaiting the issuance of a licence for the construction of the necessary addition to the Elsworth Gas Plant. It is expected that construction will commence during the fall of 1983 with completion of the facilities taking about 18 months. Bluesky expects its share of the facilities to cost \$840,000 and when in operation the plant will result in the production of an additional 600 barrels per day of natural gas liquids (NGL's) for the company's account.

This project will result in substantial increases in the company's Natural Gas Liquids reserves and production income when it commences operation.

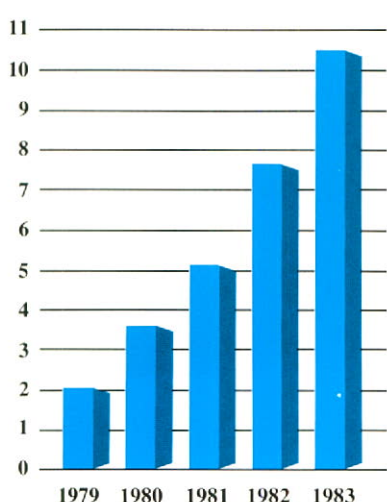
### AVERAGE DAILY OIL PRODUCTION

BARRELS OF OIL PER DAY



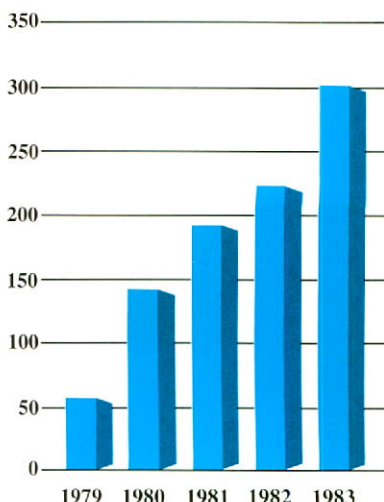
### AVERAGE DAILY GAS PRODUCTION

MILLIONS OF CUBIC FEET PER DAY



### FUTURE CASH FLOW (Discounted at 15%)

MILLIONS OF DOLLARS





## Operations — Production Report

### Reserves

Bluesky's oil and natural gas reserves at April 30, 1983 as determined by Independent Consulting Engineers, which include Bluesky's proportionate share of reserves attributable to its West Germany Limited partnerships, were 11,342,000 barrels of oil and 263.9 billion cubic feet of natural gas. These increases, compared to the previous year, are 34.2 and 78.9 percent respectively. These reserves will generate an undiscounted future cash flow of \$1,849,771,000 over the life of the properties. Discounted at 15 percent the present value of future cash flow is \$301,108,000.

### Operations

Development drilling at Crystal (Winfield) Alberta was completed during the year and the Company has an interest in seventeen producing Viking oilwells with allowables of 75 to 80 barrels per day each. Engineering and Geological Studies are presently being conducted for the purpose of unitizing the area and installing facilities for a water flood to enhance recovery of oil. The waterflood is expected to commence operation in mid 1984 and production rates will be doubled when the scheme is fully operational.

At the Bluesky operated Knobhill Unit in Central Alberta water injection started in November of 1982 and response to the pressure maintenance has increased production capacity to a gross 800 barrels per day. As a result of this performance the Unit Allowable has increased from 300 barrels per day to 450 barrels per day. Bluesky has a 25.7 percent working interest in this Unit.

During the past winter a third oil well was drilled and placed on production at Utikuma South in Northern Alberta with all three wells producing at allowable rates of 60 to 80 barrels per day. Two of these wells qualify under Provincial Regulations as five year royalty free oil discoveries. To take full advantage of this royalty free status, Bluesky and its partners are currently building twenty one miles of access road at a cost of \$1,200,000. When completed during the summer of 1983 this road will extend production and drilling operations from three months in the winter to a year round basis. This added production will add to the companies immediate cash flow and income.

In the Stoddart Field in North Eastern British Columbia the Company has taken an inactive property in which it owns an average 59 percent interest and re-established production at a current rate of 83 barrels of oil and 155 thousand cubic feet of Natural Gas per day. Efforts are continuing on this property to increase production to the allowable limit of 226 barrels and 565 thousand cubic feet per day.

In Saskatchewan, Bluesky is the largest working interest owner in the Steelman North Midale Unit No. 1 water flood project, with an approximate 34 percent interest. The Unit became effective on May 1st, 1983, and Water Flood Facilities are currently being constructed with water injection expected to commence in late summer. Gross primary production of 480 barrels per day is predicted to increase under pressure maintenance to peak levels of 900 barrels of oil per day by 1987. Under the terms of Saskatchewan's "Oil Industry Program of Recovery" announced on July 6, 1982, the Unit will qualify for reduced Crown royalties on its crude oil production.

