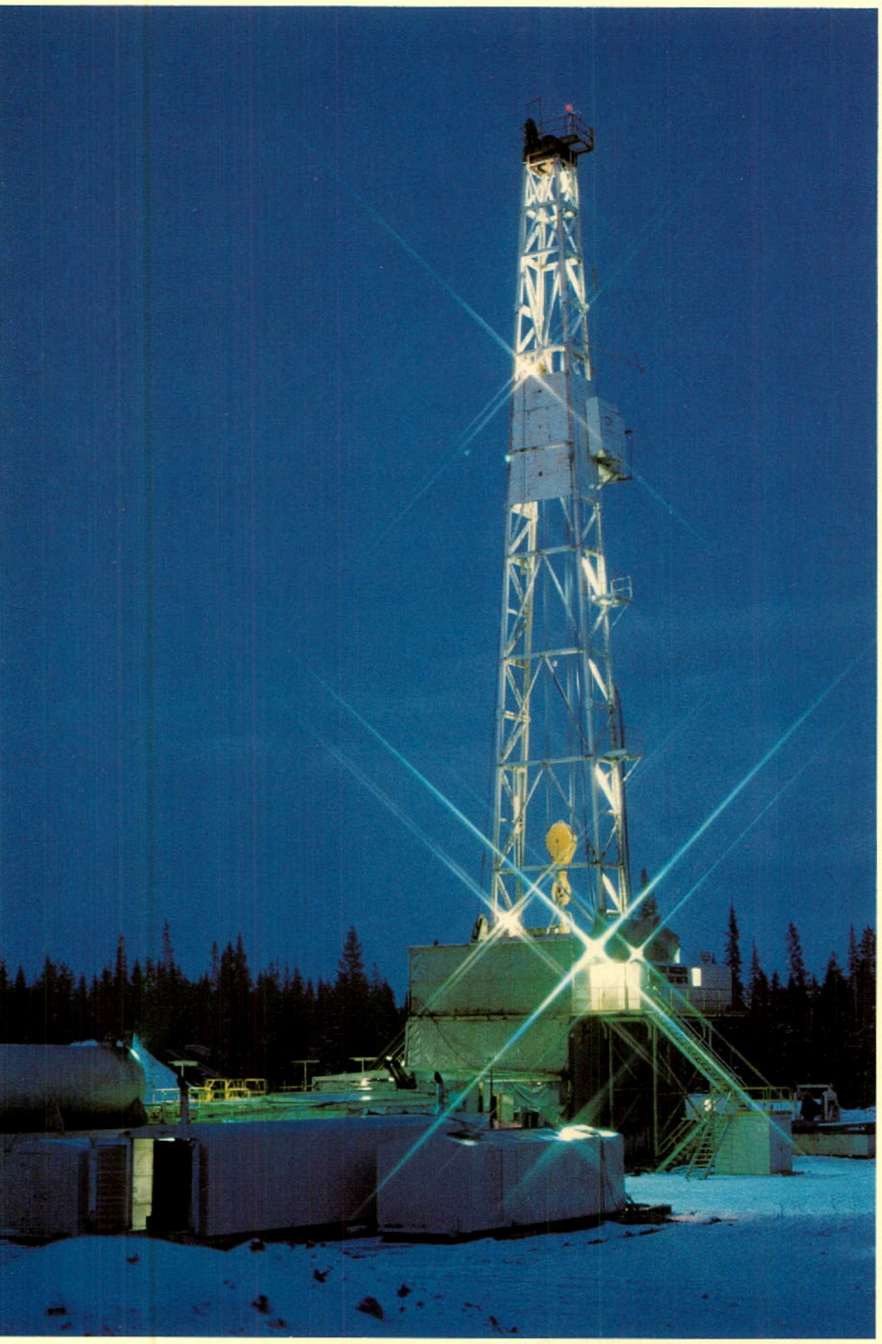
Scarboro Resources Limited

and subsidiaries

Annual Report 1984

Scarboro Resources Limited

Scarboro Resources Limited ("Scarboro" or "the Company") was incorporated under the name of Cree Lake Mining Ltd. in May of 1966. In August 1979, through a share exchange, Scarboro Oils Limited, a private Alberta company became the controlling shareholder. In 1980 the name was changed to Scarboro Resources Limited, and in 1983 the Company was continued under the Alberta Business Corporations Act.



The Cover:
Dome et al Strachan 10-14-37-9 W5M drilling on Scarboro interest lands.
Photo by Al Savich Photography Ltd.

Corporate Summary

Operating

	1984	1983
Production		
Crude Oil and Liquids, m^3 per day	**21.3**	22.7
Natural Gas, 10^3m^3 per day	**23.5**	22.4
Established Proven Reserves (Note 1)		
Crude Oil - 10^3m^3	**63.468**	31.784
Natural Gas - 10^6m^3	**584.196**	554.534
Established Proven and Probable Reserves (Note 1)		
Crude Oil - 10^3m^3	**72.053**	34.455
Natural Gas - 10^6m^3	**1004.591**	1015.324
Land Holdings (net hectares)		
Canada	**24,677**	28,619
International	**65,179**	70,013

Financial

	1984	1983
Oil and Gas Revenue	**$ 2,793,000**	$ 2,607,000
Net Loss	**6,037,000**	1,436,000
Per Common Share	**.67**	.18
Funds Used (Generated) by Operations	**429,000**	(427,000)
Per Common Share	**.05**	(.05)
Capital Expenditures	**1,016,000**	2,827,000
Working Capital	**324,000**	715,000
Long-term Debt	**10,636,000**	9,937,000
Total Assets	**24,116,000**	29,273,000
Shareholders' Equity	**11,883,000**	17,872,000
Common Shares Outstanding at Year End	**8,978,871**	8,928,871

Note 1: No attempt has been made to evaluate properties outside of Canada and the United States.

Letter to the Shareholders

The fiscal year ended November 30, 1984, was a period of continued consolidation for Scarboro Resources Limited during which management implemented actions to strengthen and prepare our Company for steady growth over the next few years. This is evidenced by the 1984 financial statements which reflect the decision to write down investment in foreign exploration properties, specifically Abu Dhabi and the United States. In addition, management initiated steps to reduce the Company's overhead costs by reducing staff and other expenditures, resulting in abnormally high general and administrative expenses for 1984 due to the associated compensation and termination costs. The Company expects general and administrative costs will be reduced during 1985 without a corresponding reduction in the level of exploration activity.

