

BlueSky Oil & Gas Ltd.

1980 Annual Report



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Bluesky Oil & Gas Ltd.* is a resource development company engaged in the exploration for and development of crude oil and natural gas reserves. The Company has offices in Calgary, Houston and Denver and has producing properties in both Canada and the United States.

Financial Highlights

(5 month period ending April 30, 1980)	
Revenues	\$ 19,161,975
Cash Flow from Operations	\$ 3,038,105
Per Share**	19.3¢
Net Income before Extraordinary Items	\$ 1,312,945
Per Share**	7.3¢
Net Income	\$ 1,827,612
Per Share**	10.8¢
Total Assets (From Balance Sheet)	\$136,938,765
Long Term Debt	\$ 630,000

Operational Highlights

Reserves	
Natural Gas (million cubic feet)	90,900
Oil (barrels)	6,515,000
Production	
Natural Gas (million cubic feet - 5 month reporting period) ...	748.3
(million cubic feet per day - April, 1980)	8.06
Oil (barrels - 5 month reporting period)	97,483
(barrels per day - April, 1980)	596
Drilling (5 month reporting period)	
Total Wells	89
Gas Completions	61
Oil Completions	17
Success Ratio	88%
Land	
Canada	
Gross	8,625,977
Net	447,909
United States	
Gross	287,235
Net	51,064
Total	
Gross	8,913,212
Net	498,973

*Reference to Bluesky in this annual report refers to Bluesky Oil & Gas Ltd., both as it now exists, as well as prior to its amalgamation with Focus Resources Ltd., and to its wholly-owned subsidiary, Bluesky Oil & Gas Inc.

**Per share calculations exclude shares owned by the Company's wholly-owned subsidiary (see note 7 in the Consolidated Financial Statements).

Letter to the Shareholders

It is a pleasure to submit to you on behalf of the Board of Directors of Bluesky Oil & Gas Ltd., the annual report for the 5 month period ending April 30, 1980. This is your Company's first annual report since its shares were listed for trading on the Vancouver Stock Exchange in December, 1979, following an amalgamation with Focus Resources Ltd. Subsequent annual reports will cover the full 12 month fiscal period ending April 30 of each year.

Net revenue during this 5 month reporting period totalled \$4,125,041 and production related revenue was \$2,914,165. Funds available from operations amounted to \$3,038,105, or 19.3¢ per share, and net income was \$1,827,612, or 10.8¢ per share. Total assets of the Company, as shown in the balance sheet, reached \$136,938,765 and the revolving bank line of credit was increased to \$17,000,000. A comparison of these figures with those of the previous 13 months reflects substantial corporate growth.

A major factor in the present strength and future potential of Bluesky is the ongoing contractual agreement your Company has maintained with eee Petroleum Company Ltd., a Canadian corporation acting as manager for a West German financial organization. Since 1974, eee Petroleum has invested substantial amounts with Bluesky on exploration and development drilling ventures under various agreements. eee Petroleum has informed the Company that it expects to have approximately \$50,000,000 available to invest with Bluesky during the current fiscal year for drilling on selected oil and gas prospects in both Canada and the United States. It is anticipated

that the amount of funds available under this mutually advantageous relationship will continue to increase in subsequent years.

During this 5 month reporting period the Company participated in 89 wells, resulting in 17 oil wells and 61 gas wells for a success ratio of 88%. Bluesky's total oil and gas reserves reached 6,515,000 barrels of oil and 90.9 billion cubic feet of gas. Daily net oil and gas sales reached 596 barrels of oil and 8.06 million cubic feet of gas.

The present favourable economic conditions for the oil industry in the United States have attracted a rapidly increasing share of Bluesky's investment capital. Higher prices for crude oil and natural gas, generous production allowables and immediate access to markets are the main factors favouring this shift in emphasis. A convincing example is Bluesky's participation in the Austin Chalk play of south central Texas where the Company has drilled 11 oil wells with no accompanying dry holes. The current price received for new oil in this area is \$39.50 per barrel and many of the wells are producing at rates in excess of 250 barrels of oil per day. Bluesky presently has 4 rigs working continuously on the Company's 26,172 gross acres on this play. It is an objective in the current fiscal year to spend approximately one half of the Company's drilling budget on projects introduced by our Houston and Denver offices.

On July 1, 1977, Bluesky was included in a continuing joint-venture agreement with Canadian Hunter Exploration Ltd. and other industry partners, that has proven to be an exceptional investment for your Company. The agreement allows Bluesky to participate for a minimum of approximately 2% in all of Canadian Hunter's land holdings. This includes interests ranging from approximately 2% to 8% in over 1,000,000 acres on the vast Elmworth gas play in the Deep Basin of western Alberta and adjacent British Columbia which was initially discovered and is now being aggressively expanded by Canadian Hunter. Through April 30, 1980, Bluesky participated in 170 gas wells drilled on this acreage, and Canadian Hunter presently has 13 drilling rigs operating in the region. A number of these wells have huge flow potentials of up to 50 million cubic feet of gas per day and gas production from the field has already commenced. Recoverable gas reserves at today's prices from the Canadian Hunter acreage on this play have been estimated as high as 10 trillion cubic feet.

Bluesky has a 4% participation in the new and exciting Nechako Basin play of central British Columbia where Canadian Hunter has committed \$27,500,000 to a 5 year exploration program on its 5.8 million acre block that blankets the entire basin. Geological and geophysical evaluations have commenced and the first well will be spudded this fall. In addition, Bluesky and eee Petroleum have a 10% participation in Canadian Hunter's active exploration program in the United States, which is operated by American Hunter, its wholly-owned subsidiary.

In recognition of the increasingly attractive economic potential of mineral exploration in the United States, Bluesky has entered into a joint-venture agreement with Canyon Resources Corporation of Denver, Colorado. Active exploration under this agreement is underway in most of the western states, exemplified by the recent staking of 25,000 acres of mineral claims in the Leadville region of Colorado, on trend and conterminous with two major commercial silver-lead-zinc mining districts.

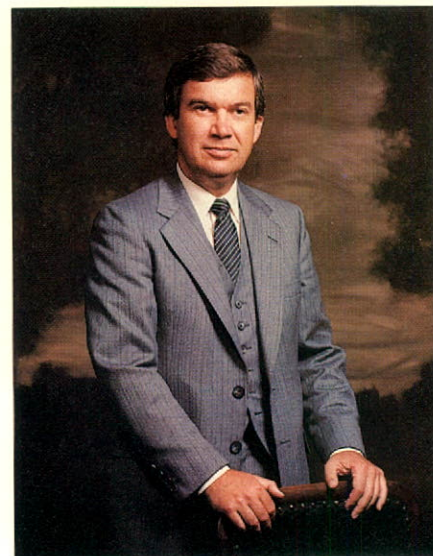
Bluesky is in the enviable position of possessing all the requisites to assure unprecedented growth in the years ahead. These include a mutually advantageous financial arrangement with eee Petroleum, an exciting joint-venture participation with Canadian Hunter Exploration, Ltd., and an aggressive, success-oriented exploration and development program in the principal oil and gas regions of both the United States and Canada.

On behalf of the Board of Directors,



Robert J. Leslie
President

August 20, 1980







Bluesky's Conway #2 well in the South Kurten Field, Brazos County, Texas.

United States Operations

Bluesky's drilling and production operations in the United States have yielded exceptional results during this 5 month reporting period. The Company participated in a total of 11 wells resulting in 8 oil wells and 3 gas wells for a success ratio of 100%. Important discoveries were made at Arnim-Muldoon and Winchester in Fayette County, Texas on the prolific Austin Chalk oil play; in Brazos County, Texas where oil discovered in the Woodbine C sand has extended the Kurten field boundary several miles to the southeast; and at East Bear Grass in Freestone County, Texas where a promising new Cotton Valley gas play is being developed. Bluesky presently holds 287,235 gross acres and 51,064 net acres in the United States where the favourable economic conditions are attracting a larger percentage of the Company's drilling budget.

