C

BlueSky Oil & Gas Ltd.

annual report 1982

Corporate Information

Directors

Klaus Hebben
President, eee Gesellschaft zur
Exploration von Erdol und Erdgas mbH
Munich, West Germany

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

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

Ronald W. Springer
Vice President, Finance
Calgary, Alberta

Robert A. Wisener
Managing Partner, The Merbanco Group
Calgary, Alberta

Officers

Barry W. Harrison
President & Chief Executive Officer

Daryl H. Connolly
Vice President, Corporate Development

Arthur C. Eastly
Vice President, Production

Clifford A. Rae
Secretary

Ronald W. Springer
Vice President, Finance

Wayne S. Tait
Vice President, Land

Wholly Owned Subsidiaries

Bluesky Oil and Gas Inc.
Bluesky Mining Ltd.

Auditors

Deloitte Haskins & Sells
#2300 Bow Valley Square III
255 - 5 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

Offices

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

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

Bluesky's Annual Shareholders Meeting will be held October 14, 1982 at 2:30 p.m. in the Lakeview Room of the Westin Hotel, Calgary, Alberta.

Units of Measure

Throughout this report the more familiar imperial 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 (m3)
Oil: One barrel (bbl) = 0.15891 cubic metre (m3)

Distance

One mile (mi) = 1.60900 kilometer (km)
One foot (ft) = 0.30480 metre (m)

Area

One acre (ac) = 0.40469 hectare (ha)

Highlights For 1982

1. Development of significant new oil field at Winfield.
2. Identification of new oil discovery at Utikuma South.
3. Initial gas production at North Joffre and Drumheller.
4. Full year of contract gas production in Elmworth-Wapiti Field.
5. Successful completion of 43 gas wells and 49 oil wells.
6. A total of 29 wells drilled on Company prospects at no cost.

FINANCIAL HIGHLIGHTS

(12 month period ending April 30, 1982)

Net Revenues	$ 14,655,549
Cash Flow from Operations	$ 3,230,663
Per Share	15.8¢
Net Loss	$ 144,250
Per Share*	6.6¢

Operational Highlights

Reserves	
Natural Gas (million cubic feet)	147,530
Oil (barrels)	8,453,100
Years Production	
Natural Gas (million cubic feet)	2,797
(million cubic feet per day)	7.6
Oil (barrels)	342,191
(barrels per day)	937
Drilling	
Total Wells	126
Gas Completions	43
Oil Completions	49
Other	2

*See Note 9 in the Consolidated Financial Statements.

Letter to the Shareholders

Barry W. Harrison, President and Chief Executive Officer

The last six months of 1981 and the first six months of 1982 have seen extreme adversity within the Canadian petroleum and natural gas industry. This adversity results from a combination of high taxation introduced by the National Energy Program; high interest rates; the lack of markets for natural gas; the Alberta crude oil production cutbacks imposed during the Edmonton-Ottawa energy negotiations; and reduced crude oil demand brought about by the change in Canadian supply during the first quarter of 1982. In addition to these industry conditions, Bluesky has experienced poor production performances from its wells in the Austin Chalk trend of south-central Texas, the focus of the Company's U.S. drilling activities during late 1980 and fiscal 1981. Moreover, the reduction of external drilling fund financing has resulted in an increase in the Company's share of overhead which in turn has had an impact on the current year.

Net revenues for the year totalled $14,655,549; an increase of 32% over net revenues for the previous year. However, an increase in interest expense and overhead during fiscal 1982 resulted in a loss from operations of $144,250 or 6.6¢ per share.

On a positive note, the Company's income derived from production increased 20.3% to $9,649,383 from $8,021,135. Daily production, while below projected levels, managed an increase in oil of 15.4% and in gas of 49.5% over the previous year. Bluesky's production for the year was 342,191 barrels of oil, an average of 937 barrels per day, and 2,797 million cubic feet of gas, a daily average of 7.6 million cubic feet.

During the year, the Company participated in the drilling of 126 wells resulting in 49 oil wells, 43 gas wells and 2 injection wells for an overall success ratio of 76%. At year-end, 3 wells were drilling.

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 8,453,100 barrels and natural gas reserves of 147,530 million cubic feet. Future undiscounted cash flow from these reserves is estimated at $1,099,781,000. The present value of this future cash flow, discounted at 15%, is $222,775,000, representing a 12.9% increase over the estimates made for 1981.

Bluesky during fiscal 1982 continued to participate in a number of oil and gas joint ventures with industry partners. The Company's holdings through Canadian Hunter Exploration Ltd., which are concentrated in the Elmworth and Wapiti areas of Alberta, have been and continue to be one of your Company's major assets. This joint venture will terminate at the end of 1982 at which time Bluesky will become a 2% working interest owner in the properties held by the joint venture. This interest is in addition to the 6¼% to 8¾% interests currently owned by the company in certain acreage in Elmworth. Bluesky and its investing partners elected not to participate in the 1982 American Hunter Exploration Joint Venture. As a result of this election, the group's interest in lands acquired during previous joint venture years will be reduced to approximately 5%. The group will, however, be carried for an approximate 5% interest in all drilling and in all lands acquired by the American Hunter Joint Venture in the year 1982. Bluesky retains the right to participate as to a 5% interest in the 1983 joint venture program with the election to be made in December 1982.

Fiscal 1982 saw a continuation of the Company's mineral exploration programs in Canada and in the United States. Drilling was conducted on the Company's Vauper gold property in Quebec and on our lead-silver prospect at Crystal Creek, British Columbia. Both programs have advanced the properties and will allow Bluesky to maintain those claims of interest for several years with minimum expenditures. The Bluesky-Canyon U.S. mineral joint venture has to date identified and acquired 13 mineral prospects in the western United States.

Industry partners are being sought for further exploration of these properties.

In October of 1981, Bluesky agreed to participate with Canyon Resources PTY Limited in a mineral joint venture encompassing New Zealand and Australia. The Company agreed to acquire a 25% interest by the expenditure of $500,000 U.S. over three years on the identification, delineation and acquisition of mineral claims with the intent being to farmout such prospects to third parties. This program is continuing with prospects at various stages of acquisition and evaluation.

As reported in the Company's Interim Report for the period ended January 31, 1982, Bluesky was negotiating the acquisition of limited partnership interests in ten West German Limited Partnerships. These acquisitions were concluded on July 31, 1982 with the Company issuing 9,970,533 common shares to acquire assets valued at $119,800,000, using a 15% discount factor. This transaction is reported as a subsequent event in the enclosed financial statements. It is expected that the Company's production income and cash flow will be greatly enhanced in fiscal 1983 as a result of these acquisitions.

Bluesky's exploration and development activities for the ensuing year will be directed to areas where near-term cash flow can be realized. In Canada, your Company will concentrate on oil plays. Gas plays will not be pursued or drilled unless there is an existing market for the product, or, in the alternative, drilling is required to maintain or extend leases in areas where the Company has significant gas reserves. In the United States, your Company will pursue both oil and gas plays with priority directed to those prospects which will add the greatest reserves to the Company's interests. Bluesky will continue its management goals of controlling overhead and reducing long term debt.