## Financial Review

The Company experienced a dramatic growth in net income during the last three quarters of the 1983 fiscal year. After experiencing a \$47,378 loss in the first quarter due to reduced oil allowables, reduced market demand for gas and continuing high interest rates, the Company's net income for each of the last three quarters resulted in substantial increases over the previous year as follows (thousands of dollars):

<u>Net Income (Loss)</u>	<u>1983</u>	<u>1982</u>
First Quarter . . . .	\$ (47)	\$(694)
Second Quarter . .	1,989	520
Third Quarter . . .	1,846	263
Fourth Quarter . . .	1,557	(233)
<b>TOTAL</b>	<b>\$5,345</b>	<b>\$(144)</b>

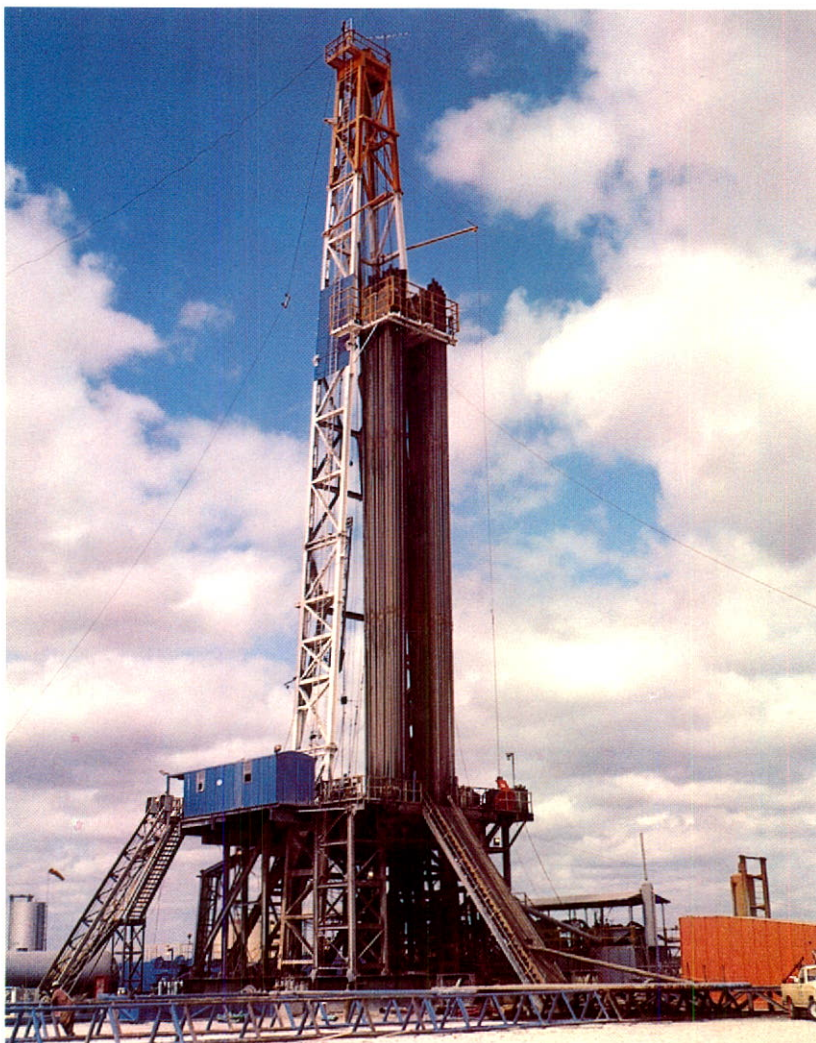
This increase was due to the continued growth of the Company's production derived income (as shown by the following schedule); the \$3,611,431 net income before tax contributed by the very successful acquisition of the 78% interest in the West German Limited Partnerships; the continued tight financial and budget controls in effect during the year and which continue in effect; and the decline in bank prime interest rates during the last three quarters from 17¼ to 11% which rate remains in effect as of the date of this report.

The Company's gross revenues reflect an overall decrease of \$18,091,127, and a corresponding reduction in cost of sales of \$22,051,290 for a net increase in net revenues of \$3,960,163. The reduction of gross revenues and cost of sales is attributable to the reduction of external drilling fund

financing available to the Company.

The Company's production derived income increased 39.3% after PGRT and 35.8% before PGRT as follows (thousands of dollars):

	<u>1983</u>	<u>1982</u>
Production derived income net of royalties and PGRT . . . . .	\$13,441	\$ 9,649
Add: PGRT deducted . . . . .	802	842
Production derived income before PGRT . . . . .	<u>\$14,243</u>	<u>\$10,491</u>
% of 1982	<u>135.8%</u>	



## Financial Review

The Company also realized a dramatic increase in its cash flow from operations during each quarter of the present year over 1982 as follows (thousands of dollars):

### Cash Flow from Operations

	1983	1982
First Quarter . . . .	\$ 222	\$ (456)
Second Quarter . . .	4,229	1,693
Third Quarter . . . .	3,669	1,122
Fourth Quarter . . .	3,454	872
	<u>\$11,574</u>	<u>\$3,231</u>

% of 1982 . . . . . 358.2%

This increase in cash flow from operations is after deducting a one-time foreign exchange loss of \$1,317,841 which was realized and recorded in the second quarter of 1983. The increase in net income shown above is also after deducting the one-time foreign exchange loss of \$922,489 net of deferred income tax of \$395,352, also in the second quarter.