Arnim-Muldoon, Fayette County, Texas

The Company had drilled 3 oil wells on this property as of April 30, 1980 and since that time 5 additional oil wells have been completed, 4 wells are presently drilling, and 4 additional locations have been staked (see detail page 6). The Arnim B-2 well, which was drilled as a follow-up to the Arnim A-1 discovery well, is of particular significance. This well blew out from the top of the Austin Chalk and flowed 7,000 barrels of oil in the 5 hours it took to get the well under control. The well was completed in the upper chalk and continues to produce at its 328 barrels per day allowable rate with no need for the usual fracture stimulation treatment. In this area the Austin Chalk is approximately 650 feet thick with the productive oil zone usually occurring in the lower 200 feet. The B-2 well did not penetrate this lower zone and it remains an attractive objective for future deepening of the well. The A-1 discovery well is more typical of the area and has been producing consistently at a

rate of approximately 275 barrels per day. The company and its investing partners own a 50% interest in 4,126 gross acres on this prospect where the oil price is \$39.50 per barrel and recoverable reserves can exceed 300,000 barrels per well.

Winchester, Fayette County, Texas

A second outstanding property Bluesky holds on the Austin Chalk trend is at Winchester, where the company has three producing oil wells (see detail page 7). The Maranatha well on this property has been producing at a rate of 324 barrels of oil per day for 6 months while the Seale well has averaged 110 barrels per day. The wellhead oil price is \$39.50 per barrel. Bluesky and its investing partners own 50% interest in the Maranatha and Seale wells and 13.7% interest in the Victory Hills #1 well. There are 240 acres in three drainage units on this property.

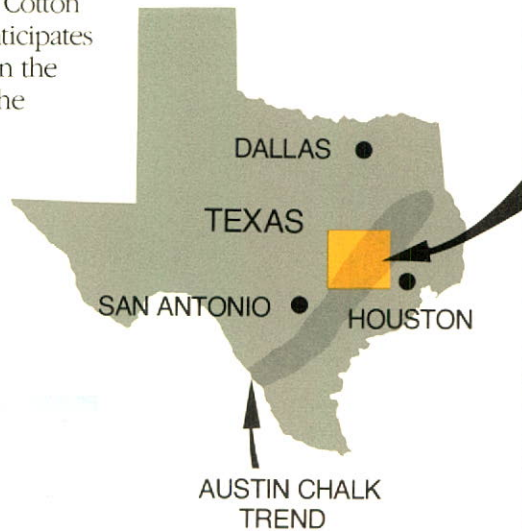
Kurten Field South, Brazos County, Texas

Bluesky has extended the Kurten Field in Brazos County, Texas several miles to the southeast. The Company has 7 producing oil wells on this property and an eighth well is presently drilling. These wells have been completed in the Woodbine C sand, which is not well-developed in the remainder of the field to the north. This sand is up to 40 feet thick and has better reservoir qualities than the Woodbine B sand which is the productive zone to the north. The B sand is also present in most of Bluesky's wells and will be placed on production after the C sand has been depleted. In addition, the acreage has excellent potential for oil production from the Austin Chalk. The Company's wells are producing at a rate of approximately 100 barrels per day and the wellhead price is \$39.50 per barrel. Bluesky and its investing partners own between 12% and 21% interest in the 5,110 acres on this prospect.

Arnim G-7 well drilling on Bluesky's Arnim-Muldoon oil property, on the Austin Chalk Trend in Fayette County, Texas.

*East Bear Grass,
Freestone County, Texas*

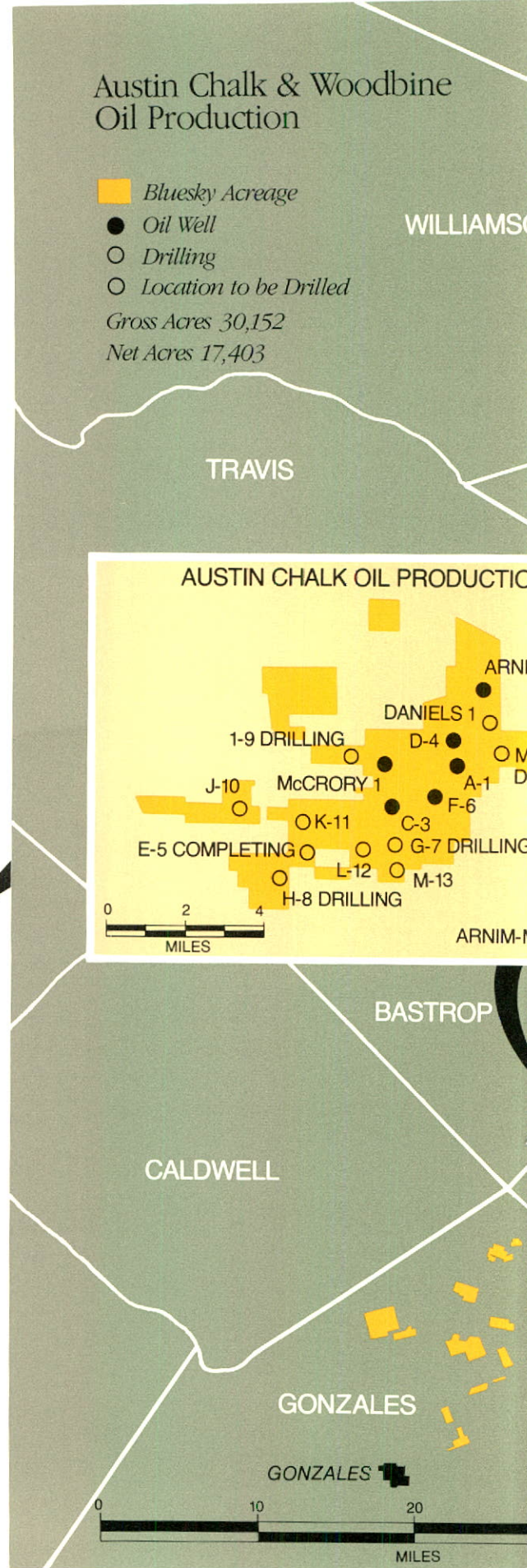
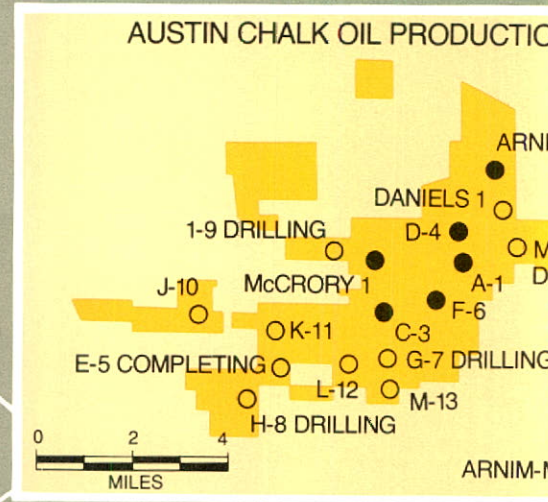
Bluesky is participating in a promising new Cotton Valley limestone play in Freestone County, Texas. The Company has participated in the drilling of 2 successful gas wells on the East Bear Grass property and 2 additional wells are drilling. The Dow Chemical B-1 discovery well has a productive capacity of 5.5 million cubic feet of gas per day from a depth of 14,200 feet. Bluesky and its investing partners have a 14.2% interest in the initial well and an 10.7% interest in the second well, which flowed at 2.5 million cubic feet per day. The Company owns varying other interests in the 9,110 acres on this play. Large gas wells have been completed by other operators along trend both to the southwest and northeast of Bluesky's holdings. The well drilled 4 miles to the northeast is reported to have flowed at rates of up to 8 million cubic feet of gas per day from the Cotton Valley formation. Bluesky anticipates an active drilling program on the Company's acreage during the current year.