On Behalf of the Directors

BARRY W. HARRISON
President & Chief Executive Officer

August 31, 1982
Calgary, Alberta

Exploration Highlights

Bluesky Canadian Drilling Results
Fiscal 1982

	Gas	Oil	Water Injection	D&A	Drilling	Total
Working Interest						
Exploratory	2	4	0	1	0	7
Development	8	15	2	1	1	27
Canadian Hunter*	19	1	0	6	0	26
Farmouts	10	7	0	8	0	25
Totals	39	27	2	16	1	85

*Participation through joint venture

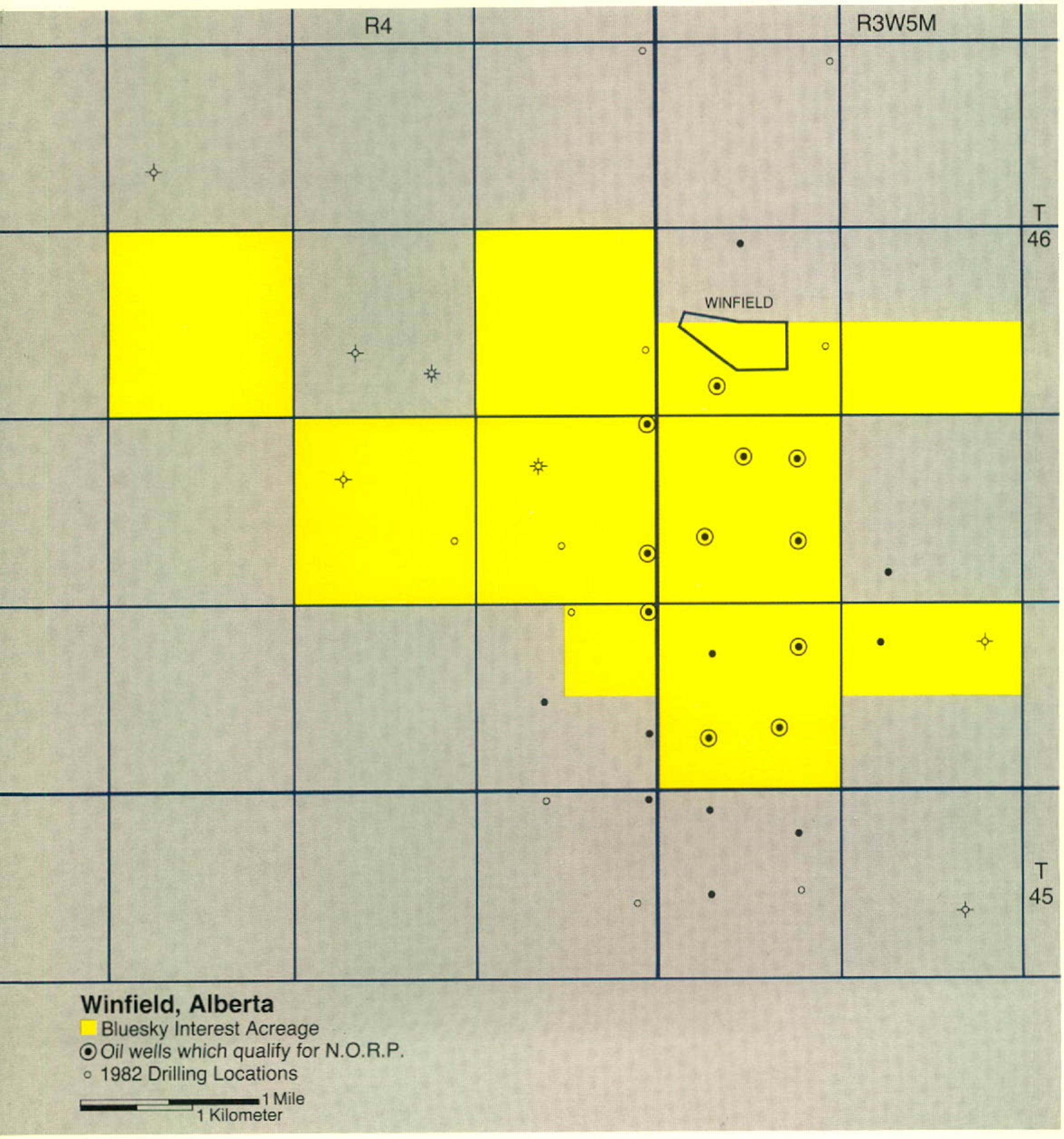
Oil and Natural Gas Canada

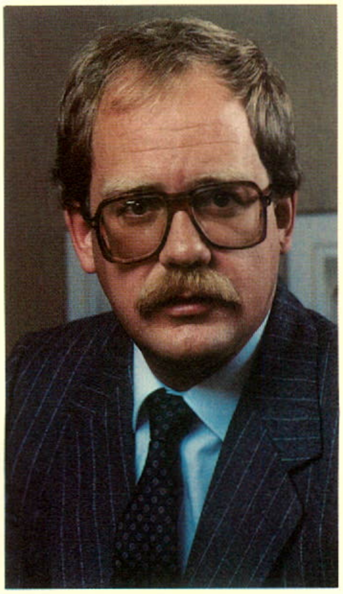
Bluesky participated in a total of 85 wells, resulting in 39 gas wells, 27 oil wells and two water injection wells for a success ratio of 80%. One well was drilling at year end. Of these, 26 are a result of the Canadian Hunter joint venture in the Elmworth area of northwestern Alberta. This is a reduction in activity from 1981 which reflects the present economic situation and the resultant increased standard in prospect selection. Throughout its 1982 fiscal year Bluesky concentrated on generation and participation in only those prospects that would yield cash flow within a short term. Therefore, investments in gas prospects with no immediate marketing possibilities were avoided or farmed out and a concentrated effort was made to generate and drill new oil plays. This will continue to be the objective of Bluesky's management throughout its 1983 fiscal year.

The most significant drilling activities in Canada during 1982 have been Bluesky's participation in the Winfield Viking oil pool located in west central Alberta and the Utikuma South area of north central Alberta. In both cases substantial oil reserves have been established which qualify for the Canadian New Oil Reference Price (N.O.R.P.).

Pembina-Knobhill Production Battery

Oil Pumpjack at Winfield





Wayne S. Tait, Vice President, Land

Winfield

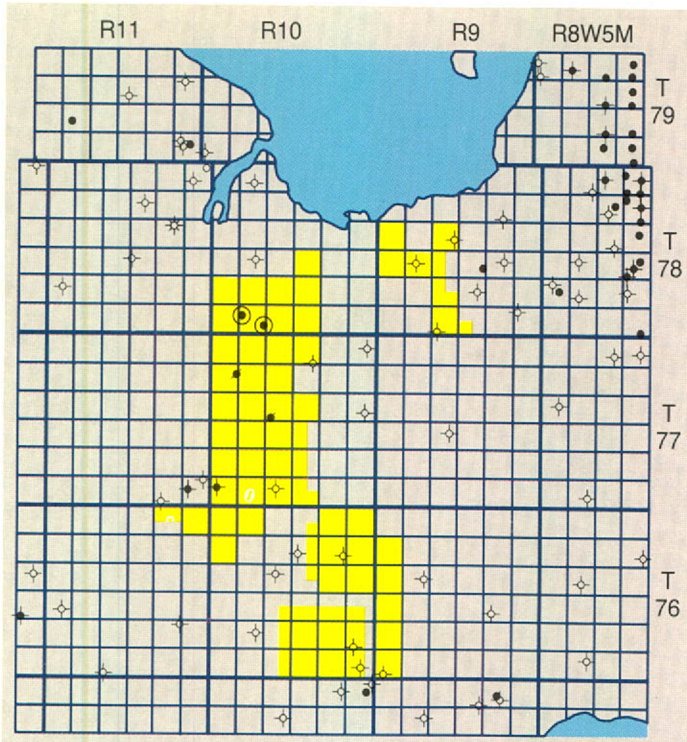
At Winfield, Bluesky has participated in the drilling of 13 oil wells and anticipates the drilling of three additional wells before year end. The prolific Viking reservoir has had a significant impact on Bluesky's oil production. The Viking in this pool appears to be a channel deposit with gross pay sections up to 92 feet thick and a proven aerial extent of over six square miles.