The outlook for 1985 is much brighter as the results of past drilling successes in the Strachan-Ricinus area will begin to generate cash flow through Scarboro's industrial gas contract with Esso Resources Canada Limited which was completed during 1984. In addition to Strachan-Ricinus, recent successes in Alberta oil prospects and an anticipated increased rate of take in 1985 by TransCanada Pipelines from the Stolberg gas field will produce a strong production base for the future growth of our Company. Cash flow generated from the increased production will be used to reduce our Company's overall debt and finance development drilling situations. Scarboro's high level of exploratory drilling activity will continue to be financed by way of farmout to third parties and where successful the Company must be prepared to participate in the development drilling phase of these successes.

Recent changes in the attitude of the Federal Government regarding direct natural gas sales to industrial consumers in the United States have prompted Scarboro to proceed jointly with a group of Alberta gas producers to develop this market, resulting in the completion of an agreement in principle to supply gas to a mid-Western United States industrial consumer commencing in the second half of 1985. This agreement is currently being reviewed and is subject to the approval of the National Energy Board of Canada.

In Canada, exploration activity will continue to be concentrated in the Strachan-Ricinus area of West Central Alberta where Scarboro has interests ranging from 2.5% to 50% in 48,000 gross hectares. Three wells are currently either drilling or testing and it is expected that at least five development wells will be drilled on Company lands during 1985. Scarboro will maintain its current working interest by paying its share of the development wells in order that the Company may increase natural gas deliverability into the aforementioned contracts. In other Canadian activities, the Company continues the development of the Sounding Lake oil prospect, in East Central Alberta where it holds interests ranging from 5% to 7% in 1,280 hectares with nine wells drilled to date. Five wells have been completed as oil wells and two as natural gas wells. Two additional wells are scheduled for drilling this summer. In addition to the foregoing the Company has completed wells at Vulcan and Anselmo as potential producers, and has wells currently drilling at Rainbow North and Shiningbank.

International exploration will be highlighted by the second exploration well in Abu Dhabi, United Arab Emirates, where Scarboro has a 5% interest in 589,728 hectares. The well Al Taff #1 is expected to commence drilling in March and will be drilled to a depth of 4,200 metres to test the Mishrif and Thamama formations. Scarboro plans to conduct seismic programs onshore the United Kingdom, at Swindon and Oxford where the Company holds interests of 18.75% in 49,300 hectares and 25% in 33,400 hectares, respectively. In Italy, at Basentello, Scarboro holds an 18.75% interest in a 34,800 hectare concession on which a dry hole was drilled in 1984. A detailed seismic program will be completed on the concession during 1985 at no cost to Scarboro resulting in a reduced working interest of 12.5%

During 1984, our Company's established reserves of crude oil more than doubled to 72,053 cubic metres, and established natural gas reserves remain almost unchanged from those of 1983 at 1,004,591 thousand cubic metres. The value of the Company's petroleum and natural gas reserves, discounted at 15%, declined in 1984 by $7,698,100 to $18,909,500. A major portion of this decline is attributable to an error in the calculation of the Company's sulphur reserves on the 1983 engineering evaluations prepared by an independent consultant. In addition, Scarboro's asset base was further eroded as a result of the declining worldwide price structure for hydrocarbon products.

Subsequent to year end, in March 1985, Scarboro completed a Rights Offering of 1,141,108 common shares at a price of $0.50 per share and 1,141,108 common share purchase warrants exercisable for one year at a price of $0.60 per share. The record date of the offering was set at March 7, 1985, and the closing date is April 2, 1985. After deducting the costs of the offering, the Company will receive approximately $500,000 which will be added to working capital to be used for ongoing petroleum and natural gas exploration and development activities.

On behalf of the Board of Directors, management wishes to thank the staff for its continued effort and give special thanks to three former employees, Norman H. Bartley, Blaine Holstein and George Crookshank for their years of excellent service and friendship.

Norman J. Mackenzie
President

Robert P. McBean
Executive Vice-President

March 11, 1985

Operations

During 1984 the Company conducted its exploration and development activities primarily in Alberta with participation in sixteen (16) wells resulting in four (4) gas wells, seven (7) oil wells and five (5) abandonments for a success ratio of sixty-nine (69%) per cent. In addition, two (2) wells were drilled in Italy and both subsequently abandoned.

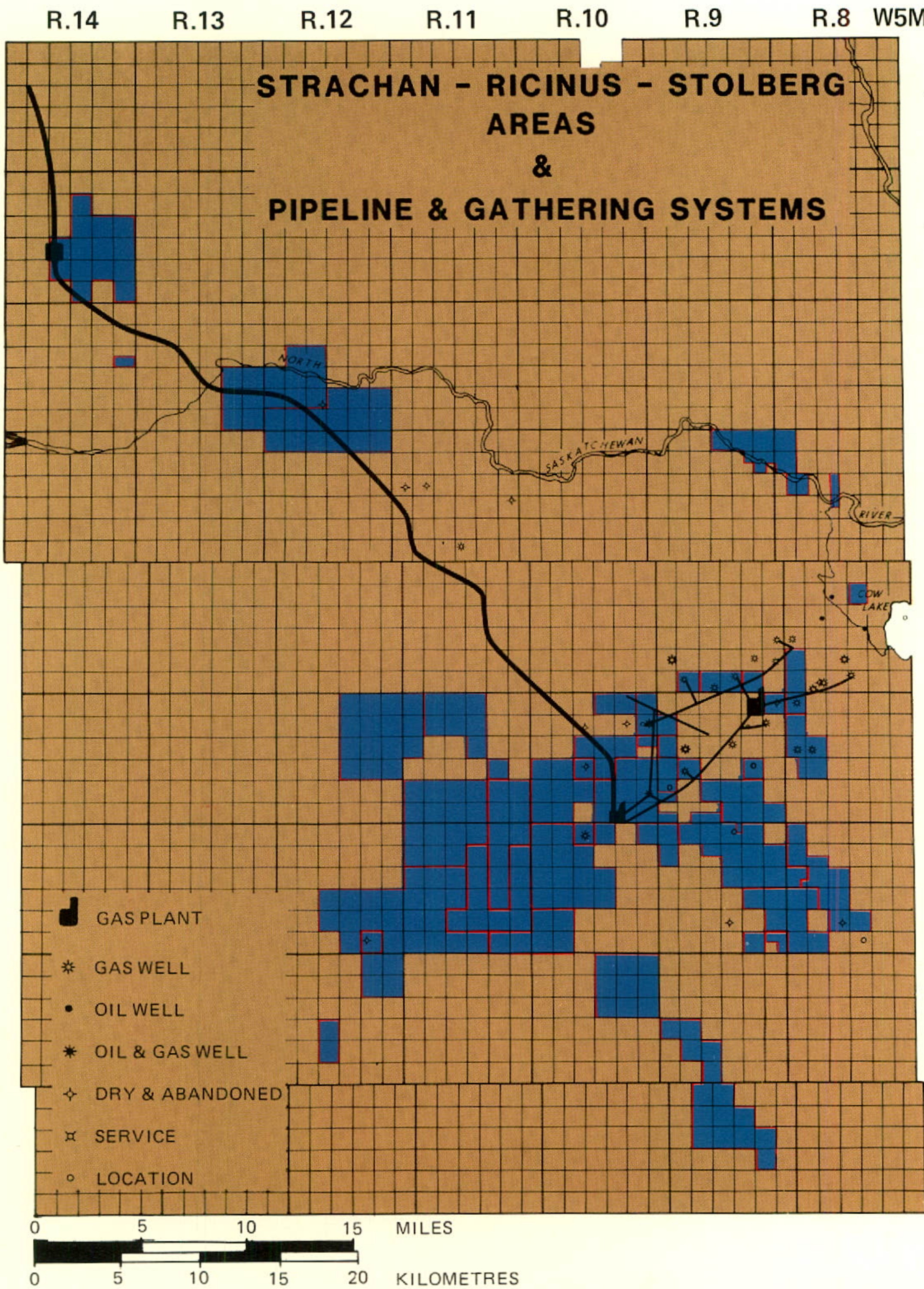
In 1984 Scarboro acquired an interest in 4,728 gross hectares (1,105 net hectares) of Petroleum and Natural Gas lands in Alberta.