The Company, in conjunction with its other Limited Partners in the ten West German Partnerships, intends to apply the cash flow from partnership operations towards the reduction of the Partnerships' bank debt. Once the partnerships' bank debts are retired, which is anticipated by July 1, 1984, Bluesky Oil & Gas Ltd.'s share of the Limited Partnerships' cash flow will be available to finance exploration and development activities of the Company.

The tight financial and budget controls will continue in effect and the Company projects a continued growth in gross revenues, net income and cash flow for the 1984 fiscal year as follows (thousands of dollars):

	Projected 1984	Actual 1983
(a) Gross Revenue . . . . .	\$21,500	\$18,616
(b) Net Income . . . . .	6,600	5,345
(c) Cash Flow from Operations . . . . .	15,000	11,574

The above projections for 1984 were prepared based on the following assumptions:

- (1) Production derived income is entirely from completed wells as at March 31, 1983.
- (2) Crude oil and natural gas prices in effect as of March, 1983 have been used for the entire 1984 fiscal year. The proposed July 1, 1983 and January 1, 1984 crude oil price increases of \$4.00 each and the August 1, 1983 and February 1, 1984 natural gas price increase of 25¢ each under the Federal Provincial Pricing Agreement have not been implemented in these projections.
- (3) Reduced crude oil allowables in effect as at March, 1983 were continued for the first two quarters of 1984.
- (4) U.S. Funds exchange rate to Canadian Funds has been estimated at 1.22:1 for the year.
- (5) Interest expense has been calculated at the bank prime rate as follows for the year:

Canadian Funds	11%
U.S.A Funds	10¾%

(6) Weighted average bank line usage estimated as follows:

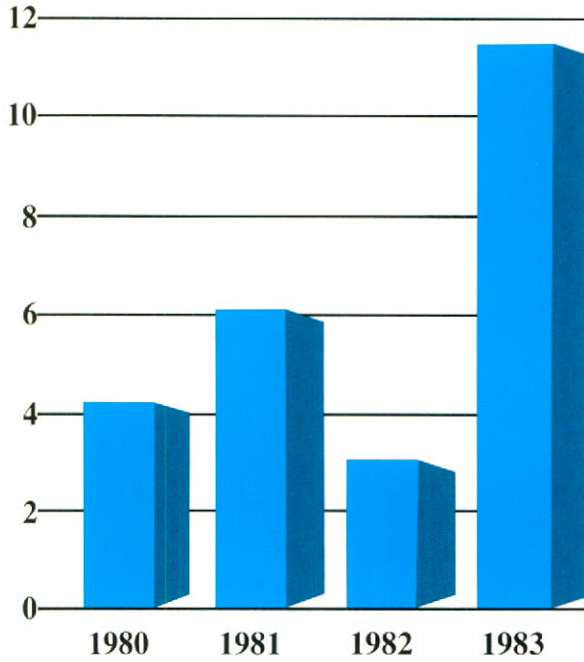
	Canadian Funds
First Quarter	\$42,400
Second Quarter	42,600
Third Quarter	42,900
Fourth Quarter	41,900

(7) No cash distributions from Limited Partnerships have been calculated for 1984.

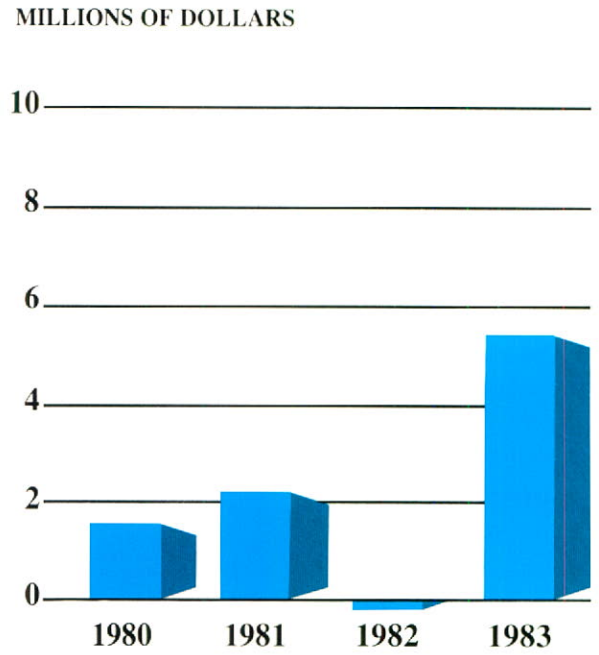
As at the date of this report, the Company was in the process of revising the 1984 projections to give effect to the following:

- (1) The June 30, 1983 Ottawa-Alberta Energy Pricing Agreement, which is explained elsewhere in this report. The Company's initial estimate is that the reclassification of S.O.O.P. oil to N.O.R.P. oil will increase our projected production income, net of royalties, by an estimated \$1,681,000.
- (2) The increase to maximum crude oil allowables effective June 1, 1983 which is expected to remain in effect until at least December 31, 1983.