Eleven of the development wells qualify as N.O.R.P. oil with allowables in the range of 70 BOPD. This field has now been designated by the Energy Resources Conservation Board as the Crystal Pool. The Company holds a 12.5% working interest in 2,720 acres, a 50% working interest in 480 acres and has the option to drill and earn a 6.25% interest in 640 acres.

Central gathering and production facilities are being designed for installation in the fall of 1982. Engineering studies on the feasibility of an enhanced recovery project are in the preliminary stages and it is expected that secondary recovery will be in operation by December of 1983.

Utikuma South — Shaw Creek

In the Utikuma South area of north central Alberta, Bluesky has identified a significant new oil pool. To date, four wells have been drilled, two of which are classified as oil wells and two have been suspended. The initial discovery well (8-5-78-10 W5M), in which Bluesky owns a 26.2% working interest, was completed in January 1982



Utikuma South, Alberta
Bluesky Interest Acreage
⦿ Oil wells which qualify for N.O.R.P.
• Suspended Oil Wells
2 Miles
2 Kilometers

Bluesky Land Holdings As Of April 30, 1982

	Bluesky Working Interest Acreage		Canadian American Hunter Joint Venture Acreage	
	Gross	Net	Gross	Bluesky Net
CANADA				
Alberta	774,407	117,615	1,426,137	14,061
BC	271,338	34,298	7,727,590	122,549
Saskatchewan	5,280	1,919	—	—
	1,051,025	153,832	9,153,727	136,610
UNITED STATES	363,415	73,607	2,436,876	50,536
TOTALS	1,414,440	227,439	11,590,603	187,146

BLUESKY TOTAL
Gross 13,005,043
Net 414,585

and has produced at stabilized rates of 110 BOPD. This discovery is royalty free for five years and qualifies as N.O.R.P. oil. The development well (12-5-78-10 W5M) has been drilled and although not yet completed, the results appear very encouraging. Bluesky holds an average 31.2% interest in 39,087 gross acres in this area; an increase of 16,640 gross acres over fiscal 1981. Over the last year the Company has also purchased or shot 77 miles of seismic which is presently being reviewed to determine this year's drilling activity.

Lanaway

In early 1981 Bluesky operated the drilling of a well (10-16-36-3 W5M) in the Lanaway area of central Alberta. This well, completed as a Cardium oil well with a stabilized rate of 20 BOPD, has recently been completed in a lower horizon and early indications are that this zone can maintain rates of 70 BOPD. Both zones qualify as N.O.R.P. oil with combined reserves estimated at 200,000 barrels per 160 acres located on this prospect. The Company holds a 23% working interest in 320 acres and a 50% working interest in 960 acres located on this prospect. The discovery location will be offset this fall to evaluate the oil potential of Bluesky's high working interest acreage.

United States

Bluesky participated in 41 wells resulting in 22 oil wells and 4 gas wells for a success ratio of 66%. Two wells were drilling at year end. Eighteen of these wells were drilled on acreage contained within the American Hunter joint venture. During the 1982 fiscal year, Bluesky's Denver office initiated increased exploration activities in the mid-continent portion of the United States.

In the Powder River Basin, Bluesky drilled two oil wells as follow-ups to the Federal #3-10 discovery in the Bakers Ranch Prospect of Weston County, Wyoming. These relatively shallow Dakota sands produce at rates from 30 to 80 BOPD with Bluesky's interest ranging from 25% to 50%. Further drilling is planned for this area.

In Grant County, Oklahoma, Bluesky participated for 25% in the drilling of the Kretchmar #1-5 discovery well. This well has maintained a production rate of 56 BOPD production rate for ten months from the First Wilcox sand with untapped potential in the Seminole and Second Wilcox sands. Two additional locations are proposed; one on the Kretchmar block and one on the South Numa block. Bluesky also participated in a 240 mile group seismic program, located in Grant Country, which identified


R68W
T 48 N
T 47 N
Bakers Ranch, Wyoming
Bluesky Interest Acreage
Producing Oil Wells
Proposed Drilling Locations
1 Mile
1 Kilometer
R58W
T 17 N
West Albin, Nebraska
Bluesky Interest Acreage
Producing Oil Well
1 Mile
1 Kilometer
R58W
T 17 N
Buck, Nebraska
Bluesky Interest Acreage
Producing Oil Well
Proposed 1982 Drilling Location
1 Mile
1 Kilometer
R58W
T 16 N
T 15 N
Harris, Nebraska
Bluesky Interest Acreage
Producing Oil Well
Proposed 1982 Drilling Location
1 Mile
1 Kilometer
R4W
R34
T 28 N
KRETCHMAR BLOCK
GROSS ACRES 2,000
NET ACRES 800
NORTH NUMA
GROSS ACRES 2080
NET ACRES 520
T 27 N
SOUTH NUMA
GROSS ACRES 5120
NET ACRES 1280
T 26 N
Nemaha Ridge, Oklahoma
Bluesky Interest Acreage
Producing Oil Wells
Proposed 1982 Drilling Locations
1 Mile
1 Kilometer
WYOMING
NEBRASKA
KANSAS
OKLAHOMA

Clem J. Benteau
Chief Geologist

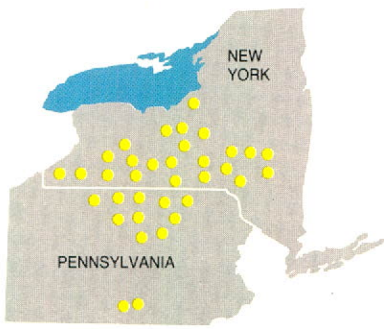
several new prospects. Land has been purchased on four prospects and partners have been promoted on two of these resulting in the Company recovering all land costs and receiving on each a commitment to drill an exploration well at no cost to Bluesky.

In the Denver Basin, Bluesky participated in the drilling of the development well Sundance et al #1-20 on the West Albin prospect. A development well Vavra #1-4, will be drilled in fiscal 1983 on the Harris Prospect. Additional drilling is proposed for the West Albin and Buck Prospects. These prospects are located in Banner and Kimball Counties, Nebraska.

