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CZAR RESOURCES LTD.

1983 Annual Report

Corporate Information

Board of Directors

Robert W. Lamond
Calgary, Alberta

Bonita O. Rawlyck
Calgary, Alberta

Brian C. Bentz
Vancouver, British Columbia

Officers and Key Personnel

Robert W. Lamond
Chairman of the Board, President and Chief Executive Officer

Bonita O. Rawlyck
Senior Vice President, Finance and Chief Financial Officer

P. Richard Ewacha
Engineering Manager

Sharon P. Runge
Land Manager

Herbert J. Visscher
Exploration Manager

Allan R. Twa
Corporate Secretary

Officers of Czar Resources Inc., U.S. Subsidiary

John A. Habbishaw
Vice President and General Manager

J. Michael Gatlin
Vice President and Assistant General Manager

T. William Porter
Corporate Secretary

Corporate Office

Suite 700, 425 First Street S.W.
Calgary, Alberta T2P 3L8
(403) 265-0270 Telex 03-826735

U.S. Office

333 North Belt, Suite 400
Houston, Texas 77060
(713) 931-6634 Telex 790219

Czar Resources Ltd.
and Subsidiary Companies

Division and Field Office

P.O. Box 6718
Fort St. John,
British Columbia V1J 4J4
(604) 787-7718

Legal Counsel

Burnet, Duckworth & Palmer
32nd Floor, 425 First Street S.W.
Calgary, Alberta T2P 3L8

Porter & Clements
3500 Republic Bank Center
Houston, Texas 77002

Auditors

Thorne Riddell
1400, Bow Valley Square II
205 Fifth Avenue S.W.
Calgary, Alberta T2P 2W4

Main Hurdman
4200 Capital Bank Plaza
Houston, Texas 77002

Registrar & Transfer Agents

The Canada Trust Company
505 Third Street S.W.
Calgary, Alberta T2P 3E6

Wholly-Owned Subsidiaries

Czar Resources Inc.
Czar Developments Ltd.

Stock Listings

The Toronto Stock Exchange
The Alberta Stock Exchange
The Montreal Stock Exchange
Trading Symbol — CZR

Annual Meeting

The Annual Meeting of Shareholders of Czar Resources Ltd. will be held at 3:00 p.m. Wednesday, April 18, 1984 in the Mayfair Room of the Westin Hotel, Fourth Avenue and Third Street S.W., Calgary, Alberta.

Highlights

FINANCIAL	1983	1982
Gross Revenue		
Canada	$ 10,025,485	$ 10,972,020
United States	2,336,043	5,740,065
Total	$ 12,361,528	$ 16,712,085
Cash flow deficiency from operations	$ (2,420,328)	$ (6,033,033)
Net loss	$(19,659,808)	$ (27,287,298)
Net loss per share	$ (1.69)	$ (2.35)
Capital expenditures	$ 6,230,682	$ 9,735,190
Working capital deficiency	$(31,144,362)	$ (12,687,422)
Total assets	$ 97,349,772	$115,770,128
Common shares outstanding	11,628,553	11,628,553

OPERATING	1983	1982
Production (before royalties)		
Crude oil and natural gas liquids (BBLS)	209,161	259,883
Average daily production (BBLS/d)	573	712
Natural gas (BCF)	4.6	5.0
Average daily production (MMCF/d)	12.7	13.6
Reserves (after royalties)		
Crude oil and natural gas liquids (BBLS)		
Canada	1,142,500	1,413,242
United States	215,800	370,854
Total	1,358,300	1,784,096
Natural gas (BCF)		
Canada	269.5	268.9
United States	1.0	2.0
Total	270.5	270.9
Drilling Activity		
Gas completions	20	27
Oil completions	14	14
Dry and abandoned	8	26
Total wells	42	67
Undeveloped Land Holdings		
Net Acres		
Alberta	61,890	114,999
British Columbia	68,649	99,818
United States	3,256	44,491
Total	133,795	259,308

ROBERT W. LAMOND
Chairman of the Board

To The Shareholders

At the end of Czar's 1982 fiscal year, the Board of Directors' objectives were to improve corporate liquidity and protect and build on the Company's considerable asset base. However, after a thorough review, and with a radical change of management and operating philosophies from those of the past, it became clear that 1983 could also be a year in which the bulk of the Company's outstanding problems and liabilities could be tackled. The priority objectives set for the year encompassed restructuring the Company's debt load, eliminating all outstanding liabilities, achieving an operating profit, renegotiating two industrial gas contracts and if possible replacing production volumes.

All of the foregoing had to be accomplished with minimum funding and financial constraints dictated that overhead be further reduced, fixed asset additions be kept to a minimum, and the Company's whole thrust be centred on cash flow generating projects.

I am pleased to report that, after a very trying year, involving great efforts by the key management staff, the bulk of the Company's aims were accomplished as follows:

Financial

A review of various possible financing alternatives, including a rights offering of common shares coupled with bank debt restructuring, concluded that both the equity market and the Company's financial condition would not permit a placement of equity during the year. However, as Czar's third party liabilities were steadily reduced, it became apparent that a restructuring of Czar's debt by its banker would be possible. This resulted in an agreement being entered into by Czar and The Toronto Dominion Bank in late October, whereby $55 million of the Company's debt would be converted into five year, non-convertible redeemable preferred shares. These shares will yield a dividend equal to one half of the prime interest rate plus one percent and will save the Company approximately $2.9 million per year in debt servicing costs. The bank will also be issued warrants to acquire up to ten percent of the common shares of the Company outstanding on the day of issue of the preferred shares. The warrants will be issued in five annual installments over the term of the preferred shares, and will allow the bank to purchase common shares at the market price the day the warrants are issued. The warrants will be exercisable at any time between October 1987 and October 1992. The Company has received a satisfactory ruling from Revenue Canada with respect to this refinancing, and is currently finalizing documentation with the Bank.