**CASH FLOW**  
MILLIONS OF DOLLARS



**NET INCOME BEFORE  
EXTRAORDINARY**  
MILLIONS OF DOLLARS



**Bluesky Oil & Gas Ltd.**

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# **Consolidated Financial Statements**

**Year Ended April 30, 1983**

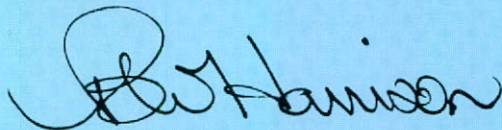
Bluesky Oil & Gas Ltd.

**Consolidated Balance Sheet**

As at April 30, 1983

Assets	1983	1982 (Note 2)
Current		
Cash in bank .....	\$ 80,357	\$ 903,616
Accounts receivable, trade .....	6,997,785	23,358,250
Alberta royalty tax credit receivable .....	1,542,523	541,018
Marketable securities, (market value \$3,750; \$3,750) .....	3,750	3,750
Inventories .....	543,996	536,615
Current portion of loans receivable .....	2,028,684	1,994,194
Prepaid expenses .....	130,721	247,035
	<b>11,327,816</b>	<b>27,584,478</b>
Property and equipment, at cost		
Petroleum and natural gas properties including well development expenditures .....	136,494,273	129,012,761
Share of Limited Partnerships' petroleum and natural gas properties (Note 3) .....	36,551,046	—
Plant and equipment (Note 4) .....	21,494,754	20,241,661
Mineral properties .....	2,818,615	1,906,672
	<b>197,358,688</b>	<b>151,161,094</b>
Less accumulated depreciation and depletion .....	10,798,838	7,564,815
	<b>186,559,850</b>	<b>143,596,279</b>
Loans receivable on sale of petroleum and natural gas properties .....	31,144,822	124,851,882
Less deferred net income thereon .....	31,144,822	124,851,882
	<b>—</b>	<b>—</b>
Other assets		
Other loans receivable .....	180,502	216,602
Notes receivable (Note 6) .....	—	964,863
Investment in shares, at cost (Note 5) .....	6,678,528	6,679,084
	<b>6,859,030</b>	<b>7,860,549</b>
	<b>\$204,746,696</b>	<b>\$179,041,306</b>

On Behalf Of The Board



Director



Director

The accompanying notes form an integral part of this statement.

<b>Liabilities</b>	<b>1983</b>	<b>1982 (Note 2)</b>
Current		
Accounts payable and accruals .....	\$ 6,914,534	\$ 21,265,830
Deposit on future services .....	658,782	1,885,559
Deferred income .....	234,171	1,128,956
PGRT payable .....	491,278	730,716
Deferred exchange gain .....	—	262,877
Notes payable .....	20,222	20,222
Share of Limited Partnerships' working capital deficiency (Note 3) .....	3,668,372	—
	<u>11,987,359</u>	<u>25,294,160</u>
Deferred take-or-pay income .....	6,693,474	1,422,172
Deferred income taxes .....	12,793,925	9,798,850
Long term debt (Note 7) .....	42,128,710	44,318,000
	<u>73,603,468</u>	<u>80,833,182</u>
 <b>Shareholders' Equity</b>		
Share capital (Note 6)		
Common		
Authorized		
100,000,000 shares without par value		
Issued and outstanding		
24,776,779 shares .....	108,994,876	80,955,440
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	5,955,620
Retained earnings .....	16,193,732	11,297,064
	<u>131,143,228</u>	<u>98,208,124</u>
	<u>\$204,746,696</u>	<u>\$179,041,306</u>

Bluesky Oil & Gas Ltd.