Bluesky's Appalachian joint venture with Bowman Development Ltd. during the 1982 fiscal year completed the acquisition of approximately 200,000 acres in New York and Pennsylvania and drilled six wells. To date, two wells have been completed which appear uneconomic. Bluesky holds a 20% interest in the joint venture and will attempt, during the next fiscal year to secure industry participation in this acreage.

In addition to the joint venture Bluesky participated in the successful drilling of a Queenston gas well in Madison County, New York, which has resulted in the purchase of infill acreage and the proposed drilling of two development wells. It is anticipated that this well will be on stream in fiscal 1983 at an estimated rate of 500 MCF/D. Bluesky has a 12.5% working interest in approximately 27,000 acres on this prospect.

Bluesky Appalachian Joint Venture



New York:
139,469 GROSS ACRES
25,477 NET ACRES (BLUESKY)
Pennsylvania:
78,993 GROSS ACRES
16,088 NET ACRES (BLUESKY)
Madison County, New York:
26,746 GROSS ACRES
3,343 NET ACRES (BLUESKY)

● Bluesky Interest Acreage

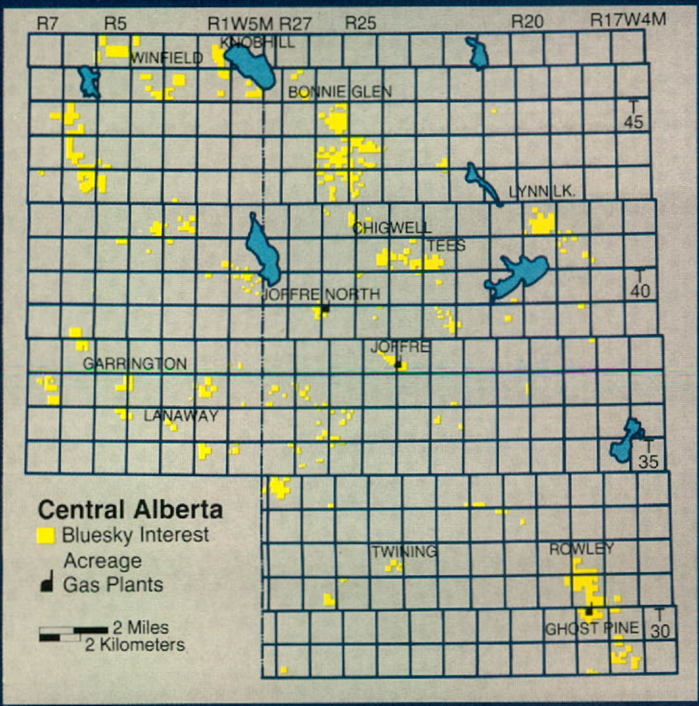
Bluesky United States Drilling Results
Fiscal 1982

	Gas	Oil	D&A	Drilling	Total
Working Interest					
Exploratory	1	8	3	0	12
Development	1	3	3	0	7
American Hunter*	1	10	5	2	18
Farmouts	1	1	2	0	4
Totals	4	22	13	2	41

*Participation through joint venture

Operations — Production

Ghostpine Gas Processing Plant



Bluesky produced a total of 342,191 barrels of oil during the past twelve months for an average of 937 barrels per day, an increase of 15.4 percent over the previous year. A maximum production rate of 1160 barrels per day occurred in December when the Alberta well allowables were at their highest level.

Natural gas production for the year totaled 2,797 million cubic feet or an average of 7.6 million cubic feet per day, an increase of 49.5 percent over year before totals. During the winter months gas production reached levels of 9.6 million cubic feet per day. Increased gas deliveries resulted from an increase in Elmworth production and an additional eight wells commencing production in December, 1981, at North Joffre and Ghostpine, Alberta.

The political struggle between the Canadian and the Alberta Governments over the energy industry and for a bigger share of the industry's revenue caused significant reductions in production levels of both oil and gas. On March 1, 1981, the Alberta Government implemented a cutback in oil production which reduced the allowables on the excellent oil producing properties at Utikuma Lake by 59.4 percent. These cutbacks did not end until October 1, 1981 and continued to affect market demand through November. The effect of the cutback over the first six months of this reporting period was to reduce total Company operated production in Canada by 9.2 percent for the year.

Again in the spring of 1982 the National Energy Policy disrupted normal market forces and oil demand dropped by 38.2 percent in April as compared to March.

Natural gas supplies continue to far exceed market demand and as a consequence, the industry is suffering from low contract volumes on existing producing properties and long delays in bringing shut-in reserves on stream. Current market demand is approximately 65 percent of contracted volumes and this has forced revisions of contracts and frequent interruptions in production.

Arthur C. Eastly,
Vice President, Production

Reserves

At the end of the reporting period Bluesky's oil and natural gas reserves were 8,453,100 barrels of oil and 147,530 million cubic feet of natural gas which will generate an undiscounted future cash flow of $1,099,781,000. The present value of this future cash flow, discounted at 15 percent, is $222,775,000 an increase of 12.9 percent from $197,286,000 at the end of fiscal 1981.

With this report, the Company is making a change in the method of reporting production and reserves from after royalty numbers to before royalty numbers. This change is considered necessary because of constantly changing governmental regulations which make the prediction of royalty rates very difficult. The new reporting method will also coincide with general industry practice.

For comparison purposes reserves are graphically shown in this report both before and after royalties for the four year period, 1979 through 1982.

Bluesky's participation in thirteen Viking oilwells at Winfield has contributed significantly to the company's oil reserves. This pool now has estimated gross recoverable reserves of 18,000,000 barrels and independent consulting engineers have calculated the Company's working interest share to be 2,249,000 barrels, an increase of 2,148,000 barrels from year ago totals.

As stated in the six month report, a re-evaluation of the company's reserves in the Austin Chalk trend of Texas was conducted as a result of poor production performance. Before royalty reserves in the U.S. were reduced to 362,943 barrels of oil and 3,500 million cubic feet of gas.

Oil Prices

On January 1st, 1982, the Federal Government's New Oil Reference Price (N.O.R.P.) came into effect on oil produced from any pool discovered after December 31st, 1980.

At April 30, 1982, 17.8 percent of the Company's Canadian oil production qualified for the New Oil Reference Price of $45.78 per barrel (price varies in accordance with international oil prices). This percentage will increase as additional wells at Winfield and South Utikuma are placed on production.

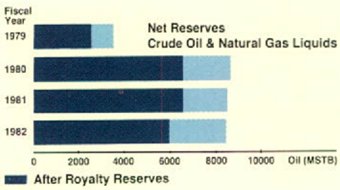
As of July 1st, 1982, oil produced from pools discovered after April 1st, 1974, receives 75 percent of N.O.R.P. This will substantially increase the Company's revenue in that the remainder of Bluesky's Canadian oil production, which did not qualify for the full N.O.R.P., was discovered after April 1, 1974.

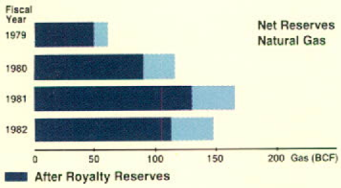
On April 13, 1982, the Alberta Royalty Tax Credit was amended, retroactive to September 1, 1981, to provide a cash refund of 75% of royalties paid to the Province up to a maximum of $4 million per year. Bluesky, in fiscal 1983 will be able to take full advantage of this program.