Land Holdings as of November 30, 1984

	1984		1983	
	Gross Hectares	Net Hectares	Gross Hectares	Net Hectares
Oil and Gas Properties				
Canada				
Alberta	**116,789**	**23,409**	127,704	27,344
British Columbia	**10,070**	**1,086**	5,337	1,093
Saskatchewan	**447**	**182**	447	182
	127,306	**24,677**	133,488	28,619
Foreign				
United States	**104,322**	**9,954**	108,392	10,884
Italy	**86,880**	**8,033**	95,822	11,937
Abu Dhabi	**589,728**	**29,486**	589,728	29,486
U.K.	**87,197**	**17,706**	87,197	17,706
	868,127	**65,179**	881,139	70,013
Total	**995,433**	**89,856**	1,014,627	98,632
Mining Properties				
Northwest Territories	**14,570**	**10,927**	14,570	10,927
Coal Properties	**8,828**	**2,108**	8,828	2,108

NORTH RAINBOW
OGSTON
MITSUE
HOUSE MOUNTAIN
STURGEON LAKE
SHINING BANK
STOLBERG
PHOENIX
STRACHAN
RICINUS
SOUNDING LAKE
VULCAN
GRAND FORKS
SCARBORO RESOURCES LIMITED
LAND HOLDINGS
● WORKING INTERESTS
MILES
0 50 100 150
0 50 100 150 200
KILOMETRES

Canada

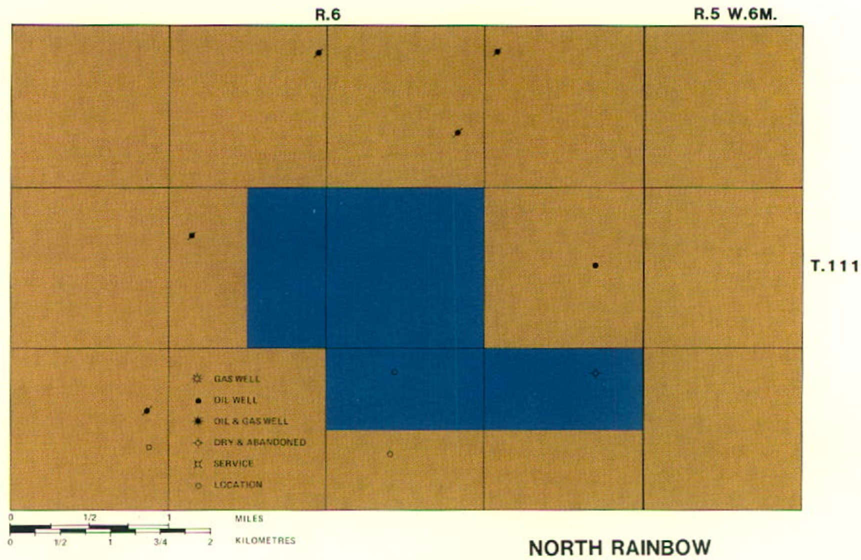


R.14
R.13
R.12
R.11
R.10
R.9
R.8
W5M
T.42
T.41
T.40
T.39
T.38
T.37
T.36
T.35
T.34
STRACHAN – RICINUS – STOLBERG
AREAS
&
PIPELINE & GATHERING SYSTEMS
NORTH
SASKATCHEWAN
RIVER
COW LAKE
GAS PLANT
GAS WELL
OIL WELL
OIL & GAS WELL
DRY & ABANDONED
SERVICE
LOCATION
0 5 10 15 MILES
0 5 10 15 20 KILOMETRES

Strachan

Pursuant to the terms of a farmout and option agreement, Scarboro farmed out its interest to a third party who drilled a well on 6-20-37-8 W5M, which is currently pumping oil in addition to having a potential gas zone. Scarboro's interest in the well is 22.67% after payout. An option to drill a second well was exercised, and this well, located on 10-14-37-9 W5M commenced drilling in the first quarter of 1985.

Scarboro has a 7½% interest after payout in 512 hectares on which a 3700 metre test well, located on 10-25-37-10 W5M, is currently being tested as a potential Glauconite gas well.



NORTH RAINBOW

Ricinus

Scarboro holds a 25% interest in a 3,136 hectare licence, granting petroleum and natural gas rights below the Cardium formation. The Company farmed out its interest to a third party who commenced drilling a 3,150 metre test well in December of 1984 located on 10-34-36-9 W5M. To complete the drilling spacing unit a pooling of lands was necessary; as a result Scarboro will hold approximately 10.5% in the test well after payout, and 12.5% in an additional 1,408 hectares. The Farmee has the option to drill a second well to earn half of Scarboro's interest in the balance of the licence.