Liabilities

A major Canadian liability, involving the requirement to acquire oil and gas assets from four limited partnerships, for which Czar was the operator, was reduced substantially by a partnership reorganization early in 1983. In exchange for thirty-six monthly payments of $45,000, Czar is no longer committed to make annual asset purchases, which in 1982 totalled $1.7 million. In the United States, Czar's final requirement to contribute to limited partnerships was completed with a $1.5 million contribution to the Czar-Aurora 1981 A & B programs. Also, in the United States, Czar cancelled long-term contracts, totalling $4.3 million, on a drilling rig and unused Houston office space for cash payments of $200,000.

Cash Flow

Despite substantial reductions in overhead, interest and operating costs, the Company ended the year with a deficiency of funds from operations of $2.4 million. This was an improvement over the $6.0 million deficiency of 1982, however rapid declines of United States oil wells and reduced gas deliveries in Canada, due to a warm winter, reduced budgeted production revenues. As $1.1 million of the 1983 cash flow deficiency related to United States bad debts, the Company's objective of achieving an operating profit was nearly met.

Gas Contracts

During the year, a number of problems with Czar's Alberta industrial gas contracts arose, mainly related to the Company's tight cash position and desire to only connect to market those reserves offering the highest return on investment. In addition, for a period, Czar lacked both full contract quantities of readily connectible gas and the capital to tie-in existing high deliverability wells. However, as the year progressed, increasing volumes of gas were placed on stream and with some accommodation from the gas purchasers, Czar managed to retain almost the complete contractual volumes and pricing structure, and was given extended, achievable performance schedules.

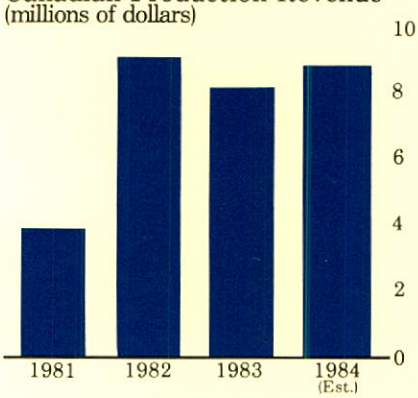
Production Replacement

Mainly through the discovery and development of the Gadsby pool in central Alberta, outlined in the exploration notes, Czar developed approximately 10.8 BCF of gas during 1983. This reserve addition exceeded both production of 3.4 BCF and negative revisions of 6.8 BCF for the year. No meaningful attempt to replace both United States and Canadian oil production could be made.

While not all of the Company's 1983 objectives were completely achieved, Czar's financial condition, coupled with the economic context of continuing high interest rates, and generally flat product demand and energy prices made the performance reasonable.

Financial

Canadian Production Revenue
(millions of dollars)



Revenues for 1983 totalled $12.4 million compared with $16.7 million in 1982. Canadian revenues were very similar to those of the prior year, however United States revenues dropped due to well declines and the sale of some producing Austin Chalk wells.

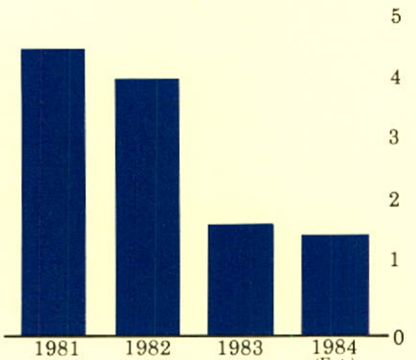
Greatly reduced costs, however, lowered the deficiency of funds from operations from $6.0 million in 1982 to $2.4 million. Production, interest and administrative costs were reduced significantly and administrative expenses are projected to further decrease during 1984.

Continued production declines of the United States properties, coupled with future product price and production risks, have led to the write-down of the United States oil and gas assets to zero. A decision as to the future of the United States operation will be made by the Board early in 1984.

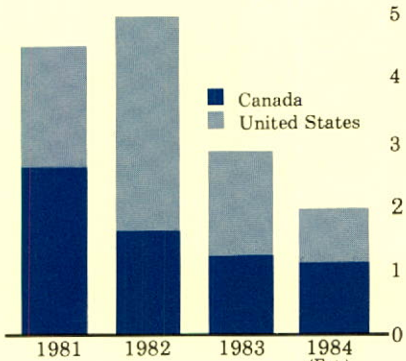
Both the write-down of assets and bad debts in the United States and the provision for the discharge of partnership redemption obligations in Canada increased the total loss to $19.7 million, compared with $27.3 million in 1983. The bulk of the losses comprised by these amounts are non-cash and all are non-recurring.

In 1983, fixed asset additions totalled $6.2 million, down from $9.7 million in 1982 and $45.3 million in 1981. Of the total $6.2 million, $3.5 million was expended in Canada and included $930,000 of production facilities and $567,000 of tangibles and completion costs on wells in which the Company had an obligation to participate. These development expenditures of $1.5 million have developed oil and gas reserves which will produce total future revenues of $21.1 million and have a present worth, discounted at 20 percent, of $4.3 million. The incremental cash flow from these expenditures will begin in 1984, and should approximate $1 million per year. In addition, $2.7 million was expended in the United States, the bulk of which related to drilling partnership cash contributions. Expenditures on developing properties totalled $330,000 and will generate $200,000 in 1984.