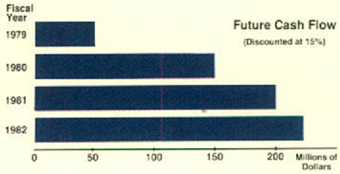
Canada

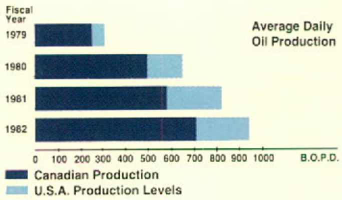
At Ghostpine in the Drumheller area of central Alberta, the Company, as Operator, in conjunction with its industry partners constructed gas processing facilities with gas compression capabilities of 6.0 million cubic feet per day and dehydration and natural gas liquids extraction capacity of 10.0 million cubic feet per day. This plant commenced production in December, 1981, at the field contract volume of 4.4 million cubic feet per day.

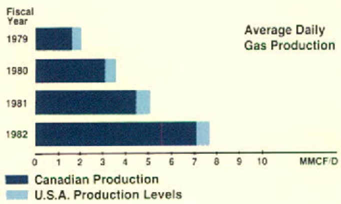
A reserve re-determination for field contract volume purposes is scheduled for the summer of 1982 and is expected to increase throughput at the compression facilities to 5.7 million cubic feet per day. In











addition, approximately 1.5 million cubic feet per day will be processed for other industry operators starting in late 1982.

A compression and dehydration facility to handle 1.0 million cubic feet per day was installed at North Joffre near Blackfalds, Alberta, and has been operating since December, 1981, at contract volumes from 400 to 750 MCFD. The plant will be expanded as further gas supplies and markets become available.

Bluesky is the operator and owns a 26 percent interest in a twelve well waterflood project at Knobhill in central Alberta. Central gathering and production facilities have been installed and water injection into the Belly River formation is expected to commence in the fall of 1982. The projects feasibility study indicates that the current gross production of 215 barrels per day will increase to 500 barrels per day when full response to the flood is achieved.

Bluesky's 11-24-37-5 W5M well at Garrington in south central Alberta, drilled in 1981, encountered 92 feet of gas-saturated Lower Cretaceous sands and flow tested in excess of 3.0 million cubic feet per day without reservoir stimulation. Reserves are estimated at 15 billion cubic feet per section. Gas sales are contracted to commence on November 1, 1983, under a recently signed sales contract and on that basis development drilling and design of facilities will start in 1983. Bluesky has interests ranging from 18.75 to 75 percent in the 3840 acres on this prospect.

New gas contracts have been signed which will bring company working interest properties into production over the next two or three years at Benjamin Creek, Bearhills, Lynn Lake and Lakedale, all in Alberta.

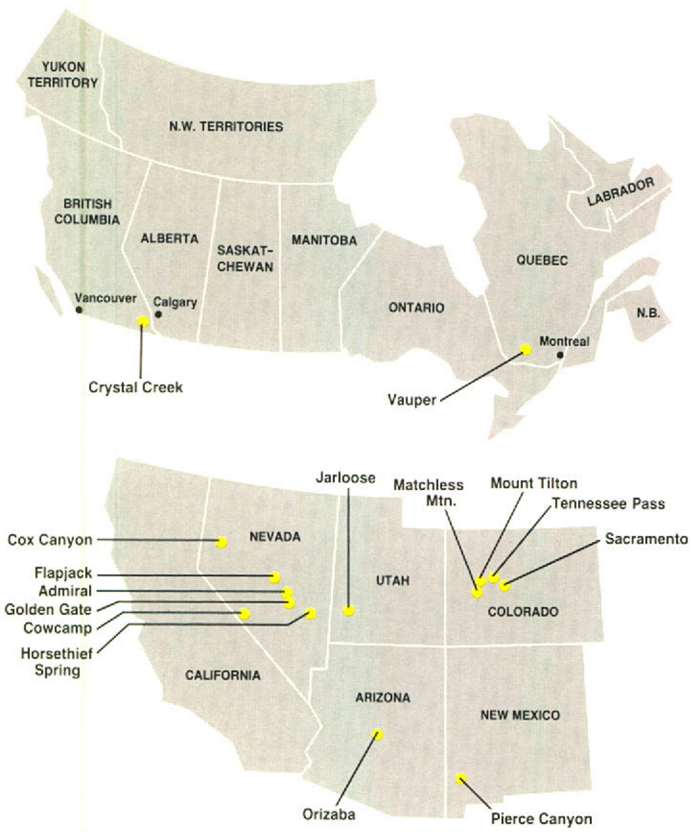
United States

The Company is operator and owns a 9.3 percent interest, which will increase to 32 percent during fiscal 1983, in the Harris #15-33 well located in Kimball County Nebraska. Harris was drilled to 7294 feet and completed in the second Julesburg sand at 7153 feet. In the first twelve months the well produced a total of 29,734 barrels of oil, for an average of 81 BOPD, achieving payout in five months.

After further geophysical evaluation of the prospect has been completed, a development well, the Vavra #1-4, will be drilled during fiscal 1983.

As stated earlier, the Company's Austin Chalk reserves were re-evaluated because of declining production. Actual Austin Chalk production in April was 120 BOPD down from 149 BOPD one year earlier. The decline in many wells was more severe than this indicates and is masked by the fact that additional wells commenced production after the end of the fiscal 1981 year.

In Brazos County, Texas, where the Company operates seventeen Woodbine oilwells, Bluesky is conducting preliminary evaluations with other operators to assess the feasibility of a secondary recovery project to increase oil recovery. If the economics are favourable, unitization of the field will start later this year.



Bluesky-Canyon Mineral Properties

Mining Activities
Canada

During the 1982 fiscal year, Bluesky conducted field work on both its Crystal Creek, B.C. and Vauper, Quebec mining properties.

At Crystal Creek, core hole and surface analysis during the summer months resulted in the identification of a mineralized zone of 15 to 22 feet in thickness which extended laterally over a portion of Bluesky's claims. With a commercial mine in operation 1.5 miles to the northwest, additional work to be conducted during the summer of 1982 will determine the economic potential of this lead-silver deposit. Bluesky presently has a 12.5% interest in 26,948 acres and its interest will increase to 37.5% in the 1983 fiscal year.

Bluesky has completed its winter core hole and electromagnetic survey program on the Vauper gold property in the Val D'Or mining district of Quebec. A total of nine core holes were drilled resulting in up to 0.45 ounces per ton of gold mineralization in selected deposits. Due to the size of the property, considerable work is required to evaluate the geophysical anomalies. Bluesky currently holds a 30% interest in this property and based on work already completed will hold all upgraded claims for several years.

United States

Bluesky has continued its mineral exploration joint venture with Canyon Resources Corporation.