**Consolidated Statement of Income and Retained Earnings**

For the Year Ended April 30, 1983

	1983	1982 (Note 2)
Revenue		
Production derived income, net of royalties . . . . .	\$13,441,299	\$ 9,649,383
Geological, geophysical and drilling services . . . . .	3,201,186	20,539,131
Sale of petroleum and natural gas properties . . . . .	468,485	4,798,347
Management fees . . . . .	65,172	659,027
Interest income . . . . .	211,155	3,565,013
Dividend income . . . . .	514,405	42,867
Other income . . . . .	224,210	574,702
Share of Limited Partnerships' income (Note 3) . . . . .	3,611,431	—
	<u>21,737,343</u>	<u>39,828,470</u>
Cost of sales		
Geological, geophysical and drilling services . . . . .	2,710,073	20,520,603
Petroleum and natural gas properties . . . . .	411,558	4,652,318
	<u>3,121,631</u>	<u>25,172,921</u>
	<u>18,615,712</u>	<u>14,655,549</u>
Expenses		
Production . . . . .	1,538,825	1,448,698
General and administrative . . . . .	1,945,918	2,826,292
Interest . . . . .	6,688,943	7,597,191
Lease carrying costs of exploratory properties . . . . .	1,169	59,775
Depletion and depreciation . . . . .	2,573,540	3,207,957
	<u>12,748,395</u>	<u>15,139,913</u>
Net income (loss) before exchange loss, and income tax . . . . .	5,867,317	(484,364)
Exchange loss, net of \$395,352 of deferred tax . . . . .	922,489	—
Net income (loss) before income tax . . . . .	4,944,828	(484,364)
Income tax		
Alberta royalty tax credit . . . . .	(3,791,290)	(540,025)
Income tax provision (Note 8) . . . . .	3,391,425	199,911
Net income (loss) . . . . .	5,344,693	(144,250)
Retained earnings, beginning of period . . . . .	11,297,064	12,290,934
Preferred share dividends — Series A . . . . .	(416,825)	(418,820)
— Series B . . . . .	—	(430,800)
Issuance cost of shares . . . . .	(31,200)	—
Retained earnings, end of period . . . . .	<u>\$16,193,732</u>	<u>\$11,297,064</u>

The accompanying notes form an integral part of this statement.



## Bluesky Oil &amp; Gas Ltd.

**Consolidated Statement of Changes in Financial Position**

For The Year Ended April 30, 1983

	1983	1982 (Note 2)
Financial resources were provided by		
Operations		
Net income (loss) .....	\$ 5,344,693	\$ (144,250)
Add non-cash items		
Depletion and depreciation .....	3,234,023	3,207,957
Deferred income tax .....	2,995,075	166,956
	<u>11,573,791</u>	<u>3,230,663</u>
Decrease in loans receivable .....	2,789,311	1,208,728
(Decrease) in deferred income thereon .....	<u>(2,789,311)</u>	<u>(1,208,728)</u>
	<u>—</u>	<u>—</u>
Decrease in other loans .....	36,100	36,101
Decrease in notes receivable .....	—	22,125
Increase in long term debt .....	—	7,372,600
Increase in deferred take-or-pay income .....	<u>5,271,302</u>	<u>998,547</u>
Proceeds on issue of shares		
Common .....	1,000	456,750
Series A Preferred (converted to Common) .....	<u>(1,000)</u>	<u>(291,000)</u>
	<u>—</u>	<u>165,750</u>
	<u>16,881,193</u>	<u>11,825,786</u>
Financial resources were used for purchase of property and equipment		
Petroleum and natural gas properties .....	7,481,512	21,257,021
Plant and equipment .....	1,253,093	3,042,721
Mineral properties .....	911,943	417,156
Share of Limited Partnerships' petroleum and natural gas costs since acquisition .....	<u>3,678,018</u>	<u>—</u>
Transfer from inventory		
Undeveloped petroleum and natural gas leases .....	—	17,628,925
Undeveloped mineral properties .....	—	1,489,516
	<u>13,324,566</u>	<u>43,835,339</u>
(Decrease) increase in investment in common shares .....	<u>(556)</u>	<u>437,500</u>
Acquisition of interest in Limited Partnerships .....	32,873,028	—
Less common shares issued .....	<u>29,046,499</u>	<u>—</u>
	<u>3,826,529</u>	<u>—</u>
Issuance cost of shares .....	31,200	—
Decrease in long term debt .....	<u>2,189,290</u>	<u>—</u>
Purchase of common shares .....	1,008,063	—
Less reduction of notes applicable thereto .....	<u>964,863</u>	<u>—</u>
	<u>43,200</u>	<u>—</u>
Redemption of Series B preferred		
Total redemption price .....	—	7,180,000
Less reduction of notes applicable to Series B .....	—	7,180,000
	<u>—</u>	<u>—</u>
Preferred share dividend — Series A .....	416,825	418,820
Preferred share dividend — Series B .....	—	430,800
	<u>19,831,054</u>	<u>45,122,459</u>
(Decrease) in working capital .....	<u>(2,949,861)</u>	<u>(33,296,673)</u>
Working capital, beginning of period .....	2,290,318	35,586,991
Working capital (deficiency), end of period .....	<u>\$ (659,543)</u>	<u>\$ 2,290,318</u>

The accompanying notes form an integral part of this statement.