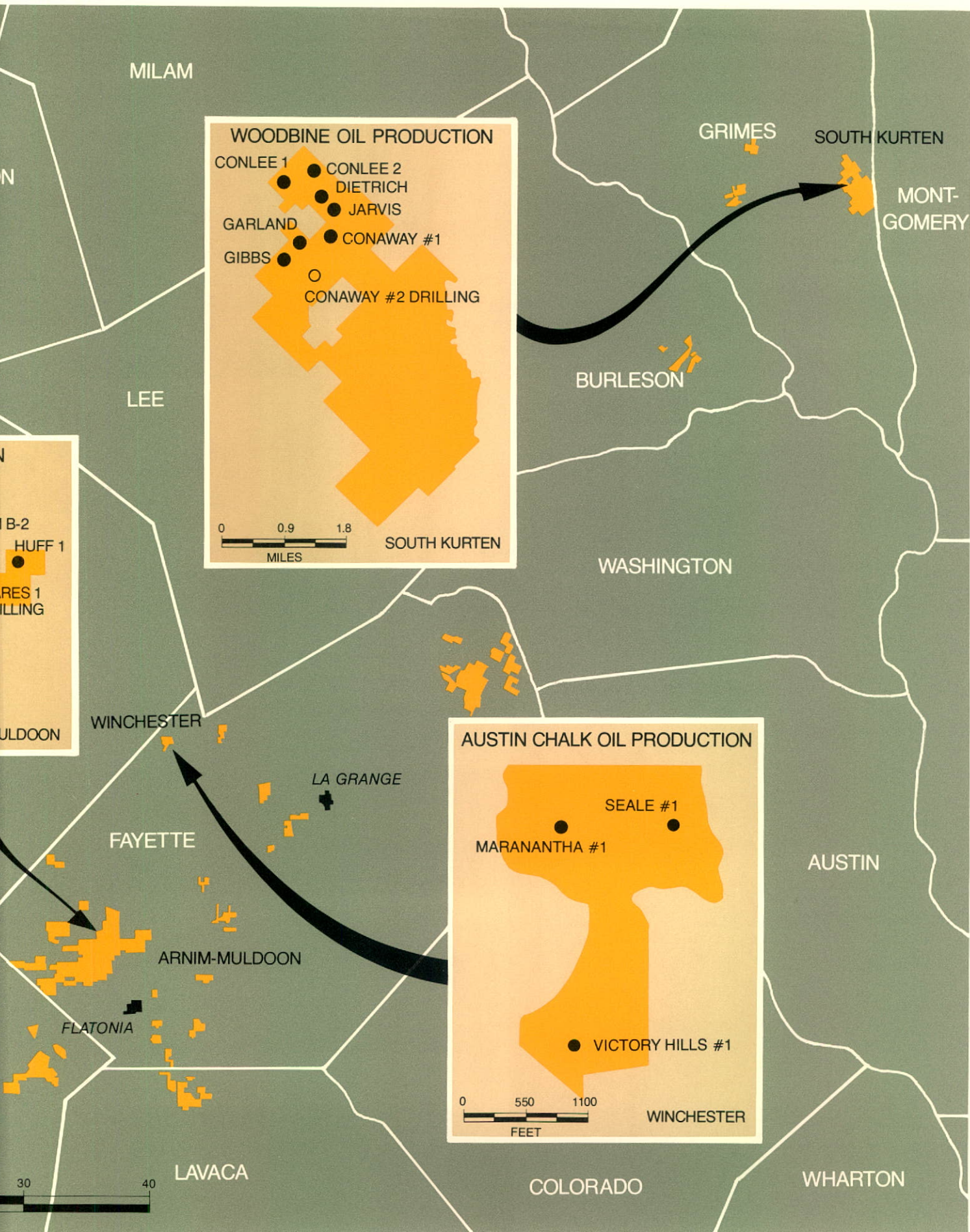


Arnim 1-9 well at Arnim Muldoon in Fayette County, Texas.

Austin Chalk & Woodbine Oil Production

- Bluesky Acreage
 - Oil Well
 - Drilling
 - Location to be Drilled
- Gross Acres 30,152
Net Acres 17,403

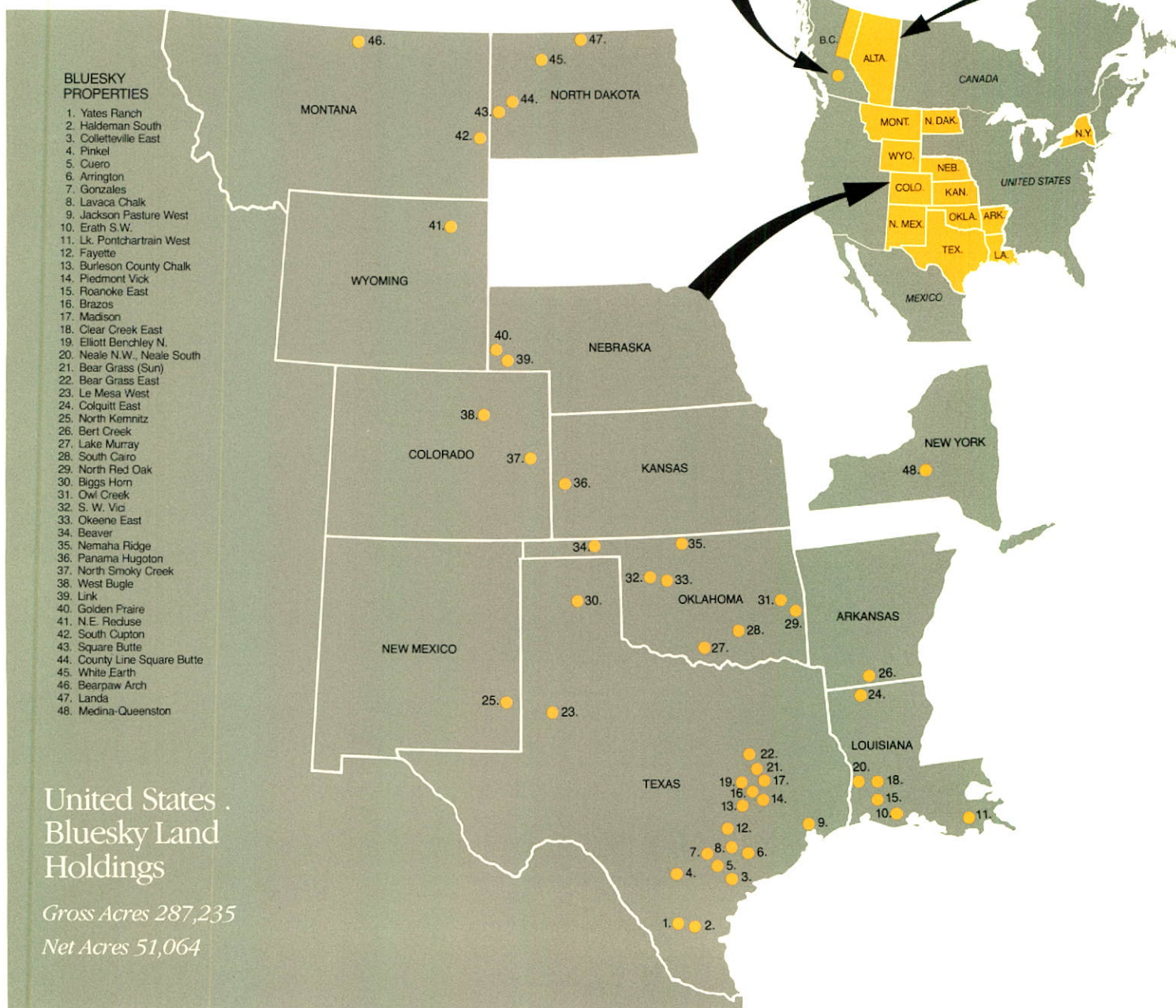
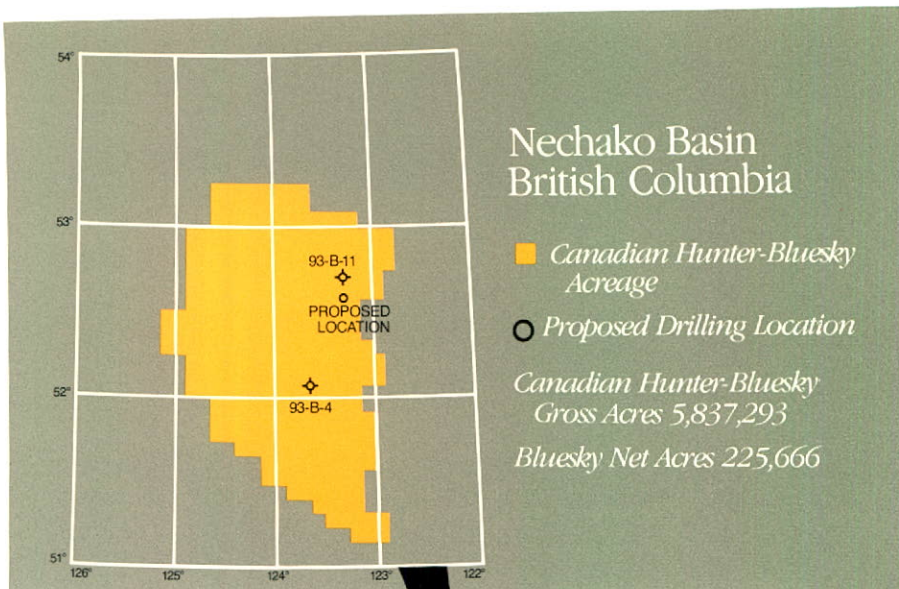