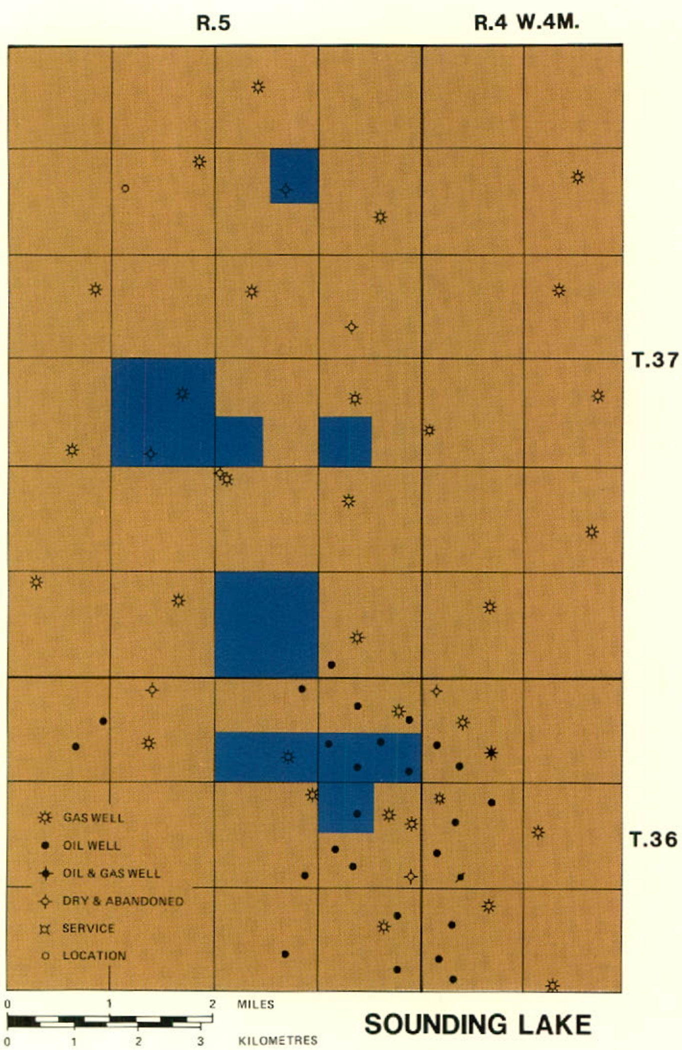
A seismic option has been granted to a third party covering the same Licence identified above, for the deep rights. The Optionee has completed the shooting of a seventeen (17) kilometre seismic program and upon completion of the processing and interpretation of the data may elect to drill a 4,300 metre test well to earn one half of Scarboro's interest.

North Rainbow

During the past year Scarboro has acquired a 5% interest in 640 hectares in northern Alberta. Interpretation of a recently completed seismic program has revealed the presence of an anomaly at the Keg River level. Consequently, a well will be drilled during the first quarter of 1985, located on 14-23-111-6 W6M, at no cost to the Company which will retain a 2½% working interest after payout.

Shiningbank

Scarboro has farmed out its 11.25% interest in a 3,904 hectare licence, located in central Alberta. Pursuant to the terms of the farmout agreement, the first well was drilled during 1984 and completed as an oil well. In December 1984, the Farmees exercised their option to drill a further well, which commenced drilling in the first quarter of 1985. Scarboro retains a 5.625% interest in these lands.



Sounding Lake

Scarboro holds interests ranging from 5% to 7% in 1,280 hectares in the area of southeastern Alberta. Since initiating this play in 1983, Scarboro and its partners have drilled a total of nine (9) wells, resulting in five (5) oil wells, two (2) gas wells and two (2) dry holes. Oil production averages approximately 8 cubic metres per day per well. Continued delineation of this prospect will occur in 1985 through the drilling of additional wells.

Sturgeon Lake

The Company holds varying interests from 5% to 50% in a total of 1,230 hectares in central Alberta. A third party is currently completing a three dimensional seismic program over 512 hectares held by Scarboro, and may, pending the results of the program, elect to drill a 3,200 metre test well to earn half of Scarboro's 46.18% interest.

Anselmo

Scarboro holds a 37% interest in 448 hectares which was farmed out to a third party who, in December 1984, drilled a well which stands cased as a potential gas well. A testing program is expected to commence in early 1985 to fully evaluate the potential of the well. The Company retains a 22.2% working interest after payout of the well.

Cutoff Creek

Scarboro holds interests ranging from 16.67% to 25% in three licences totalling 10,496 hectares in the foothills of Alberta, southwest of Strachan-Ricinus. A seismic option was granted to a third party who has completed in excess of sixty (60) kilometres of seismic and is currently processing the data. On or before April 1, 1985, the Optionee has the right to elect to drill a 4,875 metre Leduc test well, pending the results of the seismic processing and interpretation.

Vulcan

As a result of a pooling and farmout agreement, Scarboro holds a 7.5% interest in 512 hectares in southeastern Alberta. A test well was drilled in December of 1984, and subsequently completed as a producing oil well. Further activity is anticipated in the first quarter of 1985.

Stolberg

The Company has working interests varying from 5% to 51.25% in 4224 gross hectares in and adjacent to the Stolberg gas field in the foothills area of west central Alberta. The Company holds working interests in 4 producing wells and a gross overriding royalty interest in one well in the area.

Natural gas underlying the Company's lands in the Stolberg area is contracted to Trans Canada PipeLines Limited under the terms of a 25 year reserves-based contract.

Grand Forks

Scarboro has an 18.75% working interest in 5 producing oil wells in the Grand Forks field of southeastern Alberta. Gross production from the field is currently averaging 98 cubic metres per day.

Rig at Strachan – Ricinus

Petroleum and Natural Gas Production

The Company's interest in production of crude oil, natural gas liquids and natural gas (before royalties) is summarized below:

	1984	1983
Natural Gas (10^3m^3)	**8581.0**	8179.0
Daily Average (10^3m^3)	**23.5**	22.4
Crude Oil & Natural Gas Liquids (m3)	**7759.1**	8291.3
Daily Average (m3)	**21.3**	22.7

International

Italy

Basentello

During 1984 the Company operated the test well Basentello #1 which was drilled to a total depth of 891 metres and abandoned. Scarboro farmed out half of its costs and as a result retains an 18.75% interest in this 26,826 hectare concession.

A seismic program to evaluate the potential of deeper horizons is planned for 1985, which shall be conducted at no cost to the Company, resulting in a reduced working interest of 12.5%.

Brindisi

Scarboro holds a 5% interest in this permit, located in the Adriatic Sea offshore Italy. During 1984 Scarboro increased its interest to 10% in the drilling of Rosario Mare 1, which was abandoned. An additional seismic program is planned for 1985.

U.K.

The Company continues to hold an 18.75% interest in permit XL 206 comprising 49,300 hectares located west of Swindon and a 25% interest in permit XL 189 totalling 33,400 hectares in Oxford.

