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scarboro resources limited

1981 ANNUAL REPORT

Corporate Summary

	1981	1980
Financial		
Revenue	$ 2,329,000	$ 1,874,000
Cash flow from operations	524,000	370,000
Capital expenditures	10,606,000	4,018,000
Long term debt	4,246,000	Nil

	1981	1980
Land Holdings (Petroleum and natural gas rights)		
Canada		
Gross acres	215,593	182,167
Net acres	38,427	22,182
Foreign		
Gross acres	6,561,891	2,241,156
Net acres	373,919	145,159

Reserves (1): Canada and United States

	1981 (2)		1980 (3)	
	Oil & Condensate (Mstb)	Residue & Solution Gas (Mmcf)	Oil & Condensate (Mstb)	Residue & Solution Gas (Mmcf)
Proven	190.6	19,919.9	184.2	7,822.9
Probable	71.5	7,476.5	0.0	3,590.5
	262.1	27,396.4	184.2	11,413.4

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

(2) Before royalties, as evaluated by T. Fekete and Associates Consultants Ltd., independent petroleum consultants, as at December 1, 1981.

(3) Before royalties as evaluated by MTA Engineering Ltd., independent petroleum consultants, as at March 1, 1980.

Letter to the Shareholders

On behalf of the Board of Directors of Scarboro Resources Limited, we are pleased to present the Annual Report of the Company for the year ended November 30th, 1981. The past year was highlighted by the drilling of two (2) wells in the Middle East, increased U.S. exploration and continued growth in the acquisition of both foreign and domestic acreage.

In Canada, the Company maintained its policy of financing exploration through the use of limited partnerships in combination with corporate funds. This allowed the Company to establish a significant position in a greater number of prospects while maximizing the Company's net working interest for each corporate dollar expended. During the fiscal year 1981, the Company operated in partnership with two (2) separate Limited Partnerships, and subsequent to year end, closed a third: the Scarboro Resources '81 Landfund with subscriptions totalling $2,000,000. Plans are to continue land acquisition as in the past but with a greater concentration of exploration expenditures in areas identified by successful drilling. This increased emphasis on key areas is directed towards substantially increasing the Company's cash flow.

In June 1981, the Company exchanged 632,000 common shares for 48% of the Scarboro Oils '79 Program increasing its equity in the Program to 73% thereby adding to the Company's oil and gas reserves and increasing the corporate interest in its domestic exploratory land holdings. Also, subsequent to year end, the Company's financial position was enhanced by the private placement in February 1982 of $5,100,000 of 12% Series "A" and Series "B" Convertible Debentures. The Debentures are convertible into 1,275,000 common shares over a period of five (5) years from date of issue.

The Company has included in the Annual Report a statement of proven and probable reserves for Canada and the United States. By way of comparison between two independent engineering reports dated March 1980 and December 1981, the Company's proven and probable reserves increased from 11.413 to 27.396 billion cubic feet of natural gas and from 184.2 to 262.1 thousand barrels of oil and condensate.

In the United States, the Company through its wholly owned subsidiary, Scarboro Oils, Inc., operates through a Joint Venture which utilizes the technical and operational expertise of a private exploration company located in Denver, Colorado. This form of operation has limited the Company's U.S. overhead exposure and at the same time, provides access to prospects on a favourable basis. Until cash flow from the U.S. operations justifies otherwise, the Company plans to continue operating in this manner. To date, the Joint Venture has acquired 81,816 gross acres in Montana, South Dakota, Texas and California. Two (2) successful gas wells in the Sacramento Valley of California are scheduled to be on production this year with a development program anticipated in the near future. In West Texas, the Company holds a net 16.875% working interest in 8,836 gross acres, on which two (2) potential oil wells have been completed to date. In South Dakota, the Company within the Joint Venture and through other associations holds varying interests in 108,420 gross acres over which an extensive seismic program has recently been completed. Upon full interpretation of the seismic, the Company intends to participate in four shallow tests and one deep test.

Scarboro's international involvement has been focused in those areas that can provide substantial rewards while maintaining a level of participation which minimizes the investment risk. The last year has seen the acquisition of: a 9% working interest in 123,500 gross acres offshore Tunisia on which a seismic program has recently been completed and is currently being interpreted; a 5% working interest in Block DR56CL comprising 148,400 gross acres in the Adriatic Sea, 20 miles north east Brindisi, Italy; in Libya, a 5% working interest subject to formal government approvals, of one offshore and four onshore permits covering a combined 3,870,000 gross acres. Under the terms of the Participation Agreements in Libya, Scarboro and partners will conduct a five year work program which includes the drilling of a number of exploration wells and the performance of a detailed seismic program on all five permits. Available data on these permits indicates the presence of a number of structures with exceptional reserve potential. The first offshore well MI/NC41-137 was spudded October 29, 1981 and has reached total depth with production testing currently taking place.