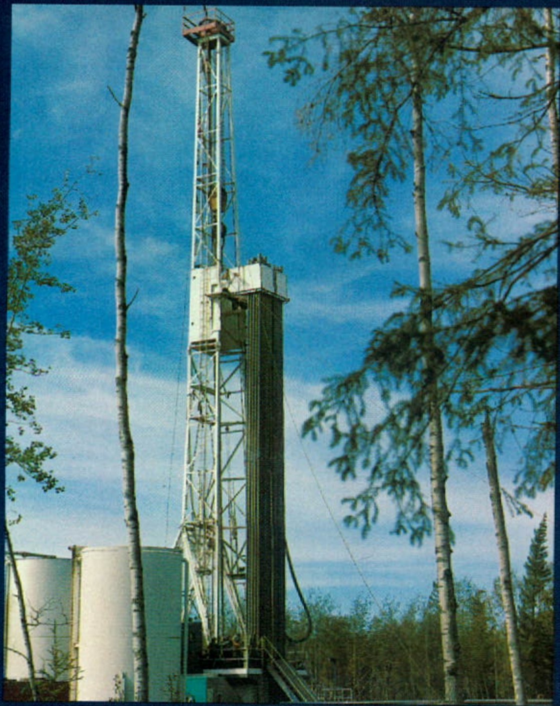
The Bluesky-Canyon joint venture has, to date, identified and acquired 13 mineral prospects in Nevada, Colorado, New Mexico, Arizona and Utah. The largest and most significant is Tennessee Pass, a silver-lead-zinc prospect in the Leadville mining district of Colorado. The last year has seen a marked reduction in the commercial feasibility of mineral exploration and development due to depressed product pricing and high interest rates. Bluesky however, remains confident of the long term commercial viability of mineral exploration.

Australia

Bluesky has committed to a joint venture with Canyon Resources PTY Limited for a 25% interest in a three year mineral exploration program in Australia and New Zealand. The objective of this joint venture will be to recognize, delineate and acquire base and precious metal and mineral deposits which have the potential for large tonnage, and the subsequent evaluation of the deposits to the point where they can be promoted to third parties.

The main areas of concentration will be western Australia and New Zealand, both highly prospective for large deposits. No commodity will be ignored, however, the main exploration effort will be to pursue gold and silver. The low prospect acquisition and maintenance costs in relation to the exploration costs allow a wide exposure with minimal expense. To date, 19 projects have been identified, all are in the early stages of acquisition and evaluation.

Financial Review



This past year has seen some major changes in the operations of the Company. Bluesky has been very fortunate over its first seven years to have had an ever increasing amount of external drilling funds available through association with West German Drilling Fund Partnerships. During the past year, this source of funding has been dramatically reduced resulting in the Company being required to finance the majority of its own exploration and development costs and, accordingly, adopt the "full cost method" of accounting for such costs.

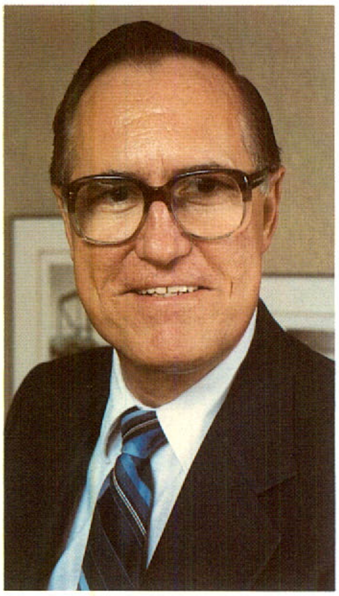
The majority of the past fiscal year was subject to a country-wide recession which has deepened and is continuing as at the date of this report. A major effect of the recession has been the extremely high interest rates which, together with the reduction of external drilling fund financing, resulted in an interest expense of $7,597,191 as compared to $1,318,386 for the previous year. This increase was partially offset by an increase in interest income from $232,473 to $3,565,013 for a net increase in interest cost of $2,946,265.

During the year, the Company's production derived income increased by 20.3% from $8,021,135 to $9,649,383. This increase is after deducting an increase in the Federal Petroleum and Gas Revenue Tax (PGRT) of $743,330 without which the production derived income would have increased 29.2% as follows:

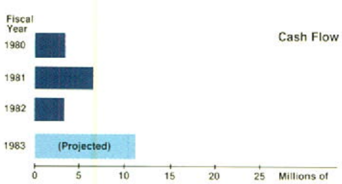
	1982	1981
Production derived income, net of royalties & PGRT	$ 9,649,383	$8,021,135
Add PGRT deducted	841,330	98,000
Production derived income, before PGRT	$10,490,713	$8,119,135
	129.2%	

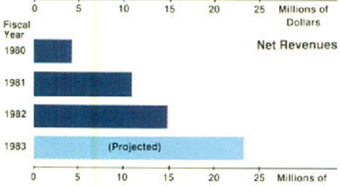
Dual Pumpjack at Utikuma

Drilling at Utikima



Ronald W. Springer,
Vice President, Finance





Due to the economic recession and high interest rates, the Company has significantly reduced its U.S. overhead by closing the Houston office while maintaining the Denver office at four exploration personnel. The Canadian overhead has also been reduced in accordance with the decrease in the Company's drilling activity.

Acquisition of German Limited Partnership Interests

On June 14, 1982 and July 31, 1982, the Company accepted the offers of certain limited partners in 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 for an average of 77.9%.

The acquisition of the German Partnership Interests was made in consideration of the issuance from Treasury of 9,970,533 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 financial statements of each as at December 31, 1981. As the Company already operates these properties on behalf of itself and the Limited Partnerships, there will be no appreciable increase in overhead.

After giving effect to these acquisitions, the Company has projected for the year ended April 30, 1983 (Canadian funds):

(a) production derived income, net of royalties and PGRT of $23,000,000;

(b) cash flow from operations of $11,400,000;

(c) an increase in the asset value of the Company attributable to the interests acquired in the partnerships, discounted at 15% of $112,800,000.

The acquisition of the interests in the Limited Partnerships in exchange for common shares on an asset for asset basis has enabled the Company to greatly increase its asset base and related production income and cash flow, which together with the development drilling planned by the Company will result in continued growth for Bluesky in the years ahead.

Consolidated Statement of Income and Retained Earnings

For The Year Ended April 30, 1982

	1982	1981 (Note 2)
Revenue		
Geological, geophysical and drilling services	**$20,539,131**	$30,881,968
Sale of petroleum and natural gas properties	**4,798,347**	8,275,061
Production derived income, net of royalties	**9,649,383**	8,021,135
Management fees	**659,027**	1,915,565
Interest income	**3,565,013**	232,473
Other income	**617,569**	927,528
	39,828,470	50,253,730
Cost of sales		
Geological, geophysical and drilling services	**20,520,603**	31,138,499
Petroleum and natural gas properties	**4,652,318**	8,041,609
	25,172,921	39,180,108
	14,655,549	11,073,622
Expenses		
Production	**1,448,698**	1,230,970
General and administrative	**2,826,292**	1,595,953
Interest	**7,597,191**	1,318,386
Lease carrying costs of exploratory properties	**59,775**	347,576
Foreign exchange loss	—	34,573
Depletion and depreciation	**3,207,957**	2,996,331
	15,139,913	7,523,789
Net (loss) income before extraordinary income and income tax	**(484,364)**	3,549,833
Income tax provision	**(340,114)**	1,379,993
Net (loss) income before extraordinary income	**(144,250)**	2,169,840
Extraordinary income		
Gain on sale of securities, net of $2,495,461 deferred tax	—	5,449,015
	(144,250)	7,618,855
Retained earnings, beginning of period	**12,290,934**	5,160,454
Preferred share dividends — Series A	**(418,820)**	(488,375)
— Series B	**(430,800)**	—
Retained earnings, end of period	**$11,297,064**	$12,290,934

The accompanying notes form an integral part of this statement.