Seismic programs have been budgeted for both licences during 1985.

Abu Dhabi, United Arab Emirates

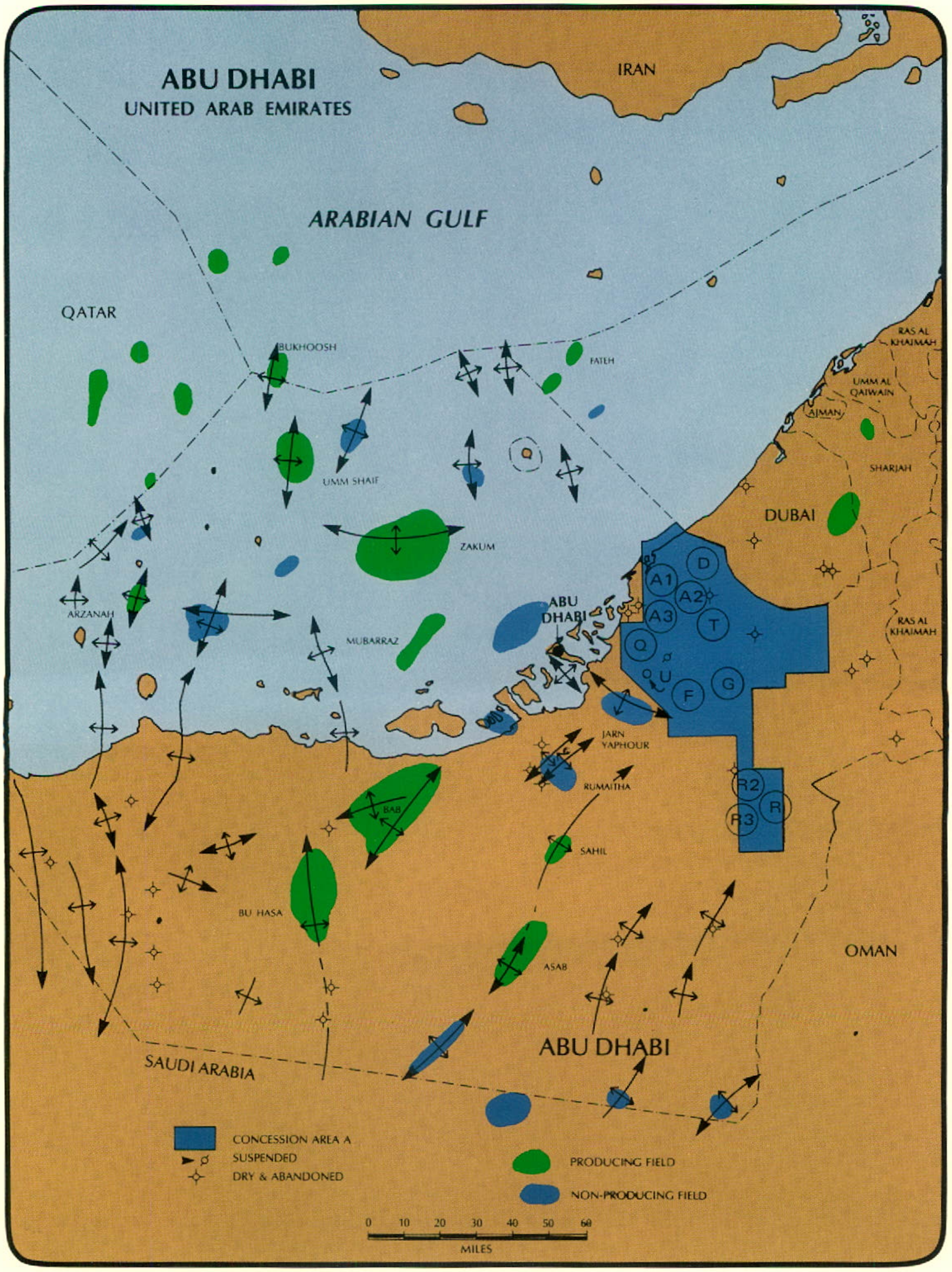
Scarboro holds a 5% working interest in a 589,728 hectare concession in Abu Dhabi, United Arab Emirates. With the completion of the seismic interpretation, a variety of prospects have been delineated (see Abu Dhabi map, circled letters A_1, etc.). The drilling of prospect U, Al Taff #1, a 3,900 metre test well, will commence in the first quarter of 1985. This well will evaluate both stratigraphic and structural trap prospects. Recent developments in the immediate area have had a favourable impact on the Company's lands. Drilling to the west and southwest of the concession has successfully defined prospects similar in nature to those which will be evaluated by the Al Taff #1 test. In addition, recent drilling activity immediately northeast of the concession also enhances the potential of this area.

In accordance with the terms of the Concession Agreement, an additional 25% of the original area must be relinquished in October 1985. Accordingly, with success at Al Taff #1, a further well is anticipated prior to such relinquishment.

France

Cherbourg (La Manche)

As at year end this application for a 198,800 hectare concession in the English Channel was still outstanding. It is anticipated that confirmation of its award to a group in which Scarboro holds a 10% interest will occur in the third quarter of 1985.


ABU DHABI
UNITED ARAB EMIRATES
IRAN
ARABIAN GULF
QATAR
BUKHOOSH
FATEH
RAS AL KHAIMAH
UMM AL QAIWAIN
AJMAN
SHARJAH
UMM SHAIF
DUBAI
ZAKUM
ARZANAH
ABU DHABI
MUBARRAZ
RAS AL KHAIMAH
JARN YAPHOUR
RUMAITHA
BAB
SAHIL
BU HASA
ASAB
OMAN
ABU DHABI
SAUDI ARABIA
CONCESSION AREA A
SUSPENDED
DRY & ABANDONED
PRODUCING FIELD
NON-PRODUCING FIELD
MILES

Reserves

Reserves (1): Canada and United States

	1984 Reserves					
	Company Established Reserves (2)		Company Gross Reserves (3)		Company Net Reserves (4)	
	Crude Oil (5)	**Natural Gas**	Crude Oil & Natural Gas Liquids	Residue and Solution Gas	Crude Oil & Natural Gas Liquids	Residue and Solution Gas
	(10^3m^3)	**(10^6m^3)**	(10^3m^3)	(10^6m^3)	(10^3m^3)	(10^6m^3)
Proven	**63.468**	**584.196**	43.206	273.194	30.241	220.323
Probable	**8.585**	**420.395**	3.739	106.417	2.544	82.062
Total	**72.053**	**1004.591**	46.945	379.611	32.785	302.385

(1) No attempt has been made to evaluate properties outside of Canada and the United States.