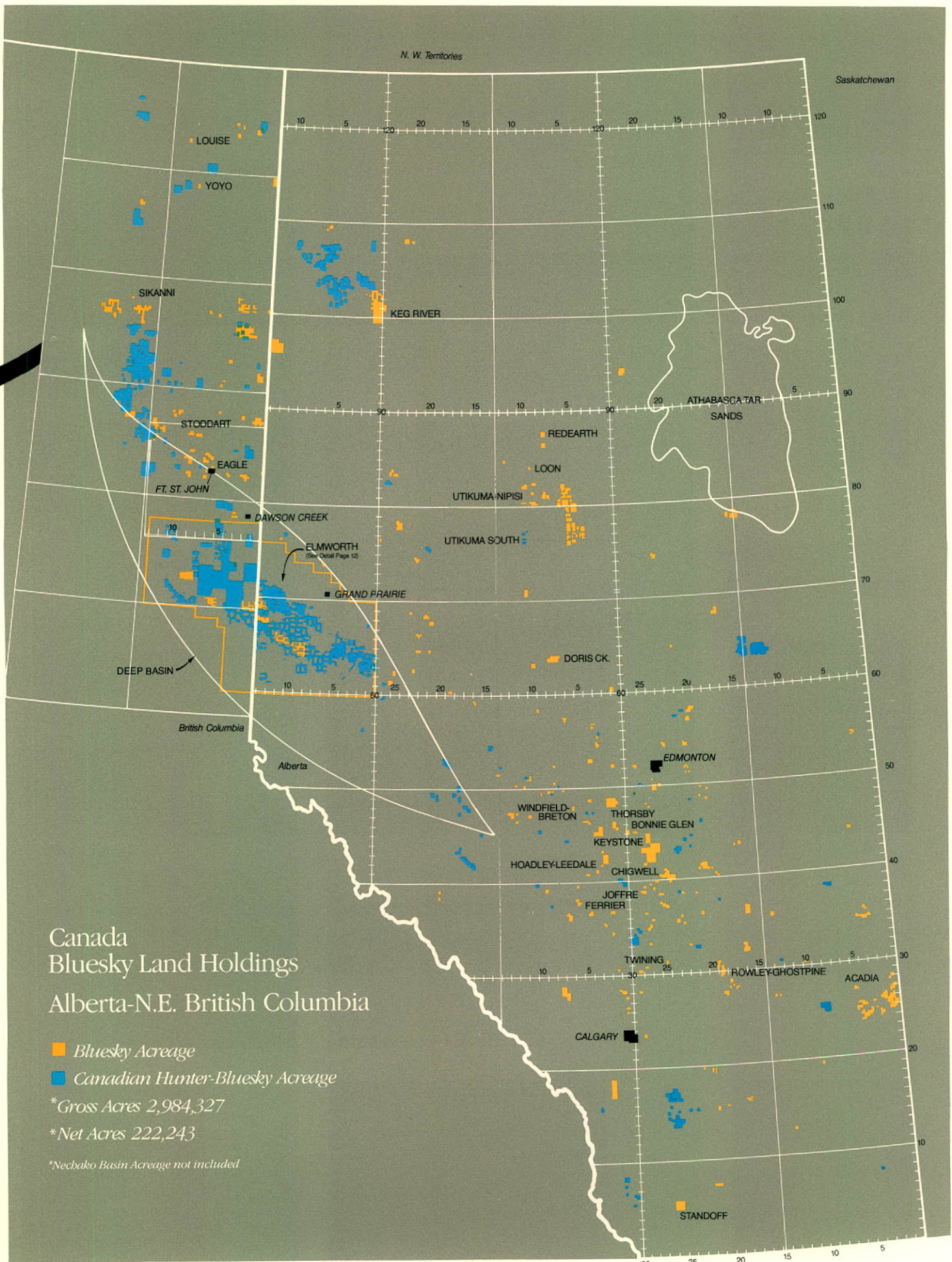


Bluesky Oil & Gas Ltd. Acreage Position In North America

Gross Acres 8,913,212

Net Acres 498,973





Canadian Operations

Bluesky conducted an aggressive drilling program in Canada during this 5 month reporting period. The Company participated in a total of 75 wells resulting in 58 gas wells and 9 oil wells for a success ratio of 89%. Bluesky holds 8,625,977 gross acres and 447,909 net acres in Canada including a 4% position in the 5.8 million acre Nechako Basin play of central British Columbia and a 2% to 8% position in approximately 1 million acres on the Elsworth-Deep Basin play of western Alberta and northeast British Columbia. Important reserves were established at Utikuma, Bonnie Glen and South Ghost Pine in Alberta and at Sikanni in northeast British Columbia.

Utikuma, North Central Alberta

Bluesky has drilled 11 oil wells on the 31,360 gross acres held by the Company in the Utikuma area of north central Alberta. This includes acreage within the Utikuma field boundaries as well as to the south and northeast of the field. Daily allowable production rates of these wells are up to 280 barrels with Bluesky and its investing partners holding an average 31% interest in the wells. The Company plans an active drilling program on this acreage during the winter months.

Bonnie Glen, Central Alberta

At Bonnie Glen, the Company has followed an aggressive acreage acquisition policy through farm-ins from other operators as well as through the purchase of crown leases. The Company now controls 39,920 gross acres in this prospective area where potential reservoirs include the Glauconitic, Viking, Belly River and Basal Quartz formations. Bluesky has drilled 12 wells on this play, resulting in 6 gas wells and 4 oil wells. The Company and its investing partners hold an average 20% interest in this acreage.

South Ghost Pine East, Central Alberta

At South Ghost Pine, the Company has participated in 9 gas wells on the 19,840 gross acres held on this play. These wells have pay thicknesses in the Cretaceous Glauconitic sand averaging 15 feet with productive potentials of between 1 and 2 million cubic feet per day per well. The area is under a gas contract and a gas plant is presently under construction. The plant has an initial contract rate of 3.6 million cubic feet per day and is expected to be on production in early 1981.