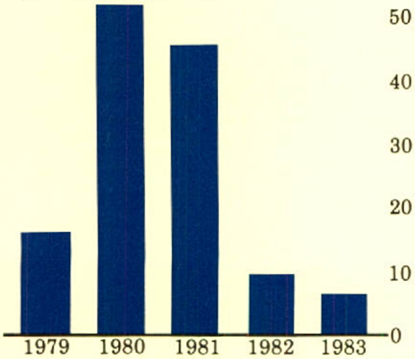
U.S. Production Revenue
(millions of dollars)



Administration Costs
(millions of dollars)



Capital Expenditures
(millions of dollars)



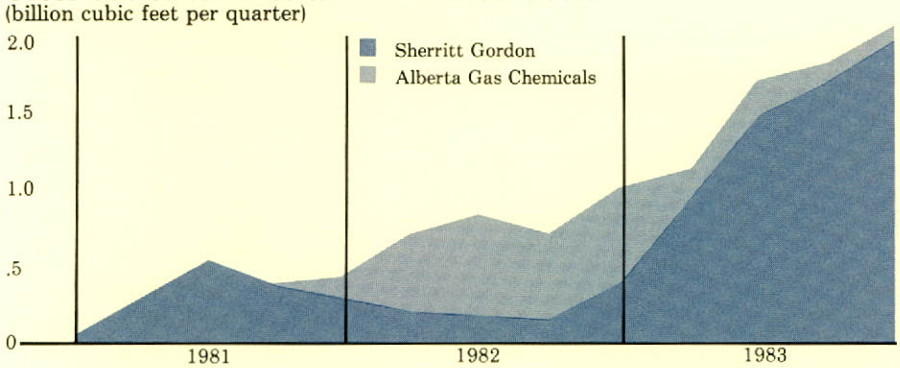
Production

During 1983, Czar's total gas production before royalties totalled 4.6 BCF and oil production totalled 209,161 BBLS, (3.6 BCF and 152,674 BBLS after royalties) representing declines of seven percent and 19% respectively from production volumes of 1982.

Gas Production - Canada

Czar's net production in Canada was 4.58 BCF in 1983, compared with 4.78 BCF in 1982. Though production volumes decreased slightly, the diversity of Czar's contracting arrangements enabled the Company to perform significantly better than the industry average. Czar's larger gas contracts are with British Columbia Petroleum Corporation in British Columbia and with Sherritt Gordon Mines Limited, Alberta Gas Chemicals and other gas purchasers in Alberta. Volumes of reserves at October 31, 1983 dedicated to each buyer are shown graphically. This diversity, both geographically and by type of end-user, should enable 1984 gas production to remain fairly constant.

Gross Gas Sales - Alberta Industrial Contracts
(billion cubic feet per quarter)



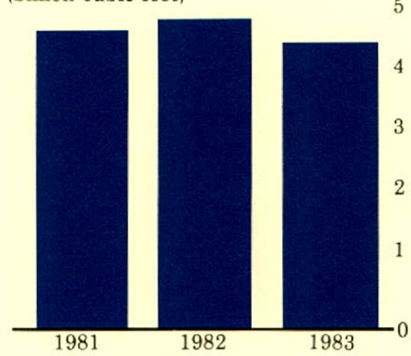
Czar's gross gas deliveries to its two prime industrial purchasers increased throughout the year, and at calendar year end totalled over 28 MMCF/d. Contract deliveries should gradually increase to 34 MMCF/d by mid-1984 and are being supplemented by short-term sales to other purchasers. Czar's net share of these contracts averaged 20% which equalled 5.8 MMCF/d at year end.

In British Columbia, Czar's net gas production before royalties of 2.1 BCF compared with 2.4 BCF in 1982. Overall gas sales for the Province of British Columbia declined slightly in 1983 but with both the liquified natural gas scheme and potential new gas marketing initiatives encouraged by the British Columbia government, an improving climate for British Columbia gas sales appears imminent.

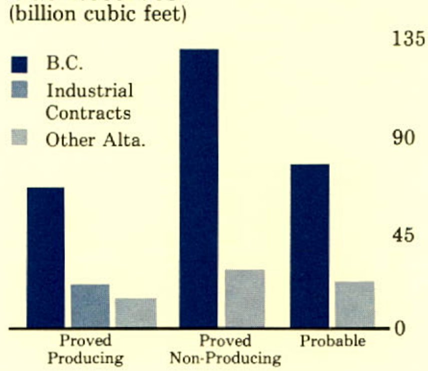
Oil Production - Canada

Oil production in Canada after royalties, net to Czar, was derived mainly in Alberta and totalled 129,768 BBLS, an average of 355 BBLS per day. This compares with 347 BBLS per day in 1982. Anticipated small production declines during 1984 will be offset when a pressure maintenance scheme begins in the Lanaway field.

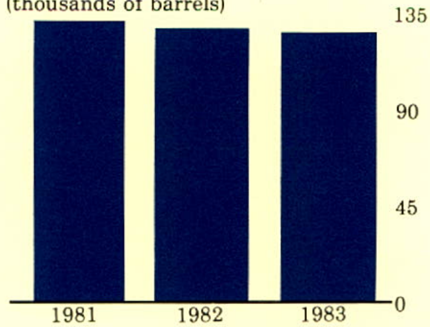
Canadian Gas Production Before Royalties
(billion cubic feet)



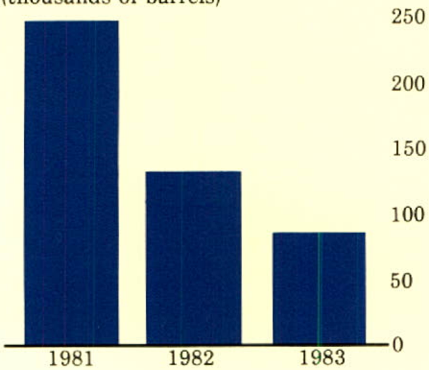
Distribution of Canadian Gas Reserves
(billion cubic feet)



Canadian Oil Production Before Royalties
(thousands of barrels)



U.S. Oil Production
Before Royalties
(thousands of barrels)



United States - Oil & Gas Production

Oil production declined 59% from 1982 due primarily to a decline in production from the Company's three best revenue generating wells on the Winchester Prospect, Texas. Total oil production from United States wells before royalties was 84,217 barrels, and gas production was 179 MMCF, compared with 133,409 barrels and 270 MMCF in 1982.