(2) "Company Established Reserves" are defined as the Company's working interest share, excluding any royalty interest, of remaining marketable reserves in place, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at October 1, 1984.

(3) "Company Gross Reserves" are defined as the Company's working interest and/or royalty interest share of remaining marketable reserves recovered during a twenty-five year forecast period before the deduction of any royalties, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at October 1, 1984.

(4) "Company Net Reserves" are defined as the remaining reserves of the properties in which the Company has an interest recovered during a twenty-five year forecast period less all royalties and interests owned by others, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at October 1, 1984.

(5) Natural gas liquids have been excluded because at reservoir conditions, the natural gas liquids are in a gaseous state.

Analysis of Cash Flow (6): Canada and United States

	1984			
	Undis-counted	**Discounted at 10%**	**15%**	**20%**
	(000's)	**(000's)**	**(000's)**	**(000's)**
Proven	**57,390.4**	**20,358.2**	**15,405.1**	**12,456.1**
Probable	**34,510.1**	**5,746.5**	**3,504.4**	**2,387.2**
Total	**91,900.5**	**26,104.7**	**18,909.5**	**14,843.3**

(6) The term "Cash Flow" means income derived from the sale of reserves of oil, gas and gas by-products, less all royalties, capital costs, P.G.R.T., I.O.R.T. and operating costs, but before provision for income taxes and after receiving the benefit of the Alberta royalty tax credit and the P.G.R.T. credit during a fifty year forecast period.

Project Activities

Scanzano Idrocarburi S.p.A.

Scanzano Idrocarburi S.p.A., a company 45% owned by Scarboro Resources Limited, continued in its attempt to obtain local planning permission to proceed with the construction of the proposed LPG import terminal and storage facility in Southern Italy. Both the necessity and the economic viability of the project became more evident during 1984 as domestic production of LPG in Italy was substantially reduced due to reduced refinery production. This reduction in domestic supply combined with an increase in total demand for LPG in Italy substantially raised the requirements for imported product. Although imported product was available, insufficient terminal and storage facilities resulted in the total demand not being met in Italy.

Scanzano Idrocarburi S.p.A. is currently negotiating a joint venture agreement with the largest LPG distributor in Italy to create a fully integrated LPG operation which will include importing, trading, storage and distribution of LPG, specifically for the Italian market. The margins and flexibility available to a fully integrated LPG operation are maximized by integration. The joint venture combined with the new import terminal will further enhance the total profitability available to Scanzano Idrocarburi S.p.A.

Stolberg Pipeline

Scarboro owns a net 6.6% interest in the Stolberg 40.6 centimetre sour gas transmission line which transports gas from the Stolberg/Nordegg/Saunders field to the Canterra operated Ram River gas processing plant. The deemed capacity of the transmission line is currently 3.9 $10^6 m^3$ per day and the present owner throughput is approximately 1.0 $10^6 m^3$ per day. The owners of the transmission line are determining a throughput tariff for use of the spare capacity in the system and will present the tariff to the producers in the Brown Creek/Hanlan/Blackstone/Peco fields.

Scarboro has a net 0.2 $10^6 m^3$ per day spare capacity available to producers who will pay a throughput tariff and net income generated is expected to total $3,500,000 having a value discounted at 15% of $1,400,000.

Financial Review

During the past year, gross revenue from petroleum and natural gas sales increased from $2,606,742 in 1983 to $2,793,015 in 1984. The 7% increase over 1983 was less than expected. A number of wells in the Strachan-Ricinus area did not come on stream as early as anticipated. In addition, the 1984 rate of take by TransCanada Pipelines from the Stolberg gas field was less than that of 1983. A larger increase is expected for 1985. Revenue from the Company's industrial gas contract with Esso Resources Canada Limited should commence during the second quarter of 1985 and the rate of take from the Stolberg gas field is expected to increase.

Cash flow from operations fell from $427,261 in 1983 to a deficiency of $429,348 in 1984. A major contributor to this decrease was the substantial increase in general and administrative costs expensed. As indicated in Note 8 to the financial statements, the majority of the increase in general and administrative expense can be attributed to two factors. Firstly, total general and administrative costs increased - mainly due to employee past service costs and similar one time expenses related to the Company's overhead reduction program. Secondly, in 1983, 52% of general and administrative costs were expensed whereas in 1984, 84% of general and administrative costs were expensed.

The net loss for 1984 was $6,037,356 compared to a loss of $1,435,871 in 1983. A substantial portion of the increase was due to the write-down of foreign properties to their estimated fair market value.

Subsequent to year end, the Company completed a Rights Offering of 1,141,108 common shares and common share purchase warrants at a subscription price of $.50 per common share with warrant attached. Each share purchase warrant entitles the holder to purchase one common share of the Company for $.60 per common share until April 2, 1986. After deducting fees and expenses, the estimated net proceeds to the company from this offer will be approximately $500,000. These proceeds will be added to the Company's working capital.

In summary, the Company's cash flow from operations should improve in 1985 as a result of the gas contract with Esso Resources Canada Limited, an increased rate of take in the Stolberg gas field, the possible sale of gas to a United States industrial consumer and a reduction of general and administrative costs.

Consolidated Balance Sheet

as at November 30, 1984

	1984 $	1983 $
Assets		
Current Assets		
Cash	**68,499**	11,568
Accounts receivable (Note 5)	**962,938**	1,326,537
Operating advances to affiliates	**249,527**	155,143
	1,280,964	1,493,248
Property, plant and equipment (Notes 2 & 5)	**22,447,261**	27,352,758
Investment (Note 3)	**223,345**	186,762
Deferred charges (Note 4)	**163,942**	240,502
	24,115,512	29,273,270
Liabilities		
Current Liabilities		
Accounts payable	**692,904**	446,567
Operating advances from affiliates	**184,452**	173,958
Term loan (Note 5)	**80,000**	157,800
	957,356	778,325
Bank loans (Note 5)	**5,835,767**	5,137,000
Convertible debentures (Note 6)	**4,800,000**	4,800,000
Deferred revenue	**639,580**	639,580
Deferred income taxes		45,900
	12,232,703	11,400,805
Shareholders' Equity		
Share capital (Note 7)	**21,295,285**	21,247,585
Deficit	**9,412,476**	3,375,120
	11,882,809	17,872,465
	24,115,512	29,273,270