Sikanni-Trutch, Northeast British Columbia

Bluesky and its investing partners own a 27.6% interest in 113,931 gross acres in the Sikanni-Trutch area of northeast British Columbia. Seven gas wells have been completed from the Triassic Halfway sand on the acreage, with flow rates averaging 1.3 million cubic feet per day. The Company plans an active drilling program on this acreage during the coming winter.

Nechako Basin, South Central British Columbia

Bluesky holds a 4% working interest in Canadian Hunter Exploration Ltd.'s giant Nechako basin prospect in south central British Columbia. Canadian Hunter has contracted to spend in excess of \$27 million in exploration of this 5,837,293 acre spread during the next five years. Initial geological and geophysical investigations have commenced and the first well is scheduled to spud this fall. Only two wells have been drilled previously in this huge prospective area and the 93-B-4 well (see detail page 8), which was drilled to a depth of 10,921 feet, had encouraging oil shows. Canadian Hunter is using the same exploration principles to evaluate this area as it used in its highly successful





Canadian Hunter-Bluesky et. al., well drilling in the Elsworth gas field of western Alberta.

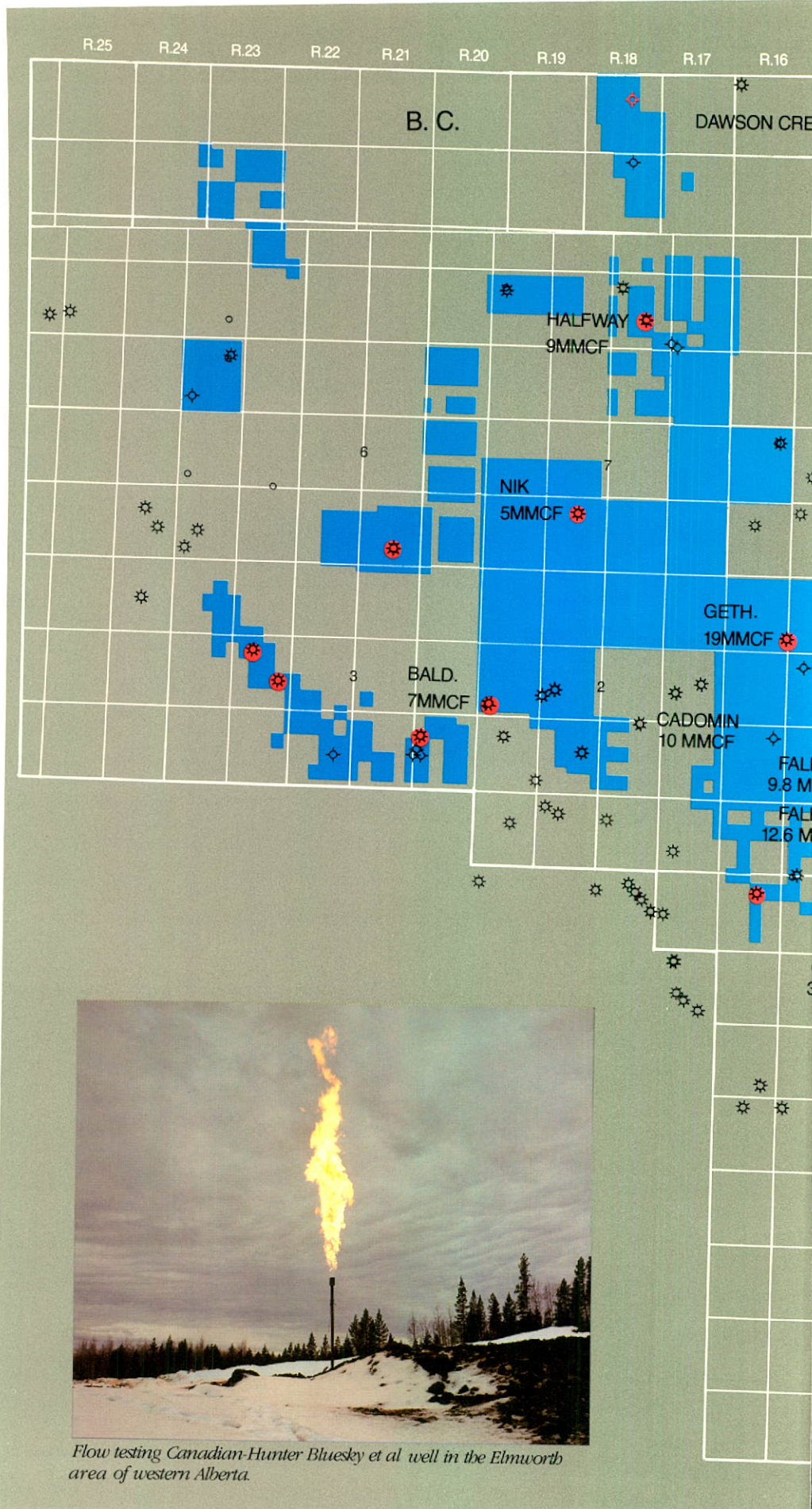
development of the Elmworth-Deep Basin region.

Elmworth — Deep Basin Region, West Central Alberta and Northeast British Columbia

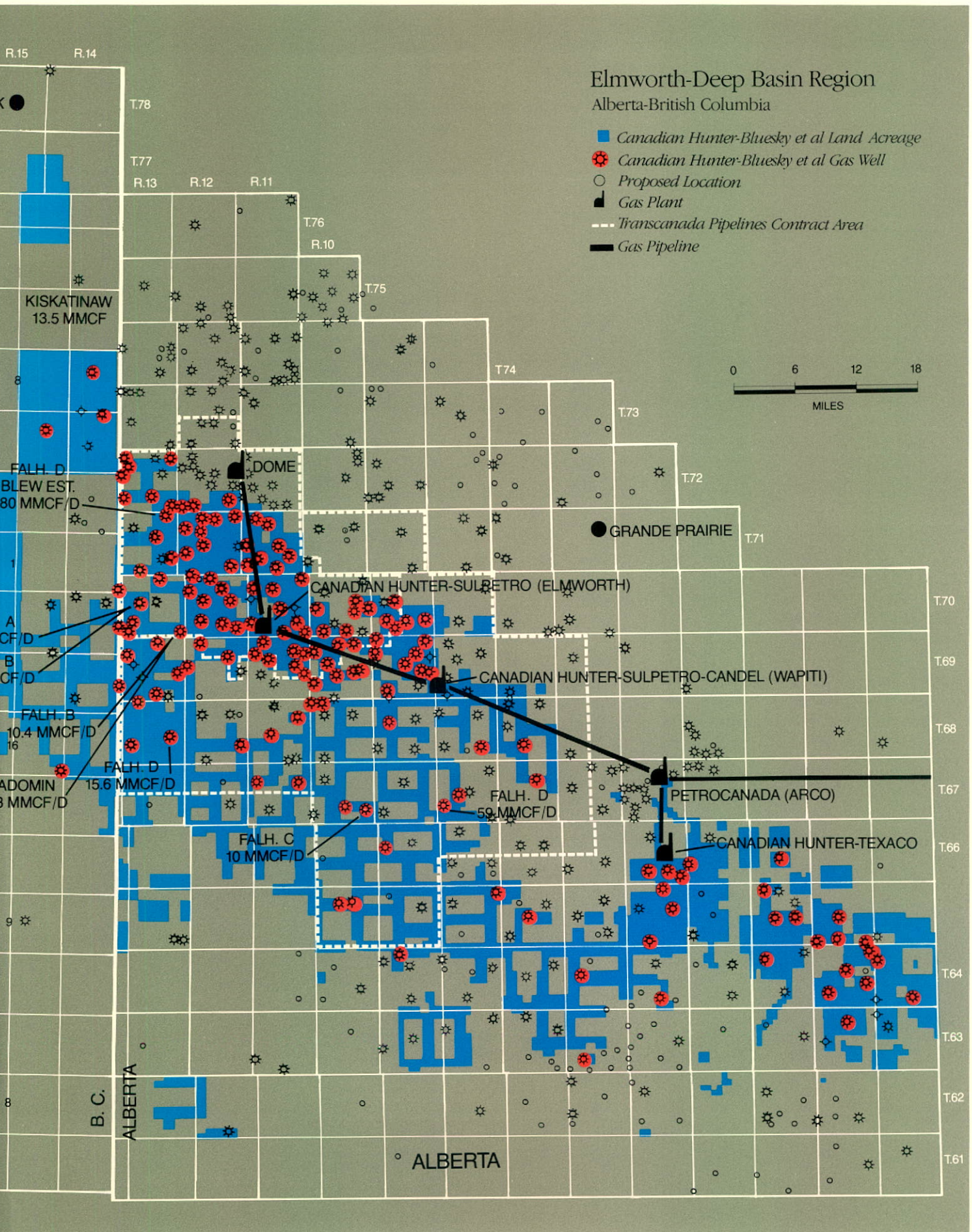
Bluesky has an interest ranging from approximately 2% to 8% in all of Canadian Hunter Exploration Ltd.'s Canadian acreage, including its approximately 1,000,000 acre spread over the deep basin of western Canada (see map this page). The "deep basin" is a 900 mile long, 60 mile wide basin located east of and parallel to the Rocky Mountain disturbed belt in Alberta and British Columbia. Canadian Hunter recognized the potential of this area with their discovery well in 1976 and today it is one of the most active drilling areas in Canada and indications are it holds one of the largest gas fields in North America.