## Notes to Consolidated Financial Statements

As At April 30, 1983

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidation

The consolidated financial statements have been prepared based on the April 30, 1983 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:

<u>Classification</u>	<u>Rate of Exchange</u>
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 for each well; such income to be payable with commencement of production of each well.

#### 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.

#### 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

On June 14, 1982 and July 31, 1982 the Company accepted the offer of certain limited partners of ten West German limited partnerships to acquire their interests in each of the ten limited partnerships ranging from 66.0% to 84.6% of the total interests of the partnerships. The effective date of the acquisitions was January 1, 1982.

The acquisition of the German Partnership Interests was made in consideration of the issuance from Treasury of 9,972,509 common shares of the Company based on a net asset value of \$12.02 per share. The German Partnership interests and the common shares were valued for the purpose of the offer on the basis of the oil and gas properties of the German Partnerships and the Company respectively, discounted at 15% together with the other assets and liabilities per the audited statements of each as at December 31, 1981.

The acquisition of the German Limited Partnership Interests has been recorded based on the market value of the Company's shares on the Toronto Stock Exchange on the day the offers were accepted at values of \$2.91 and \$2.95 as per note 6.

The recorded value has been allocated firstly to the Company's share of the Limited Partnerships' working capital deficiency at the date of acquisition with the balance allocated to the Company's proportionate share of the Limited Partnerships' petroleum and natural gas properties. The Company has recorded its proportionate share of increases or decreases in the Limited Partnerships' assets, liabilities, and earnings since the effective date of acquisition. Accordingly, the Company's proportionate share of increases and decreases of the Limited Partnerships' assets, liabilities and earnings are for the sixteen months ended April 30, 1983 as follows:

### A. Investment in Limited Partnerships

	Share of Working Capital Deficiency	Share Of Petroleum and Natural Gas Properties	Total
At date of acquisition January 1, 1982 .....	\$(2,788,009)	\$32,873,028	\$30,085,019
Share of net income January 1, 1982 to April 30, 1983 .....	3,611,431	—	3,611,431
Share of distribution of earnings to limited partners .....	(1,474,907)	—	(1,474,907)
Share of petroleum and natural gas property additions .....	(3,678,018)	3,678,018	—
Depletion expense .....	661,131	(661,131)	—
As at April 30, 1983 .....	<u>\$(3,668,372)</u>	<u>\$35,889,915</u>	<u>\$32,221,543</u>

## B. Share of Limited Partnerships' income

Revenue	
Production derived income, net of royalties .....	\$9,520,809
Interest income .....	180,840
Other income .....	172,978
	<u>9,874,627</u>
Expenses	
Production .....	1,815,319
General and administrative .....	1,539,881
Interest .....	2,246,865
Depletion .....	661,131
	<u>6,263,196</u>
Share of Limited Partnerships' income .....	<u>\$3,611,431</u>

## 4. PLANT AND EQUIPMENT

	April 30, 1983		April 30, 1982	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Production equipment .....	\$12,600,871	\$2,928,516	\$ 9,672,355	\$ 9,553,078
Plant and gathering equipment .....	7,002,296	1,851,066	5,151,230	5,257,769
Office equipment .....	1,891,587	633,281	1,258,306	1,569,612
	<u>\$21,494,754</u>	<u>\$5,412,863</u>	<u>\$16,081,891</u>	<u>\$16,380,459</u>

## 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 are redeemable at \$18.00 by the issuing company only if the common shares of the issuing company have traded on a recognized Canadian stock exchange for a period of ninety consecutive days at a price of not less than the redemption price. All preferred shares outstanding at December 30, 1985 must be redeemed at \$18.00 per share.

## 6. SHARE CAPITAL

### A. Common shares

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

	Number of Shares Issued (Cancelled)	Value
Employee share purchase shares cancelled per note 6A(c) .....	(262,014)	\$ (1,008,063)
On conversion of 200 Series A preferred shares .....	200	1,000
Pursuant to acquisition of interests in ten West German Limited Partnerships per note 6A(d) .....	9,972,509	29,046,499
Balance issued April 30, 1982 .....	18,590,884	80,955,480
	<u>28,301,579</u>	<u>108,994,916</u>
Less shares held by subsidiary at cost .....	(3,524,800)	(40)
Issued and outstanding April 30, 1983 .....	<u>24,776,779</u>	<u>\$108,994,876</u>

As at April 30, 1983, the Company's wholly-owned subsidiary, Bluesky Oil and Gas Inc., owned 3,524,800 shares of the Company's common shares which represents 12.45% 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 \$3.00 per share .....	185,000
Options cancelled during the year .....	<u>(115,000)</u>
Net granted during the year .....	70,000
Balance outstanding, April 30, 1982 .....	<u>423,000</u>
Balance outstanding, April 30, 1983 .....	<u>493,000</u>
Shares reserved under the Employee Stock Option Plan as at April 30, 1983 .....	<u>257,000</u>

The above options are exercisable at a price of \$3.00 per share and expire in a range from 1 to 4 years.