During the year, the Company sold its interests in a number of Gonzales County oilwells and leases for $375,000.

Reserves

Evaluations of the Company's proved and probable reserves effective October 31, 1983, indicated almost no change in gas reserves compared with evaluations prepared effective September 30, 1982 but indicated a drop in total oil reserves. A detailed breakdown of reserve changes, net after royalties, during the year follows:

	Canada		United States	
	Oil (MBBLS)	Gas (BCF)	Oil (MBBLS)	Gas (BCF)
Reserves at Sept. 30/82	1,413	268.9	371	2.0
Additions	41	10.7	14	0.2
Adjustments	(221)	(6.7)	(107)	(1.1)
Production during year	(90)	(3.4)	(62)	(0.1)
Reserves at Oct. 31/83	1,142	269.5	216	1.0

An analysis shows that major gas additions were related to development drilling and the acquisition of gas reserves in the Gadsby, Medicine River and Stettler areas of Alberta. The major downward adjustments were due to unsuccessful completions or more rapid well declines than previously estimated.

The relative significance of Czar's British Columbia gas reserves is indicated by the comparison of Czar's share of proven and probable gas reserves, after royalties, attributable to the Company's five largest pools in the Provinces of Alberta and British Columbia.

Alberta Gas Pools	Reserves (BCF)	B.C. Gas Pools	Reserves (BCF)
Medicine River	7.7	Monias-Callisto	53.7
Parkland	6.7	Helmet-Petitot	52.6
Gadsby	6.1	Birch	12.3
Hussar	4.4	Fireweed	10.8
Sylvan Lake	4.0	Highway	9.8

Subsurface pressure measurements have been taken periodically on the two largest British Columbia pools and have given very encouraging results. In the Monias pool, from which over 36 BCF has been produced to date by all operators, pressure decline work indicates reserves very similar to those calculated on a volumetric basis, by the Company's engineers. In addition, preliminary pressure information from the two producing wells in the Petitot field shows minor pressure depletion confirming the Company's estimates of major gas reserves in this pool. Data from one of the wells, which has produced over 0.75 BCF and only shows a 10 psi pressure decline, can be extrapolated to show recoverable reserves surrounding the well of over 50 BCF. The foregoing information, together with data pressure and further engineering work on the Company's properties, lends additional credibility to the magnitude of the Company's gas reserves.

The value of the Company's reserves discounted at a 15% discount rate has decreased by 17% from that of 1982 due mainly to lower pricing forecasts. A summary of the independent engineering evaluations prepared as of October, 1983 follows:

			Present Value ($000)			
	Oil	Gas		Discounted		
	(MBBLS)	(MMCF)	Undiscounted	10%	15%	20%
Canada						
Proved producing	952.0	93,350	$ 404,487	$137,504	$ 94,822	$ 70,535
Proved non-producing	67.4	100,068	449,494	95,574	51,566	30,001
TOTAL Proved	1019.4	193,418	853,975	233,078	146,388	100,536
TOTAL Probable	123.1	76,115	342,045	68,442	35,154	19,267
TOTAL Canada	1142.5	269,533	$1,196,020	$301,520	$181,542	$119,803
United States (in $ Canadian)						
Proved producing	208.3	767	$ 41,097	$ 17,416	$ 13,334	$ 10,830
Proved non-producing	4.5	163	21,699	5,904	3,780	2,661
TOTAL Proved	212.8	930	62,796	23,320	17,114	13,491
TOTAL Probable	3.0	35	7,698	1,309	712	460
TOTAL United States	215.8	965	70,494	24,629	17,826	13,951
TOTAL Reserves	1358.3	270,498	$1,226,514	$326,149	$199,368	$133,754

The value of Czar's common shares, using the appraised value of the Company's oil, gas and sulphur reserves, and an estimate of the value of the land holdings, net of liabilities, is $6.00 per share based on a 20% discount rate and $11.65 per share based on a 15% discount rate of future cash flow.

Exploration and Development

Canada

During 1983, the Company participated in the drilling of 19 wells in Canada, which resulted in 13 gaswells, five oilwells, and one dry hole. The Company also earned an interest in an additional four gaswells by paying a share of completion and production facility costs. As the exploration emphasis was placed on increasing Alberta gas reserves, the bulk of Czar's lower potential oil acreage was farmed out. This resulted in the drilling of five oilwells at no cost to the Company.

The Company's most significant exploration success during the year was the discovery of a large Basal Belly River gas pool in the Gadsby area of central Alberta. This pool was identified by the log reinterpretation of wells originally drilled through the producing zone. The discovery well, 7-14-38-19 W4M was reentered and completed in 20 feet of gas pay at an initial rate of 1.84 MMCF/d. Two additional wells were recompleted and three successful stepouts drilled. All six wells are currently producing to Czar's Sherritt Gordon contract, and additional wells to increase deliverability and reserves are planned. Potential pool reserves are estimated at over 75 BCF covering 32,000 acres in which Czar holds an average 26% interest.