In the Alberta portion of the deep basin, the main producing horizon is the Cretaceous Fahler conglomerates and sandstones. A number of the more than 150 gas wells drilled to date on this acreage have production potentials in excess of 10 million cubic feet per day and in June of this year the Canhunter 10-35-71-13-W6M gas well blew wild for several days at an estimated rate of 80 million cubic feet per day. In British Columbia, the Nikanasin and Cadomin formations, in addition to the Fahler and Gething formations, are highly potential reservoirs. Drilling in this area is much less concentrated than on the Alberta side of the basin but the success to date in British Columbia is indicative of the potential for development of huge reserves.

Bluesky participated with Canadian Hunter in its 50 million cubic feet per day capacity gas plant at Elmworth as well as the 100 miles of gas gathering pipelines. The plant went on stream November 1, 1979 delivering 30 million cubic feet per



Flow testing Canadian-Hunter Bluesky et al well in the Elmworth area of western Alberta.



day on a take or pay contract with TransCanada Pipeline Ltd. Construction has commenced on expanding the plant's capacity to 200 million cubic feet per day and it is anticipated that gas delivery through the plant will exceed 100 million cubic feet per day by the end of the year.

The Wapiti gas plant operated by Sulpetro Limited also started production on November 1, 1979, at a rate of 30 million cubic feet per day. Plant capacity is presently being increased to 75 million cubic feet per day. The volume of plant throughput assigned to the various companies participating in this endeavor, including Bluesky, is

presently being negotiated with TransCanada Pipeline.

Development of this area is continuing at a rapid pace. Canadian Hunter has 13 drilling rigs and 8 service rigs working continuously. It has been projected that by 1985, it is possible that the Elsworth - Deep Basin region could have a total industry productive rate of 3 to 6 billion cubic feet per day if markets are available. To obtain the 40 trillion cubic feet of marketable reserves needed to support this daily rate, the industry will be required to drill a total of 1,000 wells by the end of 1982 and 4,000 wells by the end of 1984.

Mineral Exploration

Bluesky has entered into an agreement with Canyon Resources Inc. of Denver, Colorado to pursue mineral exploration in the United States. Exploration is underway in most of the western states with emphasis on old mining districts which can be very attractive in light of improved operational techniques and the application of increased mineral prices to the economic evaluation. An area of exceptional potential of

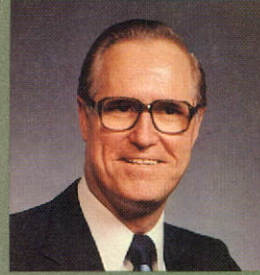
this type lies between and along the trend of the mature Leadville and Gilman mining districts of Colorado where a combined \$10 billion of silver, lead, zinc and gold, at today's prices, has been extracted. Bluesky and Canyon Resources have staked approximately 25,000 acres of claims in this area and active geological and geophysical evaluation is in progress, (see illustration, this page).

Leadville-Gilman mining districts of Colorado. The 25,000 acres of claims recently staked by Bluesky and Canyon Resources Inc. is shown in the outlined area. Town of Leadville in foreground.



Bluesky Oil & Gas Personnel

Bluesky presently has 91 people on staff in its offices in Calgary, Alberta; Denver, Colorado; and Houston, Texas. This includes exploration, land, production and financial personnel that enable the Company to effectively participate in the exploration and development phases of the industry in the principal oil and gas regions of both the United States and Canada.



Ron Springer, *Vice President, Finance*



Gordon Sawyer, *Chief Geophysicist*



Art Eastly, *Vice President, Production*



Jim Feeney, *Manager of Operations, Calgary*
Terry Birkbeck, *Area Foreman*



Danny Lindow, *Exploration Manager Houston*

Robert Richardson, *Draftsman*
Alice Nafegar, *Receptionist*



Russ Franklin, *Production Engineer*



Judy Hoyle, *Manager, Corporate Communications*



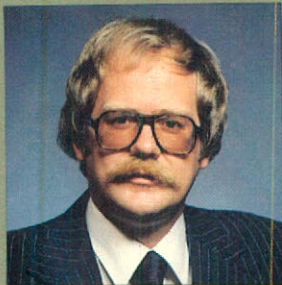
Clem Benteau, *Geologist*
Darrell Shaw, *Geologist*
Chuck Boreski, *Geologist*
Bob Leonard, *Geologist*
Paul Collier, *Geologist*



Tony Kraychy, *Production Engineer* Art Eastly, *Vice President, Production* Ed Beaman, *Reservoir Engineer*
Steve Koles, *Chief Engineer*



Renee Maaskant, *Executive Secretary*



Wayne Tait, *Vice President, Land*



Steve Gendron, *Prod. Accountant* Mike Newton, *Prod. Accountant*
Don Lomenda, *Production Accounting Clerk*



Kim Johnson, *Executive Secretary*



Jan Buck, *Secretary* Max Coote, *Landman*



Kerri Wilkinson, *Accounts Rec. Supervisor*
Maureen Campbell, *Revenue Accounting*



Marie Ann Turner, *Geologist*



Rolly Rogers, *Geologist* Maria Anaya, *Secretary* Gordon Sawyer, *Chief Geophysicist*
Lou Conti, *Exploration Manager, Denver*



Daryl Connolly, *Vice President, Corporate Development*



Matt Monaco, *Joint Venture Auditor*
Charlene Schmidt, *Receptionist*



Ann Pariseau, *Accountant* Gordon Kerr, *Chief Accountant*
Ron Springer, *Vice President, Finance*



Elizabeth Mahoney, *Lease Records Clerk* Robert Nunnallee, *Senior Landman*
Victoria Wallace, *Land Secretary* Kendal Kuiper, *Landman*



Don Maki, *Production Engineer*



Roger Barnes, *Manager of Operations, Houston*
Toni Sackman, *Production Secretary*

1980 Financial Statements

Consolidated Statement of Income and Retained Earnings

Bluesky Oil & Gas Ltd.