Approved on behalf of the Directors

Norman J. Mackenzie
Director

Robert P. McBean
Director

See accompanying notes

Consolidated Statement of Operations

for the year ended November 30, 1984

	1984 $	1983 $
Revenue		
Petroleum and natural gas sales	**2,793,015**	2,606,742
Interest and other income	**9,042**	34,579
	2,802,057	2,641,321
Expenses		
Royalties and production costs	**1,312,145**	1,137,857
Interest on long-term debt (Note 8)	**902,898**	953,762
General and administrative (Note 8)	**1,337,126**	626,756
	3,552,169	2,718,375
Funds used by operations before taxes	**750,112**	77,054
Alberta Royalty Tax Credit	**(320,764)**	(504,315)
Funds used (generated) by operations	**429,348**	(427,261)
Charges not requiring funds		
Depletion, depreciation and amortization	**1,138,402**	1,132,269
Write-down of foreign properties (Note 9)	**4,515,506**	182,900
Deferred income tax (recovery)	**(45,900)**	
Dry holes and abandonments		547,963
	5,608,008	1,863,132
Net Loss	**6,037,356**	1,435,871
Loss per common share	**.67**	.18

See accompanying notes.

Consolidated Statement of Deficit

for the year ended November 30, 1984

	1984 $	1983 $
Deficit - beginning of year	**3,375,120**	1,939,249
Net loss	**6,037,356**	1,435,871
Deficit - end of year	**9,412,476**	3,375,120

See accompanying notes.

Consolidated Statement of Changes in Financial Position

for the year ended November 30, 1984

	1984 $	1983 $
Source of Funds		
Increase (decrease) in bank loans	**698,767**	(1,493,122)
Recovery of costs on pipeline equipment	**344,000**	
Issuance of common shares net of commissions	**47,700**	2,600,000
Cancellation of employee share purchase plan loan receivable		2,461,058
	1,090,467	3,567,936
Use of Funds		
Funds used (generated) by operations	**429,348**	(427,261)
Additions to petroleum and natural gas properties and other costs	**1,015,851**	2,826,795
Increase (decrease) in investments	**36,583**	(449,083)
Reacquisition of shares from employee share purchase plan		2,461,058
Retirement of convertible debentures		300,000
	1,481,782	4,711,509
Decrease in working capital	**391,315**	1,143,573
Working capital – beginning of year	**714,923**	1,858,496
Working capital – end of year	**323,608**	714,923
Represented by:		
Current assets	**1,280,964**	1,493,248
Current liabilities	**957,356**	778,325
	323,608	714,923

See accompanying notes.

Notes to Consolidated Financial Statements

for the year ended November 30, 1984

1. Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Scarboro Resources Limited, its wholly-owned Subsidiaries: Scarboro Oils Inc., Scarboro Resources International Ltd., Scarboro Exploration Ltd., Scarboro Resources (U.K.) Limited and the Company's proportionate share (73%) of the Scarboro Oils 79 Program.

The Company's investment in Scanzano Idrocarburi S.p.A. (45%) is accounted for on the equity basis.

(b) Oil and gas operations

The Company follows a form of full cost accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses and interest charges on non-producing properties and equipment. In addition, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities are capitalized. The costs are accumulated in cost centers as follows:

i) Canada
ii) United States
iii) Other Areas

The costs accumulated in the cost centers, together with estimated future capital costs associated with proven reserves, are depleted by the unit of production method which is based on production and estimated proven reserves of oil and gas as determined by independent consultants. The costs of significant investments in unproven properties and major development projects are excluded from the depletion computation until such time as it is determined whether or not proven reserves are attributable to the properties, the project is completed, or impairment in value has occurred. No gains or losses are recognized upon the sale or disposition of oil and gas properties, except in significant transactions. If exploration activities within a prospect prove unsuccessful and the prospect is abandoned, the net accumulated costs are charged to earnings.

(c) Depreciation

Depreciation of tangible well and other equipment is as follows:

Well and production	10% straight line
Pipeline	5% straight line
Other equipment	20% declining balance

Leasehold improvements are being amortized on a straight line basis over the life of the lease.

(d) Joint venture accounting

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Accounts receivable and payable with joint venturers reflect their proportionate share of revenues net of royalties, operating expenses and capital expenditures.

(e) Deferred revenue

Deferred revenue represents amounts received in respect of take or pay contracts. Such amounts have been deferred pending ultimate gas delivery or expiration of the contractual delivery period.

(f) Foreign currency translation

Effective November 30, 1984 the Company adopted foreign currency translation policies as recently recommended by the Canadian Institute of Chartered Accountants. Under this policy, current assets except inventories, current liabilities and long-term borrowings are translated at year end rates. Other assets, other liabilities and revenues and expenses are translated at the rate prevailing when they were acquired or incurred. Unrealized exchange gains and losses on translation of long-term borrowings are deferred and amortized over the remaining repayment periods. Other exchange gains and losses are reflected in earnings.

Previously the Company used the current rate method. The change to the temporal method has had no material effect on the financial position of the Company.

(g) Income taxes

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Operations.

(h) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. The additional number of shares issuable upon the potential conversion of the convertible debentures have not been included since the effect would be anti dilutive on the loss per share.

2. Property, Plant and Equipment

	1984			1983
	Assets at Cost	Accumulated Depletion, Depreciation and Amortization	Net Investment	Net Investment
	$	$	$	$
Canada				
Petroleum and natural gas properties	**17,944,507**	**3,176,033**	**14,768,474**	14,819,666
Pipeline and production equipment	**3,717,662**	**1,142,112**	**2,575,550**	3,115,823
Other equipment and leasehold improvements	**573,967**	**219,448**	**354,519**	408,421
	22,236,136	**4,537,593**	**17,698,543**	18,343,910
United States				
Petroleum and natural gas properties (See Note 9)	**449,923**	**56,080**	**393,843**	1,533,105
Production equipment	**33,236**	**7,159**	**26,077**	28,364
	483,159	**63,239**	**419,920**	1,561,469
Other Areas				
Petroleum and natural gas properties*	**3,055,073**		**3,055,073**	6,193,897
Other costs**	**1,273,725**		**1,273,725**	1,253,482
	4,328,798		**4,328,798**	7,447,379
	27,048,093	**4,600,832**	**22,447,261**	27,352,758

* The petroleum and natural gas properties including exploration costs are comprised of $2,725,803 in Abu Dhabi and $329,270 in other areas. (See Note 9).

** Other costs represent charges relating to feasibility studies and associated costs for projects of which the outcome is not determinable at this time.

3. Investment

Investment is comprised of the Company's 45% equity interest in Scanzano Idrocarburi S.p.A.