Located six miles to the west of Gadsby, at Stettler South, Czar participated in the recompletion and drilling of three wells which have combined flow rates of four MMCF/d. Czar owns an average 41% interest in the wells, which are expected to be placed on production in May of 1984 to an industrial contract.

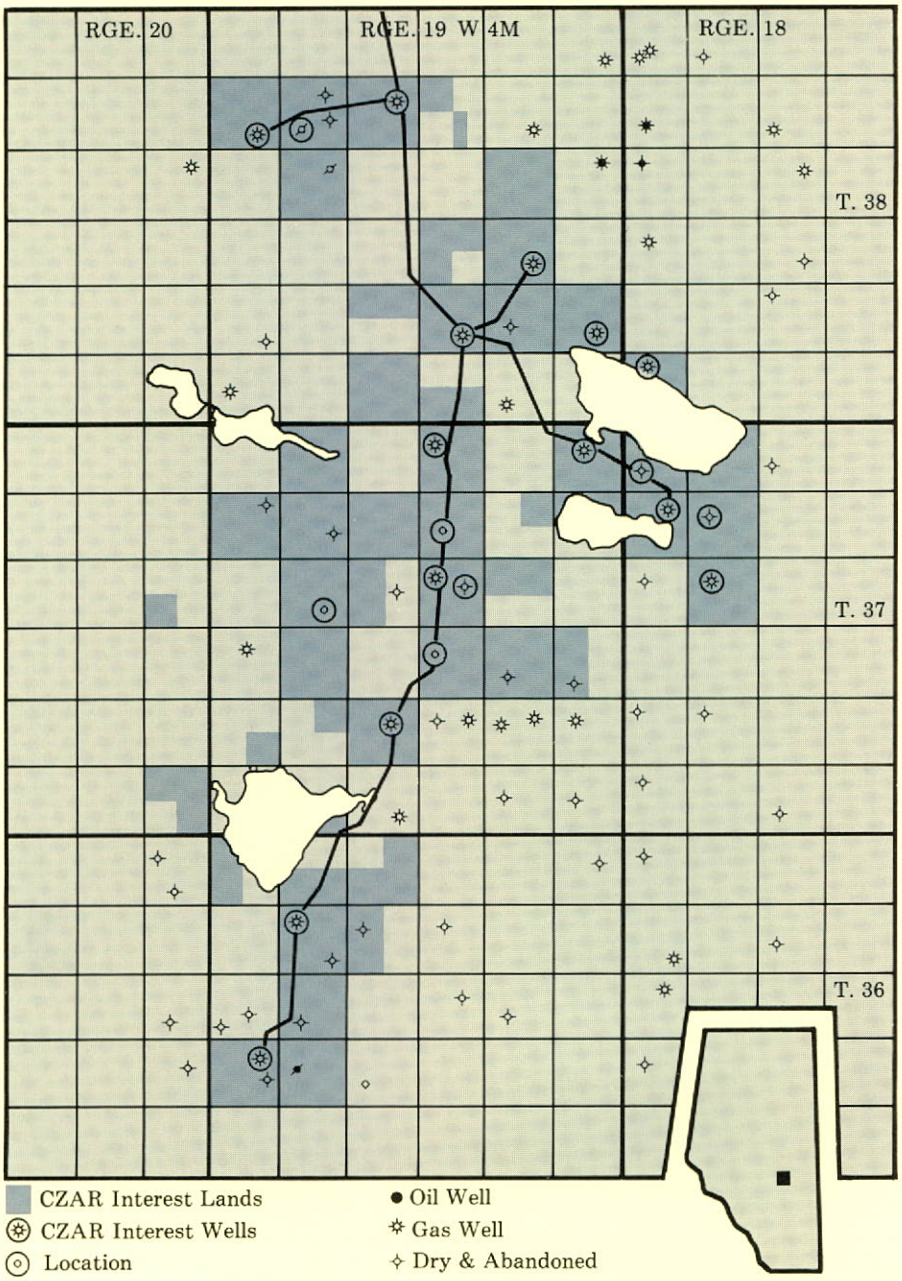
In the Sylvan Lake area, Czar acquired a 22.5% interest in a Pekisko and Basal Quartz gas well. The well, 14-29-38-2 W5M, with reserves of 14 BCF has been placed on stream at a production rate of 3 MMCF/d.

A farmout in the Lochend area of west central Alberta resulted in four oilwells, in which Czar owns overriding royalty interests. All of these wells are currently producing from the Cardium formation. Similar farmouts resulting in oilwells occured on the Alder Flats and Battle South prospects.

United States

In the United States, Czar's development activity was limited to those wells required to complete prior drilling fund commitments. A total of fifteen wells were drilled, resulting in five oilwells and three dual oil and gaswells. Successful development wells were drilled on the Oklahoma City Airport oil play and two additional offset wells expanded the Porcupine Prospect in Wyoming. At year end, a significant well in Oklahoma, Czar Bode No. 3 commenced production, flowing at an initial rate of 400 BOPD with 285 MCF/d of gas with a flowing tubing pressure, on a 14/64" choke, of 825 psi. Offsets to the Bode No. 3 and to producing wells in Wyoming will be commenced as drilling funds permit.

Gadsby, Alberta



Outlook

The Company's business plan for 1984 is based on general assumptions of an improving economy, coupled with slowly increasing inflation and interest rates. In the political field, both the federal and provincial governments will continue a generally cooperative attitude with the industry but only minor positive initiatives are likely. Improving demand for both oil and gas in North America will continue to be clouded by concerns about an oil price reduction and consequently increased inter-fuel competition. It is anticipated that only by the end of 1984 will the new economic realities of gas marketing be finally recognized and commodity pricing of gas be sanctioned both in Canada and for export to the United States.