For the Five Months Ended April 30, 1980

	April 30 1980	Nov. 30 1979 (Note 4)
Revenue		
Geological, geophysical and drilling services	\$10,506,166	\$35,141,884
Sale of petroleum and natural gas properties	5,984,581	14,240,106
Production income, net of royalties	1,643,956	1,334,435
Management fees	714,983	1,115,607
Other income	312,289	231,683
	<u>19,161,975</u>	<u>52,063,715</u>
Cost of sales		
Geological, geophysical and drilling services	10,844,929	34,120,034
Petroleum and natural gas properties	4,192,005	10,278,881
	<u>15,036,934</u>	<u>44,398,915</u>
	<u>4,125,041</u>	<u>7,664,800</u>
Expenses		
Production	299,090	304,645
General and administrative	281,696	514,911
Interest	488,442	392,392
Dry holes and abandonments	91,908	232,114
Lease carrying costs of exploratory properties	125,639	199,493
Depletion and depreciation	881,597	1,034,756
	<u>2,168,372</u>	<u>2,678,311</u>
Net income before extraordinary items and income taxes	1,956,669	4,986,489
Income tax provision	643,724	2,163,480
Net income before extraordinary items	<u>1,312,945</u>	<u>2,823,009</u>
Extraordinary items		
Gain on sale of marketable securities	767,014	719,907
Less income tax provision thereon	252,347	319,206
	<u>514,667</u>	<u>400,701</u>
Net income	1,827,612	3,223,710
Retained earnings, beginning of period	3,595,342	1,249,618
Issuance costs on sale of preferred shares	—	(642,377)
Preferred share dividends	(262,500)	(235,609)
Retained earnings, end of period	<u>\$ 5,160,454</u>	<u>\$ 3,595,342</u>

The accompanying notes form an integral part of this statement.

Consolidated Balance Sheet

Bluesky Oil & Gas Ltd.

As at April 30, 1980

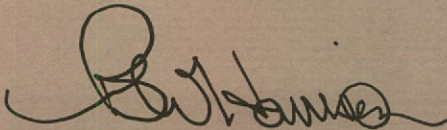
	April 30 1980	Nov. 30 1979 (Note 4)
ASSETS		
Current		
Cash in bank	\$ 317,633	\$ 1,556,816
Accounts receivable, trade	25,181,783	12,143,913
Income tax refund receivable	158,630	13,566
Marketable securities, at cost (market value \$1,875,000; 1979 \$5,887,500)	184,275	2,383,500
Inventory of undeveloped leases, at lower of cost and net realizable value	11,553,334	5,560,392
Current portion of loans receivable	3,130,909	3,205,656
Prepaid expenses	425,368	17,500
Agreement receivable	415,000	920,000
Notes receivable, shareholders	—	8,602
	<u>41,366,932</u>	<u>25,809,945</u>
Property and equipment, at cost		
Petroleum and natural gas properties including well development expenditures	84,510,683	39,343,497
Plant and equipment (Note 2)	11,319,286	7,791,707
Mining properties	8	—
	<u>95,829,977</u>	<u>47,135,204</u>
Less: Accumulated depreciation and depletion	2,755,621	1,688,151
	<u>93,074,356</u>	<u>45,447,053</u>
Loans receivable on sale of petroleum and natural gas properties	112,503,366	101,595,581
Less: Deferred net income thereon	112,503,366	101,405,896
	<u>—</u>	<u>189,685</u>
Other assets		
Other loans receivable	288,803	324,904
Notes receivable (Note 6)	1,506,250	1,484,250
Investment in common shares, at cost	709,514	79,514
Deferred exchange loss	37,910	143,565
	<u>2,542,477</u>	<u>2,032,233</u>
	<u>\$136,983,765</u>	<u>\$ 73,478,916</u>

	April 30 1980	Nov. 30 1979 (Note 4)
LIABILITIES		
Current		
Bank loan (Note 8)	\$ 14,265,940	\$ —
Accounts payable and accrued liabilities	9,523,131	3,148,024
Income taxes payable	—	72,448
Deposit on future services	5,101,962	7,663,467
Deferred drilling, geological and management fee income	7,578,647	6,728,322
Deferred income on sale of petroleum and natural gas properties	5,026,426	568,033
Notes payable	210,000	210,000
Current portion of long term debt	—	375,600
	<u>41,706,106</u>	<u>18,765,894</u>
Deferred income taxes payable	5,645,791	5,360,730
Gas production prepayment (Note 3)	50,354	69,937
Long term debt (Note 5)	630,000	941,400
	<u>48,032,251</u>	<u>25,137,961</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)		
Common		
Authorized		
25,000,000 shares without par value		
Issued and outstanding		
18,017,173 shares (1979-14,508,500)	76,291,100	37,245,653
Preferred		
Authorized		
3,000,000 shares with a par value of \$5 each		
Issued and outstanding		
1,500,000 7% cumulative, redeemable, convertible Series A shares	7,500,000	7,500,000
Retained earnings	5,160,454	3,595,342
Cost of shares held by its subsidiary (Note 7)	(40)	(40)
	<u>88,951,514</u>	<u>48,340,955</u>
	<u>\$136,983,765</u>	<u>\$73,478,916</u>

On Behalf Of The Board



Director



Director

The accompanying notes form an integral part of this statement.

Consolidated Statement of Changes in Financial Position

Bluesky Oil & Gas Ltd.

For the Five Months Ended April 30, 1980

	April 30 1980	Nov. 30 1979 (Note 4)
Financial resources were provided by		
Operations		
Net income before extraordinary items	\$ 1,312,945	\$ 2,823,009
Add non-cash items		
Loss on sale of fixed assets	47,860	—
Depletion and depreciation	881,597	1,034,756
Accumulated depreciation and depletion on petroleum and natural gas properties sold	—	(49,183)
Deferred income tax	795,703	2,105,595
	<u>3,038,105</u>	<u>5,914,177</u>
Gain on sale of marketable securities	767,014	719,907
(Increase) in loans receivable	(10,907,785)	(18,183,689)
Increase in deferred income thereon	11,097,470	18,249,614
	<u>189,685</u>	<u>65,925</u>
Proceeds on sale of fixed assets	200,000	—
Decrease (increase) in other loans receivable	36,101	(324,904)
Decrease (increase) in deferred exchange loss	105,655	(172,648)
Proceeds on issue of common shares	145,447	1,624,250
Less notes applicable thereto	22,000	1,484,250
	<u>123,447</u>	<u>140,000</u>
Proceeds on issue of 7% cumulative, redeemable, convertible preferred shares with a par value of \$5	—	7,500,000
Less: Issuance costs	—	642,377
	<u>—</u>	<u>6,857,623</u>
Increase in deposits, net of advances, under an agreement to purchase dated July 2, 1977	—	244,371
	<u>4,460,007</u>	<u>13,444,451</u>
Financial resources were used for		
Purchase of property and equipment		
Petroleum and natural gas properties	1,901,960	1,492,353
Plant and equipment	1,528,661	2,966,123
	<u>3,430,621</u>	<u>4,458,476</u>
Increase in investment in common shares	630,000	66,666
Less notes payable thereon	630,000	—
	<u>—</u>	<u>66,666</u>
Acquisition of Focus Resources Ltd.	4,967,528	—
Reduction of gas production prepayment	19,583	33,936
Reduction of long-term debt	3,163,000	406,900
Preferred share dividends	262,500	235,609
	<u>11,843,232</u>	<u>5,201,587</u>
(Decrease) increase in working capital	(7,383,225)	8,242,864
Working capital, (deficiency), beginning of period	7,044,051	(1,198,813)
Working capital (deficiency), end of period	<u>\$ (339,174)</u>	<u>\$ 7,044,051</u>

The accompanying notes form an integral part of this statement.

Notes to Consolidated Financial Statements

Bluesky Oil & Gas Ltd.

As at April 30, 1980

1. Significant accounting policies

Reference to "Company" in these statements refers to the amalgamated company as described in Note 10 and/or its predecessor company, Bluesky Oil & Gas Ltd. prior to the amalgamation.

Basis of consolidation

The consolidated financial statements have been prepared based on the April 30, 1980 financial statements of the Company and its wholly-owned subsidiary Bluesky Oil & Gas Inc.

Translation of Foreign Subsidiary Accounts

The accounts of the Company's wholly-owned 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 the balance sheet date
b) Loans receivable and deferred income thereon	-Rates in effect at the 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 and losses are deferred until realized, at which time they are recorded in income.