(c) On July 7, 1982, the Company acquired all of the common shares outstanding under the Employees' Share Purchase Plan, in accordance with Regulatory approval, previously received, which required the proceeds to be applied against the loan balance applicable to the shares. Under the acquisition, 262,014 common shares were purchased at an average price of \$3.85 for a cost of \$1,008,063 of which \$964,863 was applied to the loan balance as at that date.

(d) Pursuant to the Company's acquisition of interests in ten West German Limited Partnerships, the Company issued common shares as follows:

June 14, 1982 at a market value of \$2.91 per share .....	9,310,057
July 30, 1982 at a market value of \$2.95 per share .....	<u>662,452</u>
Total issued pursuant to acquisition of Limited Partnership Interests .....	<u>9,972,509</u>

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

(a) Series A preferred shares converted to common shares .....	(200)
Balance issued, April 30, 1982 .....	<u>1,191,124</u>
Balance issued, April 30, 1983 .....	<u>1,190,924</u>

(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 increased its bank line of credit from \$50,000,000 to \$55,000,000 with interest at the bank prime rate. In addition, the Company has arranged a letter of credit availability of \$5,500,000, a tender credit facility of \$1,000,000 for purposes of bidding at Crown lease sales and a \$500,000 cheque cashing facility in New York for Bluesky Oil & Gas Inc. The bank line and additional credit facilities established 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, 1984 and the Company has the option to convert the outstanding balance to a five year term loan with interest at bank prime rate plus 1/2%.

In accordance with the terms of the loan agreement, the April 30, 1983 loan balance of \$42,128,710 has been classified as a long term debt. This amount includes \$8,500,000 of U.S. dollar loans.

## 8. INCOME TAXES

The current year's income tax provision has been reduced by the amount of \$1,262,742 with respect to investment tax credits.

## 9. NET EARNINGS (LOSS) PER COMMON SHARE

	April 30, 1983	April 30, 1982
Basic		
Net earnings (loss) .....	19.9¢	(6.6)¢

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.

As 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 \$6,500 and to senior officers (including the five highest paid employees) of the Company amounted to \$612,932.

## 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)					
	1983			1982		
	Canada	United States	Total	Canada	United States	Total
Revenue .....	\$ 18,154	\$ 3,583	\$ 21,737	\$ 24,886	\$14,943	\$ 39,829
Cost of sales .....	2,922	199	3,121	13,192	11,981	25,173
	<u>15,232</u>	<u>3,384</u>	<u>18,616</u>	11,694	2,962	14,656
Expenses						
Depletion and depreciation .....	1,978	595	2,573	1,782	638	2,420
Other .....	2,858	628	3,486	2,640	2,483	5,123
	<u>4,836</u>	<u>1,223</u>	<u>6,059</u>	<u>4,422</u>	<u>3,121</u>	<u>7,543</u>
Segmented income (loss) before undernoted items .....	<u>\$ 10,396</u>	<u>\$ 2,161</u>	<u>\$ 12,557</u>	<u>\$ 7,272</u>	<u>\$ (159)</u>	<u>\$ 7,113</u>
Interest expense .....			6,689			7,597
Exchange loss (net of \$395 of deferred tax) .....			923			—
Income tax (recovery) .....			(400)			(340)
Net income (loss) .....			<u>\$ 5,345</u>			<u>\$ (144)</u>
Total assets .....	<u>\$176,538</u>	<u>\$28,209</u>	<u>\$204,747</u>	<u>\$147,435</u>	<u>\$31,606</u>	<u>\$179,041</u>

## 12. RELATED PARTY TRANSACTIONS

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 has acquired an interest as per note 3.

## Auditors' Report

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### To The Shareholders:

We have examined the consolidated balance sheet of Bluesky Oil & Gas Ltd. as at April 30, 1983 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, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Deloitte Haskins & Sells*

Chartered Accountants  
Calgary, Alberta  
July 28, 1983

## Bluesky Oil & Gas Ltd. — Corporate Information



Board of Directors: Front Row — Left to Right, John A. Masters, Barry W. Harrison, Ronald W. Springer. Back Row — Left to Right: Dr. Ulrich Christopheit, Robert A. Wisener, Klaus Hebben, Dr. Dietrich H. Welte.

### Directors

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

Barry W. Harrison<sup>1</sup>  
President & Chief Executive Officer  
Calgary, Alberta

Klaus Hebben<sup>1</sup>  
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<sup>1</sup>  
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<sup>1</sup>  
Managing Partner,  
The MerBanco Group  
Calgary, Alberta

<sup>1</sup>Executive Committee



**Officers**

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

**Wholly-owned Subsidiaries**

Bluesky Oil & Gas Inc.  
Bluesky Mining Ltd.