With regard to the foregoing, Czar will continue to emphasize close financial control coordinated with continuing efforts to increase cash flow through additional gas sales. Both the Company's extensive knowledge of the industrial gas market in Alberta and the new emerging potential for similar markets for British Columbia gas will be more fully exploited during 1984.

With completion of the bank refinancing, the Company anticipates having sufficient cash flow to internally finance the bulk of its production facility and development commitments. Having virtually no other fixed financial obligations left, Czar will again have a stable operating base from which to grow.

It has been rewarding for me to head the intense staff effort which has led to the improvement in the Company's prospects. I would like to thank the staff and the shareholders for their continuing support and encouragement.

ON BEHALF OF THE BOARD,

Robert W. Lamond
CHAIRMAN OF THE BOARD

Auditors' Report

To the Shareholders of
Czar Resources Ltd.

We have examined the consolidated balance sheet of Czar Resources Ltd. as at October 31, 1983 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
January 4, 1984

Thorne Riddell
Chartered Accountants

Consolidated Balance Sheet

As at October 31, 1983

ASSETS	1983	1982
Current Assets		
Accounts receivable		
Trade	$ 5,874,887	$11,622,406
Drilling programs	916,821	2,329,778
Current portion of long-term receivables	117,106	916,934
Inventory of supplies, at lower of cost and net realizable value	342,700	920,681
	7,251,514	15,789,799
Long-Term Receivables	1,331,103	1,093,202
Fixed Assets (note 2)		
Petroleum and natural gas leases and rights including exploration, development and equipment thereon, at cost	98,328,058	129,069,030
Other	866,912	1,857,423
	99,194,970	130,926,453
Accumulated depletion and depreciation	10,427,815	32,039,326
	88,767,155	98,887,127
	$ 97,349,772	$115,770,128

Consolidated Balance Sheet

As at October 31, 1983

LIABILITIES	1983	1982
Current Liabilities		
Bank indebtedness (note 3)	$ 12,333,871	$ 6,929,783
Accounts payable and accrued liabilities	12,125,861	14,673,151
Drilling advances	—	363,172
Current portion of long-term debt	13,936,144	6,511,115
	38,395,876	28,477,221
Long-Term Debt (note 3)	46,072,510	54,751,713

SHAREHOLDERS' EQUITY		
Capital Stock (note 4)		
Authorized		
600,000 First preference shares with a par value of $25 each, issuable in series		
30,000,000 common shares without nominal or par value		
Issued		
11,628,553 Common shares	59,648,640	59,648,640
Deficit (note 4 (c))	(46,767,254)	(27,107,446)
	12,881,386	32,541,194
Future Operations (note 9)		
	$97,349,772	$115,770,128

Approved by the Board:

R———, Director

B. Darzyck, Director

Consolidated Statement of Earnings and Deficit

Year Ended October 31, 1983

	1983	1982
Revenue		
Production	$ 12,402,226	$ 16,357,130
Less: Provincial royalties	1,856,248	1,946,521
Freehold royalties	827,021	726,927
Petroleum and gas revenue tax	564,875	636,803
Alberta royalty tax credit	(1,096,285)	(1,026,818)
	2,151,859	2,283,433
Net production revenue	10,250,367	14,073,697
Principal and interest from property dispositions	2,111,161	2,638,388
	12,361,528	16,712,085
Expenses		
Production	2,445,437	3,406,545
General and administrative	2,855,818	4,919,123
Bad debts	1,132,651	3,575,392
Interest on long-term debt	7,325,284	9,455,831
Other interest	1,022,666	1,388,227
	14,781,856	22,745,118
Deficiency of funds from operations	(2,420,328)	(6,033,033)
Charges not requiring funds		
Depletion and depreciation	4,874,674	8,287,800
Deferred income tax reduction	—	(1,262,357)
Write-down of petroleum and natural gas properties (note 2)	10,744,806	14,228,822
	15,619,480	21,254,265
Loss before extraordinary item	(18,039,808)	(27,287,298)
Extraordinary item		
Discharge of limited partnership redemption obligations (note 5)	1,620,000	—
Loss for the Year	(19,659,808)	(27,287,298)
Retained Earnings (Deficit) at Beginning of Year	(27,107,446)	179,852
Deficit at End of Year (note 4 (c))	$(46,767,254)	$(27,107,446)
Loss per Common Share		
Loss before extraordinary item	$(1.55)	$(2.35)
Loss for the Year	$(1.69)	$(2.35)

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1983

	1983	1982
Working Capital Derived From		
Long-term receivables	$ 841,768	$ 800,733
Proceeds from long-term debt	—	10,950,000
Petroleum incentives	125,174	4,542,780
Proceeds on disposal of fixed assets	606,000	—
	1,572,942	16,293,513
Working Capital Applied to		
Operations	2,420,328	6,033,033
Repayment of long-term debt	2,604,174	9,257,337
Additions to fixed assets	6,230,682	9,735,190
Long-term receivables	1,079,669	514,050
Discharge of limited partnership redemption obligations (note 5)	270,000	—
Current portion of long-term debt	7,425,029	6,511,115
	20,029,882	32,050,725
Decrease in Working Capital Position	(18,456,940)	(15,757,212)
Working Capital (Deficiency) at Beginning of Year	(12,687,422)	3,069,790
Working Capital Deficiency at End of Year	$(31,144,362)	$(12,687,422)

Notes to Consolidated Financial Statements

Year Ended October 31, 1983

1. Accounting Policies (see also note 9)

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Czar Resources Ltd. and its subsidiary companies, all of which are wholly-owned.