Sale of interests in petroleum and natural gas properties

The Company has sold its interests 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 interest 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 agreement, 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

All costs relating to the acquisition of interests in undeveloped petroleum and natural gas properties are carried in inventory as these properties will be offered for sale under a right of first refusal pursuant to the drilling program agreements after they have been evaluated by management.

All costs related to the acquisition of interests in productive petroleum and natural gas properties are capitalized. A proportionate share of such costs is included in the determination of any gain or loss when fractional interests are sold.

Costs of interests in petroleum and natural gas properties on which successful wells are drilled are amortized on the unit-of-production method based on estimated recoverable reserves of petroleum and natural gas as determined by the Company and its consulting engineers.

Costs of interests in petroleum and natural gas properties on which dry holes are drilled are charged to income.

Depreciation

Depreciation of well equipment is provided 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.

Issuance costs of preferred shares

Costs incurred pursuant to the issuance of the Series A 7% preferred shares are applied to reduce retained earnings directly in the period incurred.

2. Plant and equipment

	April 31, 1980		Nov. 30, 1979
	Cost	Accumulated Depreciation	Net Book Value
Production equipment	\$ 7,091,170	\$ 591,906	\$ 6,499,264
Plant and gathering equipment	4,228,116	640,556	3,587,560
	<u>\$11,319,286</u>	<u>\$1,232,462</u>	<u>\$10,086,824</u>
			<u>\$8,848,358</u>

3. Gas production prepayment

A gas pipeline company has contracted to purchase the Company's gas production from its interest in certain areas of Oklahoma and, as part of the arrangement, has made advances to assist the Company in financing the development of the gas reserves. Repayment is proportionate to gas sales until 1981, at which time the balance outstanding becomes payable. A bank letter of credit for \$78,500 has been issued by the Company as security for this loan.

4. Comparative figures

Comparative figures are for the thirteen month period ended November 30, 1979 and include the accounts of the Company's wholly-owned subsidiary Bluesky Oil & Gas Inc.. Due to the December 31, 1978 year end of the wholly-owned subsidiary, its accounts are for the eleven months ended November 30, 1979.

5. Long term debt

Note payable without interest,
due December 11, 1982 \$630,000

6. Share Capital

A. During the period, the Company issued common shares as follows:

- 1.) Under Focus Resources Ltd.'s Employee Stock Option Plan (24,252 Focus shares converted at 1,817:1) 44,066
- 2.) Under the Employee Share Purchase Plan 4,000
- 3.) On amalgamation with Focus Resources Ltd. 3,460,607

Total issued 3,508,673

Balance issued beginning of period 14,508,500

Balance issued, April 30, 1980 \$18,017,173

B. On March 15, 1979, the Company established an Employee Share Purchase Plan with 500,000 common shares reserved for issue under the Plan. Under the 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, of the Company's common shares. The price of the Common

shares issued under the Plan is average sale price of the Company's shares on the day following the transaction. As at April 30, 1980, \$1,506,250 was receivable by the Company (\$1,484,250 at November 30, 1979) under the Plan and is included in "other assets".

C. On February 20, 1980, the Company and its German Drilling Fund partner entered into an agreement subject to regulatory approval, 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 fund. Regulatory approval has been received and as of April 30, 1980 no shares were as yet issued under this agreement.

D. On February 11, 1980, the Company established an Employee Stock Option Plan with 300,000 common shares reserved for issue under the Plan. During the period options were granted to employees to purchase 63,000 shares at prices ranging from \$9.00 to \$10.00 which expire five years from the date of issue.

E. On April 5, 1980, the Company established a Directors Stock Option Plan with 500,000 common shares reserved for issue under the Plan. During the period options were granted to Directors to purchase 180,000 shares at \$10.00 each which expire three years from the date of issue.

F. The 7% cumulative redeemable convertible preferred Series A shares have the following conditions:

- 1.) Convertible at any time on the basis of one Series A preferred share for one common share.
- 2.) Redeemable by the Company after March 30, 1982, at \$5.00 per share. All Series A preferred shares remaining outstanding on September 30, 1984, shall be redeemed by the Company.

7. Cost of shares held by its subsidiary

As at April 30, 1980, the Company's wholly-owned subsidiary, Bluesky Oil & Gas Inc., owned 3,524,800 shares of the Company's common shares which represents 19.56% 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. During the period 12,000 shares were sold in accordance with an option exercised under the Agreement.

8. Bank Loan

During the period the Company increased its revolving bank line of credit to \$17,000,000 with interest at the rate of bank prime plus ½% which is secured by an assignment of the Company's interest in certain petroleum and natural gas properties.

9. Net earnings per common share

	Excluding Shares owned by Subsidiary	Including Shares owned by Subsidiary
Including extraordinary item	10.8¢	8.7¢
Before extraordinary item	7.3¢	5.8¢

Net earnings per common share are based on the monthly weighted average number of common shares outstanding after dividend requirements on the 7% cumulative redeemable preferred shares Series A.

The conversion of the 7% cumulative redeemable shares and the options referred to in Note 6 would be non-dilutive and accordingly have not been presented.

Comparative net earnings per common share have not been presented as comparative figures are for the thirteen month period ended November 30, 1979 (Note 4).

10. Amalgamation with Focus Resources Ltd.

On December 8, 1979 the Company and Focus Resources Ltd. were amalgamated under a Statutory Amalgamation. The amalgamation has been accounted for under the "purchase method" after re-stating the accounts of Focus from the "full cost method" of accounting for exploration and development expendi-

ture, to the "successful effort method" to conform to the Company's method of accounting. Under the amalgamation 3,460,607 shares of the Company were issued at a value of \$38,900,000 to the previous shareholders of Focus, representing the 86.54% of the Focus shares not already owned by the Company. The excess of the total cost of the purchase over the book value of the assets acquired has been allocated to petroleum and natural gas properties. Details of the total net assets acquired are as follows:

Current assets	\$ 8,280,440
Petroleum and natural gas properties	45,326,139
Other assets	762,989
Total	<u>54,369,568</u>
Less:	
Current liabilities	\$11,147,968
Long term liabilities	<u>\$ 2,221,600</u>
	<u>13,369,568</u>
Net assets acquired	41,000,000
Less cost of shares previously owned	<u>2,100,000</u>
Value of consideration given	<u>\$38,900,000</u>

11. Remuneration of Directors and Senior Officers

Remuneration paid to directors and senior officers (including the five highest paid employees) of the Company amounted to \$146,644.

12. Subsequent events

On June 11, 1980, the Company entered into an agreement with a senior officer, subject to necessary approvals, to sell to the officer 500,000 Series B 6% cumulative, redeemable, convertible preferred shares, at a price of \$11.00 per share. These shares are redeemable at \$11.00 per share at any time prior to July 30, 1985 by mutual agreement between the Company and the officer and any shares not converted by July 31, 1985, must be redeemed by the Company at \$11.00 per share. The shares are convertible to common shares on a one to one ratio.

Auditors' Report

To the Shareholders,

We have examined the consolidated balance sheet of Bluesky Oil & Gas Ltd. as of April 30, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and 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, 1980 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta
August 12, 1980

DELOITTE, HASKINS & SELLS
Chartered Accountants.

Corporate Information

Directors

Barry W. Harrison,
Calgary, Alberta

Robert J. Leslie,
Houston, Texas

Abraham Okazaki,
Vancouver, B.C.

Robert Wisener,
Calgary, Alberta

Officers

Robert J. Leslie, President
& Chief Executive Officer

Ronald W. Springer,
Vice President, Finance

Authur C. Eastly,
Vice President, Production

Wayne S. Tait,
Vice President Land

Daryl H. Connolly,
Vice President,
Corporate Development

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Bluesky Oil & Gas Inc.

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Registrar & Transfer Agent

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Exchange Listing

The Vancouver Stock Exchange
Trading Symbol: BKY



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