4. Deferred Charges

Deferred charges are comprised of finance and commission charges and are amortized on a straight line t over the life of the related charges. Amortization charges amounted to $76,560 in 1984 ($81,830 in 1983).

5. Bank Loans

The Bank Production Loan amounting to $5,835,767 at November 30, 1984 bears interest at the rate of prime plus ½%. The loan is secured by a general assignment of accounts receivable and a specific assignment of certain petroleum and natural gas properties and production proceeds. The Bank Production Loan has not been classified as a current liability as it is secured by, and repayable from, future production proceeds and will not require the use of existing current assets.

A portion of the Term Loan is secured by an unacknowledged assignment of rentals due to the Company by its subtenants at its principal business address. The loan bears interest at a rate of prime plus ¾% and is repayable over a three year period by way of monthly instalments.

6. Convertible Debentures

The Company has three series of convertible debentures totalling $4,800,000. They bear interest at a rate of 8% per annum and are convertible into common shares of the Company at a price of $1.60 per common share until December 30, 1986 and are due and payable December 31, 1986.

The holders of the convertible debentures have no fixed claim on the assets of the Company. Under the terms of the trust indenture, the Company represents that it will maintain a 2:1 ratio of appraised value of net tangible assets to the amount of outstanding indebtedness.

7. Share Capital

(a) Authorized

The authorized capital stock of the Company is 20,000,000 common shares with no par value and 5,000,000 preferred shares with a nominal or par value of $10 per share.

(b) Issued

	Number of Shares	Consideration
Balance November 30, 1983	8,928,871	$ 21,247,585
Issuance of common shares – cash	50,000	47,700
Balance November 30, 1984	8,978,871	$ 21,295,285

(c) Shares Reserved

i) The Company has reserved 1,320,000 common shares in respect of common share purchase warrants.

ii) The Company has reserved 3,000,000 common shares in respect of the Series A, B, and C convertible debentures.

iii) On April 27, 1983, the shareholders approved granting of employee incentive stock options. A total of 454,167 common shares at a price of $1.14 per common share have been reserved. Under separate agreements, subject to receiving approval by the regulatory authorities, certain employees were granted options to acquire 30,000 common shares of the Company at a price of $.50 per common share.

8. Interest on Long Term Debt and General and Administrative Expense

	1984	1983
	$	$
Interest on long term debt	**1,117,898**	1,268,762
Interest costs capitalized	**(215,000)**	(315,000)
Interest expensed	**902,898**	953,762
General and administrative costs	**1,596,526**	1,207,556
General and administrative costs capitalized	**(259,400)**	(580,800)
General and administrative expensed	**1,337,126**	626,756

Included in 1984 general and administrative expense is $210,800 in respect of employee past service costs. At November 30, 1984, $153,000 of this amount remains unpaid. Of the unpaid amount, $78,000 will be satisfied in 1985 through the issuance of 150,000 common shares of the Company. The remaining $75,000 will be satisfied by cash payments in 1985 and 1986.

9. Write Down of Foreign Properties

During the year management evaluated its foreign petroleum and natural gas properties. As a result, the company's foreign properties were written down to their current estimated fair market value. The write down is comprised of the following:

	$
A portion of the cost of petroleum and natural gas properties in Abu Dhabi	3,376,000
United States petroleum and natural gas properties	1,139,506
	4,515,506

10. Related Party Transactions

Pursuant to the partnership agreements, the Company as General Partner participated with the Scarboro Resources - 82 Landfund and 80 Program, whereby the Company expended $153,000 on land acquisitions and $107,000 on drilling costs during the year.

During the year, a director of the Company was paid $16,500 for consulting fees. In addition certain Directors were paid $308,000 for interest on the 8% convertible debentures.

11. Statutory Information

During the year, $359,000 was paid to the officers (including the five highest paid employees) for services rendered. No remuneration was paid to any individual acting in the capacity of a director.

12. Segmented Information

The Company is engaged in one industry, exploration and development of oil and gas properties, and operates in three geographic areas. The majority (over 90%) of the Company's revenue and operating results are generated in Canada. The geographic areas and identifiable assets are as follows:

	Canada	United States	Other Areas	Total
	$	$	$	$
November 30, 1984	19,192,529	594,185	4,328,798	24,115,512
November 30, 1983	19,988,818	1,837,073	7,447,379	29,273,270

13. Subsequent Event

In March 1985, the Company completed a Rights Offering of 1,141,108 common shares and common share purchase warrants at a subscription price of $.50 per common share with warrant attached. Each share purchase warrant entitles the holder to purchase one common share of the company for $.60 per common share up until April 2, 1986.

Auditors' Report

We have examined the consolidated balance sheet of Scarboro Resources Limited as at November 30, 1984 and the consolidated statements of operations, 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 financial statements present fairly the financial position of the Company as at November 30, 1984 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
February 1, 1985
(March 11, 1985 as to Note 13)

Vennard Johannesen & Co.
Chartered Accountants

Corporate Information

Head Office

1800 Sunlife Plaza
144 - 4th Avenue S.W.
Calgary, Alberta T2P 3N4

Telephone: (403) 261-0844
Telex 03-826587 (Scarboro CGY)

Subsidiaries

Scarboro Exploration Ltd.
Scarboro Oils Inc.
Scarboro Resources International Ltd.
Scarboro Resources (U.K.) Limited

Auditors

Vennard Johannesen & Co.
1700, 801 - 6th Avenue S.W.
Calgary, Alberta

Banker

Bank of Montreal
First Canadian Centre
340 - 7th Avenue S.W.
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
425 - 1st Street S.W.
Calgary, Alberta

Registrar and Transfer Agent

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta

Shares Listed (Symbol SRO)

Toronto Stock Exchange
Alberta Stock Exchange

Directors

Angus A. Mackenzie
London, England

Norman J. Mackenzie
Calgary, Alberta

Robert P. McBean
Calgary, Alberta

James S. Palmer, Q.C.
Calgary, Alberta

John A. Tessari
Calgary, Alberta

Aziz K. Radwan
London, England

Ahmed Baker
Dubai U.A.E.

Barry C. Kaplan
Vancouver, British Columbia

Officers & Senior Management

Norman J. Mackenzie
President

Robert P. McBean
Executive Vice-President

Bastiaan Groeneweg
Exploration Manager

John A. Barford
Land Manager

Michael J. Makinson
Controller

Conversion Factor

1 mile	=	1.609 kilometres
1 foot	=	0.305 metres
1 cubic foot	=	0.028 cubic metres (natural gas)
1 barrel	=	0.159 cubic metres (petroleum liquids)
1 acre	=	0.4 hectares