**Auditors**

Deloitte Haskins & Sells  
#2300 Bow Valley Square III  
255 - 5th Avenue S.E.  
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: BKYY

**Offices**

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

Bluesky Oil & Gas Inc.  
#700 Dome Tower  
1625 Broadway  
Denver, Colorado 80202

**Units of Measure**

Throughout this report the more familiar units of measure have been used. In order to allow conversion to the S.I. (metric) system, the following conversion table is provided:

**Volume**

Gas:

One thousand cubic feet (mcf) =  
28.17399 cubic metres (m<sup>3</sup>)

Oil:

One barrel (bbl) =  
0.15891 cubic metre (m<sup>3</sup>)

**Distance**

One mile (mi) =  
1.60900 kilometre (km)

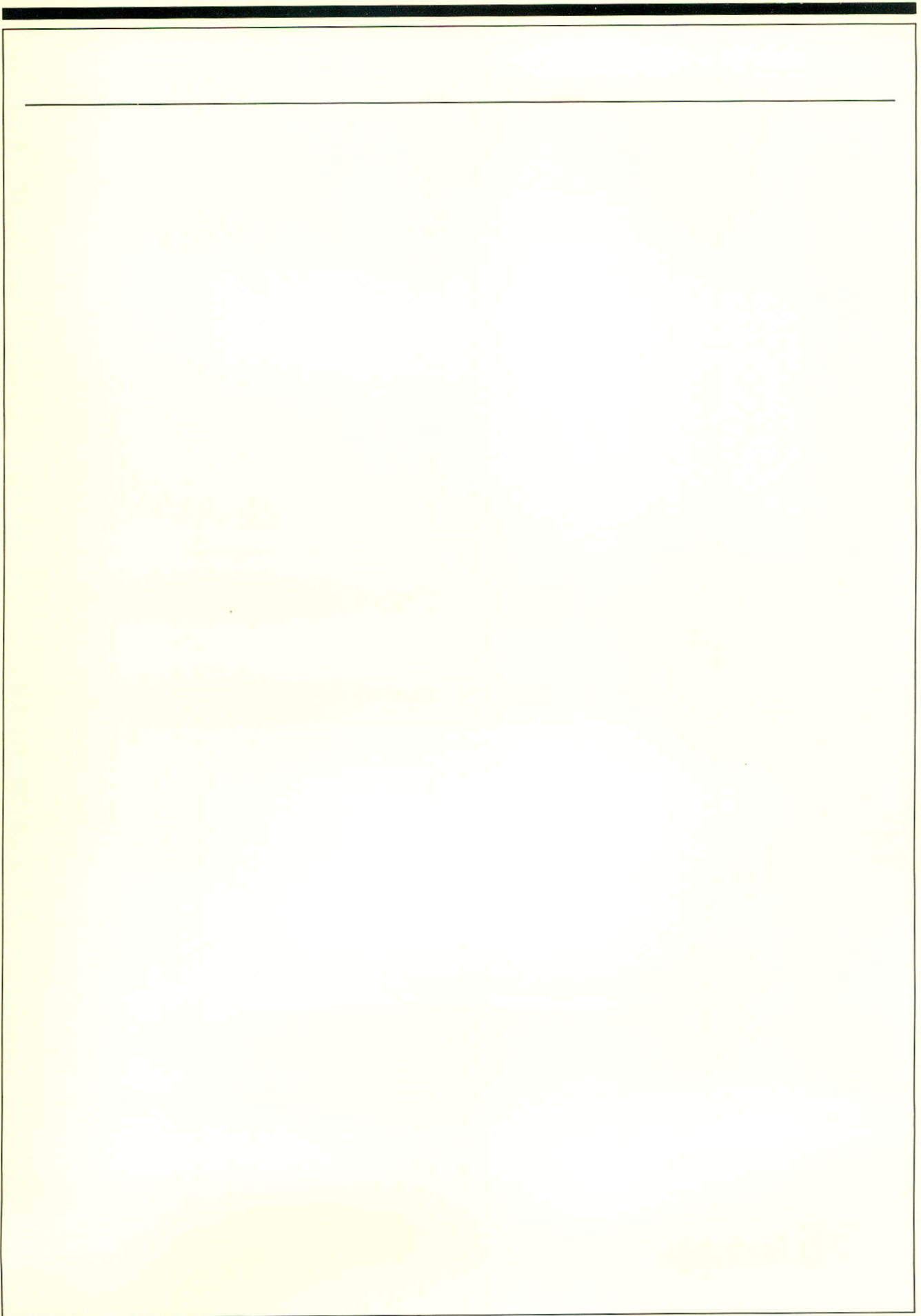
One foot (ft) =  
0.30480 metre (m)

**Area**

One acre =  
0.40469 hectare (ha)

## Notes

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**BLUESKY OIL & GAS LTD.**  
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