(b) Foreign Currency Translation

The accounts of the foreign subsidiaries are translated to Canadian dollars on the following basis:

(i) current assets, current liabilities and long-term debt at the rate of exchange in effect as at the balance sheet date;

(ii) fixed assets and long-term receivables at the rate of exchange in effect at the date on which the respective assets were acquired; and

(iii) revenue and expenses (excluding depreciation and depletion which are translated at the same rate as the related assets) at the average rate of exchange for the year.

Gains or losses resulting from such translation practices are capitalized as part of petroleum and natural gas property costs and are amortized in accordance with policies outlined in note 1 (c).

(c) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost center. A separate cost center is established for each country in which the Company operates, presently Canada and the United States. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, related overhead expenditures and capitalized interest related to major development projects. Costs of major development projects which require significant investment prior to determination of the quantities of proved reserves are excluded from the depletion calculation until the quantities of proved reserves are determined. Costs are depleted by cost center using the composite unit of production method based upon estimated proved developed reserves. In calculating depletion, crude oil reserves are converted to equivalent units of natural gas based on the relative net sales value of each product.

Under certain drilling programs, a significant portion of the consideration for the sale of properties by the Company to limited partnerships is payable to the Company by instalments over a period approximating 26 years. Principal and interest payments, in the aggregate, may not exceed a fixed percentage of net revenue from the wells drilled. Unpaid principal instalments total $48,111,311 at October 31, 1983 (1982 - $49,386,744). Such principal and interest payments will be recorded as and when received.

All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others; the Company records only its proportionate interest in such activities.

(d) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proved developed reserves of each cost center. Depreciation of other equipment is provided on a straight-line basis at rates which are estimated to amortize the cost of the assets over their useful lives.

Notes to Consolidated Financial Statements

Year Ended October 31, 1983

2. Write-Down of Petroleum and Natural Gas Properties

Because of past experience and uncertainties relating to operations in the United States, management has written-down its U.S. assets to nominal values which, in the circumstances, is management's estimate of net realizable value. Accordingly, the costs and accumulated depletion and depreciation of such assets have been removed from the accounts.

3. Long-Term Debt

	1983	1982
Bank loan, bearing interest at the prime rate of a Canadian chartered bank plus ¾%	**$55,000,000**	$55,000,000
Bank loan, bearing interest at the U.S. base rate of a Canadian chartered bank plus ¾% ($2,968,000 U.S.; 1982 - $5,107,600 U.S.)	**3,658,654**	6,262,828
Amounts payable pursuant to the discharge of limited partnership redemption obligations, non-interest bearing, repayable at $45,000 per month until March 1986 (see also note 5)	**1,350,000**	—
	60,008,654	61,262,828
Less current portion	**13,936,144**	6,511,115
	$46,072,510	$54,751,713

The loan agreement with the Company's Canadian banker provides for a long-term line of credit of $55,000,000. This loan is repayable in 96 equal monthly instalments of $572,917, commencing March 31, 1983. No repayments were made by the Company nor has the bank instituted proceedings to cause such payments to be made. The bank has not collected interest on $25,000,000 of the loan since May 1, 1983 which interest, amounting to $1,481,980, is recorded in accounts payable and accrued liablities.

In addition, the loan agreement provides for an operating line of credit of $10,000,000. The Company has borrowed $2,333,871 in excess of this limit. The total indebtedness is evidenced by notes payable on demand to the bank.

The U.S. dollar bank loan is repayable in quarterly instalments of $393,000 U.S.

Long-term debt is secured by an assignment of accounts receivable and certain petroleum and natural gas properties and revenue interests therein. The Company has agreed with its Canadian banker that it will not encumber any of its assets or dispose of any of its petroleum or natural gas properties, other than to its joint venture participants in the normal course of business, without, in each case, the consent of the bank.

The Company and its banker have reached agreement on a proposal to restructure the long-term bank debt, which agreement is subject to finalization of documentation and to receiving satisfactory regulatory and tax approvals. The Company, through a new subsidiary, will issue $55 million, five year, redeemable, preferred shares to the bank. The proceeds from these preferred shares will be used to reduce the Company's bank borrowings.

Notes to Consolidated Financial Statements

Year Ended October 31, 1983

Dividends will be paid on preferred shares at a rate of ½ prime plus 1%. The preferred shares will be redeemed from excess cash flow after, among other things, costs to finance development of the Company's existing properties, repayment of the Company's credit lines to the bank and payment of dividends on the preferred shares. Any preferred shares remaining at the end of five years will be redeemed from bank borrowings or alternate financing.

Each year for the five year term of the preferred shares, the bank will receive warrants entitling it to purchase common shares from treasury equivalent to 2% of the common shares outstanding at the date of issue of the preferred shares. The warrants will be exerciseable at the market values of the common shares at the dates on which the warrants are issued. Such warrants are exercisable after October 31, 1987 for a period of five years.

4. Capital Stock

(a) Options

At October 31, 1983 directors, officers and employees held options to purchase 327,200 common shares of the Company at prices ranging from $4.00 to $7.00 per share exercisable from time to time to May 20, 1987.

Subsequent to October 31, 1983 all of the above share purchase options were cancelled and replaced by options entitling directors, officers and employees to purchase 950,700 common shares of the Company at $1.50 per share. Such options are exercisable from time to time to December 20, 1988.