Consolidated Balance Sheet

As At April 30, 1982

ASSETS	1982	1981 (Note 2)
Current		
Cash in bank	$ 903,616	$ 238,366
Accounts receivable, trade	23,358,250	45,072,238
Income tax refund receivable	541,018	254,718
Marketable securities (market value $3,750; $21,000)	3,750	37,500
Inventories (Note 3)	536,615	21,098,905
Current portion of loans receivable	1,994,194	2,880,823
Prepaid expenses	247,035	488,002
Agreement receivable	—	165,000
	27,584,478	70,235,552
Property and equipment, at cost		
Petroleum and natural gas properties including well development expenditures	129,012,761	90,914,949
Plant and equipment (Note 4)	20,241,661	17,201,323
Mining properties, at lower of cost and net realizable value	1,906,672	—
	151,161,094	108,116,272
Less accumulated depreciation and depletion	7,564,815	5,147,375
	143,596,279	102,968,897
Loans receivable on sale of petroleum and natural gas properties	124,851,882	126,060,610
Less deferred net income thereon	124,851,882	126,060,610
	—	—
Other assets		
Other loans receivable	216,602	252,703
Notes receivable (Note 6)	964,863	8,166,988
Investment in shares, at cost (Note 5)	6,679,084	6,241,584
	7,860,549	14,661,275
	$179,041,306	$187,865,724

On Behalf Of The Board

B.W. Harrison Director

Director

The accompanying notes form an integral part of this statement.

LIABILITIES	1982	1981 (Note 2)
Current		
Accounts payable and accruals	**$ 21,256,794**	$ 20,110,531
Deposit on future services	**1,885,559**	5,486,975
Dividends payable	**9,036**	—
Deferred income	**1,128,956**	8,991,796
PGRT payable	**730,716**	—
Deferred exchange gain	**262,877**	23,130
Notes payable	**20,222**	36,129
	25,294,160	34,648,561
Deferred take-or-pay income	**1,422,172**	423,625
Deferred income taxes	**9,798,850**	9,631,894
Long term debt (Note 7)	**44,318,000**	36,945,400
	80,833,182	81,649,480
SHAREHOLDERS' EQUITY		
Share capital (Note 6)		
Common		
Authorized		
100,000,000 shares without par value		
Issued and outstanding		
18,590,884 shares	**80,955,480**	80,498,730
Preferred		
Authorized		
3,000,000 shares with a par value of $5.00 each		
Issued and outstanding		
1,191,124 7% Series A cumulative redeemable convertible shares	**5,955,620**	6,246,620
660,000 6% Series B cumulative redeemable convertible shares	—	3,300,000
Contributed surplus	—	3,880,000
Retained earnings	**11,297,064**	12,290,934
Cost of shares held by its subsidiary (Note 8)	**(40)**	(40)
	98,208,124	106,216,244
	$179,041,306	$187,865,724

Consolidated Statement of Changes in Financial Position

For The Year Ended April 30, 1982

	1982	1981 (Note 2)
Financial resources were provided by		
Operations		
Net (loss) income before extraordinary income	$ (144,250)	$ 2,169,840
Add non-cash items		
Depletion and depreciation	3,207,957	2,996,331
Deferred income tax	(166,956)	1,490,642
Other	—	(3,781)
	3,230,663	6,653,032
Gain on sale of securities	—	7,944,476
Decrease (increase) in loans receivable	1,208,728	(13,557,244)
Increase (decrease) in deferred net income thereon	(1,208,728)	13,557,244
	—	—
Decrease in other loans receivable	36,101	36,102
Decrease in notes receivable	22,125	519,262
Increase in deferred take-or-pay income	998,547	423,625
Decrease in deferred exchange loss	—	37,910
Proceeds on issue of shares		
Common	456,750	4,207,630
Series A preferred	(291,000)	(1,253,380)
Series B preferred	—	7,180,000
	165,750	10,134,250
Less notes applicable to Series B	—	(7,180,000)
	165,750	2,954,250
Increase in long-term debt	7,372,600	36,945,400
	11,825,786	55,514,057
Financial resources were used for		
Purchase of property and equipment		
Petroleum and natural gas properties	21,257,021	7,005,054
Plant and equipment	3,042,721	5,882,037
Mining properties	417,156	—
	24,716,898	12,887,091
Transfer from inventory		
Undeveloped petroleum and natural gas leases	17,628,925	—
Undeveloped mining claims	1,489,516	—
	43,835,339	12,887,091
Increase in investment in shares (Note 5)	437,500	5,532,072
Reduction of gas production prepayment	—	50,354
Reduction of long-term debt	—	630,000
Redemption of Series B preferred (Note 6)		
Total redemption price	7,180,000	—
Less reduction of notes applicable to Series B	7,180,000	—
	—	—
Preferred share dividend — Series A	418,820	488,375
Preferred share dividend — Series B	430,800	—
	45,122,459	19,587,892
(Decrease) increase in working capital	(33,296,673)	35,926,165
Working capital, beginning of period	35,586,991	(339,174)
Working capital, end of period	$ 2,290,318	$35,586,991

The accompanying notes form an integral part of this statement.

Notes to Consolidated Financial Statements

As At April 30, 1982

1. Significant accounting policies

Basis of consolidation

The consolidated financial statements have been prepared based on the April 30, 1982 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.

Unearned 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 and 1982. 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

Costs related to exploration and development activities conducted under the various drilling program agreements have been accounted for under the successful efforts method of accounting whereby costs related to interests in productive petroleum and natural gas properties are capitalized and costs of interests in properties on which dry holes are drilled are charged to expense.

During the year it became evident that there would be a significant reduction in the number of wells drilled under drilling program agreements and, effective August 1, 1981, the Company adopted the full cost method of accounting for exploration and development costs.

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, carrying charges 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.

Prior to the cessation of the drilling programs, all costs related to the acquisition of interests in undeveloped petroleum and natural gas and mining properties were carried in inventory as these properties were to be sold pursuant to the various drilling program agreements. As a result of the changed circumstances referred to above, and the adoption of the full cost method of accounting, $17,628,925 of undeveloped petroleum and natural gas leases and $1,489,516 of undeveloped mining claims have been transferred from inventory to the full cost pool.

The adoption of the full cost method of accounting does not have a material effect on the financial statements and accordingly prior years have not been restated to reflect this change in accounting policy.

Mining properties

Acquisition and exploration costs of mining 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.

Depletion

Exploration and development costs are accumulated in a North American cost centre.

In view of the changed financing arrangements of the Company and circumstances arising from the introduction of the National Energy Program and the signing of the Energy Pricing and Taxation Agreements, the Company has implemented the revenue method of calculating the provision for depletion in respect of its exploration and development costs effective May 1, 1981. As a result of the change in method of calculation, the provision for depletion for the year ended April 30, 1982 is $1,737,189 less than it would have been solely under the unit-of-production method, resulting in an after tax decrease in net loss of $893,218.

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 life.

Deferred drilling, geological and management fee income

The Company follows the completed-well method of accounting for drilling and geological 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. Inventories

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

4. Plant and equipment

	April 30, 1982			April 30, 1981
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Production equipment	$11,656,427	$2,103,349	$ 9,553,078	$ 9,052,805
Plant and gathering equipment	6,653,649	1,395,880	5,257,769	4,608,112
Office equipment	1,931,585	361,973	1,569,612	1,200,664
	$20,241,661	$3,861,202	$16,380,459	$14,861,581

5. Investment in shares

During the year the Company acquired 35,000 7½% cumulative convertible redeemable preferred shares in a private company, with a par value of $18.00 from a senior officer of the Company at a price of $12.50 per share. This acquisition resulted in a total holding of 381,041 of such shares by the Company. 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 per share 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:

Employee share purchase shares cancelled	(882)
On conversion of 58,200 Series A preferred shares	58,200
For cash — per Note 6(d)	17,000
Balance issued, April 30, 1981	18,516,566
Balance issued, April 30, 1982	18,590,884

(b) Employee Share Purchase Plan Shares

reserved under the Employee Share Purchase Plan as at April 30, 1982	91,500

Under the Employee Share Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees, under interest free notes, due July 31, 1984, of the Company's common shares. The price of the common shares issued under the Plan is the average sale price of the Company's shares on the day following the transaction. As at April 30, 1982, $964,863 was receivable by the Company under the Plan and is included in "other assets". [See Note 12(c)].

(c) Employee Stock Option Plan

Options granted during the year (82,000 at a price of $10.125 per share and 423,000 at a price of $5.00 per share)	505,000
Options were cancelled during the year at prices ranging from $9.00 to $12.625 per share	(164,000)
Net granted during the year	341,000
Balance outstanding, April 30, 1981	82,000
Balance outstanding, April 30, 1982	423,000
Shares reserved under the Employee Stock Option Plan as at April 30, 1982	327,000

The above options are exercisable at a price of $5.00 per share and expire in a range from two to five years from the dates of issue.

(d) On February 20, 1980, the Company and its German Drilling Fund Partner entered into an agreement wherein the Drilling Fund Partner would agree to make available an additional $30,000,000 in exploration funds over two years in exchange for the Company agreeing to issue 500,000 common shares at $9.75 per share to a Trustee for the benefit of German Limited partners committing such funds. During the year 17,000 shares were issued under this agreement and as of April 30, 1982, 320,000 shares have been issued under the agreement.

(e) At a special meeting of Shareholders held April 14, 1982 the Shareholders of the Company approved an increase in the authorized share capital of the Company to 100,000,000 common shares to accommodate the acquisition of the German Partnership Interests as explained in Note 12(A).

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

(a) During the year the Company converted the following Series A preferred shares

to common shares	(58,200)
Balance issued, April 30, 1981	1,249,324
Balance issued, April 30, 1982	1,191,124

(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 are to be redeemed by the Company at $5.00 per share.

C. Series B 6% cumulative, redeemable, convertible preferred shares

On December 16, 1981, the Company approved the redemption of the Series B preferred shares from the senior executives for their issue price with the proceeds being applied against the loan balance applicable to the shares. On February 1, 1982, the consent of all Series B preferred shareholders was received to the redemption and the 660,000 shares were redeemed.

	Number of Shares	Amount
Allocated to share capital at par value	(660,000)	$(3,300,000)
Allocated to contributed surplus arising from the issue of the Series B preferred shares	—	(3,880,000)
Total redemption price	(660,000)	(7,180,000)
Less reduction of notes applicable to Series B	—	(7,180,000)
	(660,000)	$ —
Balance issued April 30, 1981	660,000	
Balance issued April 30, 1982	NIL	

7. Long-term debt

During the year the Company renewed the bank line of credit of $50,000,000 with interest at the bank prime rate. The bank line is 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, 1983 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, 1982 loan balance of $44,318,000 has been classified as a long-term debt. This amount includes $25,100,000 of U.S. dollar loans. See Note 12(B).

8. Cost of shares held by its subsidiary

As at April 30, 1982, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 3,524,800 shares of the Company's common shares which represents 18.96% of the common shares then outstanding. 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.

9. Net (loss) earnings per common share

	April 30, 1982	April 30, 1981
(a) Basic		
Before extraordinary income	**(6.6)¢**	11.5¢
Net (loss) income	**(6.6)¢**	48.6¢
(b) Fully diluted		
Before extraordinary income	—	—
Net income	—	46.5¢

Net loss 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 and Series B preferred shares.

Where the conversion of the Series A and Series B 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 $12,000 and to senior officers (including the five highest paid employees) of the Company amounted to $691,488.

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 between Canada and the United States.

	(Thousands of Dollars)					
	1982			1981		
	Canada	**United States**	**Total**	Canada	United States	Total
Gross revenue	**$24,886**	**$14,943**	**$39,829**	$31,046	$19,208	$50,254
Cost of sales	**13,192**	**11,981**	**25,173**	24,086	15,094	39,180
Gross margin	**11,694**	**2,962**	**14,656**	6,960	4,114	11,074
Expenses						
Depletion and depreciation	**1,782**	**638**	**2,420**	1,735	660	2,395
Other	**2,640**	**2,483**	**5,123**	2,300	1,511	3,811
	4,422	**3,121**	**7,543**	4,035	2,171	6,206
Segmented income (loss), before undernoted items	**7,272**	**(159)**	**7,113**	2,925	1,943	4,868
Interest expense			**7,597**			1,318
Income tax			**(340)**			1,380
(Gain) on securities			**—**			(5,449)
Net (loss) income			**$ (144)**			$ 7,619

12. Subsequent events

(A) Acquisition of German Limited Partnership Interests

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 acquisition of the German Partnership Interests was made in consideration of the issuance from Treasury of 9,970,533 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 financial statements of each as at December 31, 1981.

The acquisition of the German Limited Partnership Interests will be recorded based on the market value of the Company's shares on the Toronto Stock Exchange on the day the offers were accepted.

(B) Foreign Exchange Contract

Due to the Company's concern that the June 28, 1982 Federal Budget would introduce a devaluation of the Canadian dollar, the Company purchased a foreign exchange contract covering the purchase of $20,000,000 U.S. dollars with an August 30, 1982 spot price of $1.2937 Canadian. The $20,000,000 U.S. dollars acquired under the contract will be used to retire a portion of the Company's long-term debt carried in U.S. funds. The retirement of $20,000,000 U.S. fund long-term debt will result in a realized exchange loss of approximately $1,600,000 to be reported in the second quarter of the Company's 1983 fiscal year.

(C) Purchase of Common Shares under the Employees Share Purchase Plan

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 $958,613.00 was applied to the loan balance as at that date.

Auditors' Report

TO The Shareholders:

We have examined the consolidated balance sheet of Bluesky Oil & Gas Ltd. as at April 30, 1982 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, 1982 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, except for the change in the method of accounting for petroleum and natural gas properties and depletion as explained in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta
August 4, 1982

Deloitte Haskins & Sells
Chartered Accountants

BlueSky Oil & Gas Ltd.

annual report 1982

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