(b) Share Purchase Warrants

At October 31, 1983 600,000 common share purchase warrants were outstanding. One common share purchase warrant entitles the holder to purchase one common share at the price of $17.00 on or before April 30, 1986. Reference is made to Note 3.

(c) First Preference Share, Series A

Deficit is net of a Capital Redemption Reserve Fund in the amount of $145,500. This fund is required under the Companies Act (Alberta) in respect of the redemption of 5,820 first preference shares, Series A, and is not available for the payment of dividends.

5. Discharge of Limited Partnership Redemption Obligations

The Company had entered into joint venture agreements with a number of limited partnerships for the exploration and development of properties. The limited partnerships were required annually to redeem units of the limited partnerships. To ensure that the limited partnerships had the financial ability to make such redemptions, the Company was required annually to acquire certain of the limited partnerships' interests. In 1983 a company indirectly controlled by the president of the Company purchased all of the outstanding units of the limited partnerships and thereafter dissolved the partnerships. In consideration for the discharge of the obligation to purchase interests in the assets of the partnerships, the Company agreed to make monthly payments of $45,000 for 36 months beginning in May 1983.

Notes to Consolidated Financial Statements

Year Ended October 31, 1983

6. Segmented Information

The Company has a single line of business, which is the exploration for and the development and production of petroleum and natural gas. Information about the Company's operations by geographic segment is as follows:

Year Ended October 31, 1983	Canada	United States	Total
Identifiable assets	$ 92,907,445	$ 4,442,327	$ 97,349,772
Net production revenue	$ 7,914,324	$ 2,336,043	$ 10,250,367
Principal and interest from property dispositions	2,111,161	—	2,111,161
	10,025,485	2,336,043	12,361,528
Less:			
Production expense	1,822,834	622,603	2,445,437
Depletion and depreciation	2,689,619	2,185,055	4,874,674
Operating profit (loss)	5,513,032	(471,615)	5,041,417
General and administrative expenses	1,287,991	1,567,827	2,855,818
Bad debts	—	1,132,651	1,132,651
Interest expense	7,805,959	541,991	8,347,950
Write-down of petroleum and natural gas properties	—	10,744,806	10,744,806
	9,093,950	13,987,275	(23,081,225)
Loss before extraordinary item	(3,580,918)	(14,458,890)	(18,039,808)
Extraordinary item	1,620,000	—	1,620,000
Loss for the year	$ (5,200,918)	$ (14,458,890)	$ (19,659,808)

Year Ended October 31, 1982	Canada	United States	Total
Identifiable assets	$96,603,892	$ 19,166,236	$115,770,128
Net production revenue	$ 8,354,564	$ 5,719,133	$ 14,073,697
Principal and interest from property dispositions	2,617,456	20,932	2,638,388
	10,972,020	5,740,065	16,712,085
Less:			
Production expense	1,854,589	1,551,956	3,406,545
Depletion and depreciation	2,704,676	5,583,124	8,287,800
Operating profit (loss)	6,412,755	(1,395,015)	5,017,740
General and administrative expenses	1,598,400	3,320,723	4,919,123
Bad debts	140,821	3,434,571	3,575,392
Interest expense	9,156,242	1,687,816	10,844,058
Write-down of petroleum and natural gas properties	—	14,228,822	14,228,822
Deferred income tax reduction	(1,262,357)	—	(1,262,357)
	9,633,106	22,671,932	32,305,038
Loss for the year	$ (3,220,351)	$(24,066,947)	$ (27,287,298)

Notes to Consolidated Financial Statements

Year Ended October 31, 1983

7. Related Party Transactions

A significant shareholder, director and senior officer of the Company is a majority shareholder of a corporation which is the general partner of certain limited partnerships and the manager of certain other companies which have entered into joint ventures with the Company for the exploration and development of properties. At October 31, 1983 the said limited partnerships and companies were indebted to the Company in the aggregate amount of $2,113,596 (1982 – $3,542,021). In the year ended October 31, 1983 the charges made by the Company to such limited partnerships and companies totalled $3,868,722 (1982 - $24,670,948).

8. Statutory Information

During the year the Company paid remuneration of $433,050 to its senior officers (including the five highest paid employees). Two of the directors are also officers and received no remuneration in their capacity as directors. One director received remuneration of $7,500.

In 1980 the Company established a Management Compensation Plan by which gross overriding royalties are granted to employees. The gross overriding royalties are granted to a maximum of 2.5% of the Company's share of gross revenue on all wells drilled after March 30, 1980. The chairman and president has never participated in the Plan.

9. Future Operations

The Company has incurred significant operating losses during the years ended October 31, 1981, 1982 and 1983 and at October 31, 1983 had an accumulated net deficit of $46,767,254 and a working capital deficiency of $31,144,362. The Company and its bankers have reached agreement on a proposal to restructure the Company's long-term bank debt, which agreement is subject to finalization of documentation and to receiving satisfactory regulatory and tax approvals (see note 3). However, the Company's continued operations will also depend upon its ability to attain profitable operations and/or to obtain increased lines of credit, which are being negotiated with the Company's banker, in order to provide sufficient funds to meet other obligations of the Company and to pay liabilities as they come due.

These financial statements are prepared on the basis that the Company will continue to operate and meet its obligations throughout its next fiscal period subsequent to October 31, 1983.

10. Comparative Figures

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983.

Abbreviations

Throughout this report standard oil and gas abbreviations have been used. Their explanation is as follows:

BBLS	Barrels
MBBLS	Thousand Barrels
BOPD	Barrels of Oil Per Day
MCF/d	Thousand Cubic Feet Per Day
MMCF	Million Cubic Feet
BCF	Billion Cubic Feet
psi	pounds per square inch

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