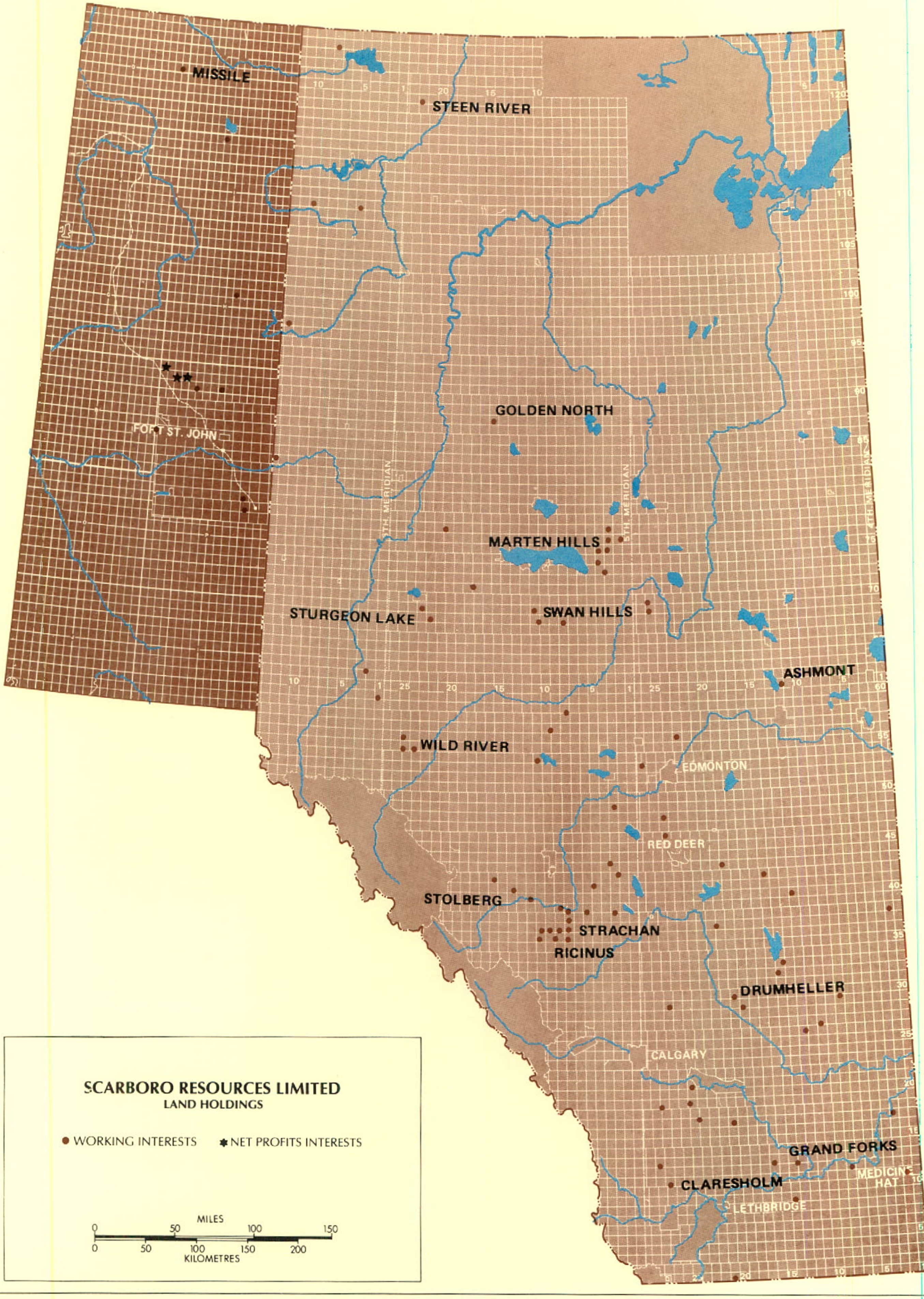
In Abu Dhabi, where the Company has an undivided 5% working interest in approximately 2,000,000 acres, an extensive seismic program has to date defined several potentially drillable structures. The first well, Sweihan I spudded October 25, 1981 and was drilled to a total depth of 14,442 feet. Production testing is currently taking place.

During the past year, Mr. Ahmed Baker of Dubai, U.A.E. was appointed to the Board of Directors of the Company. The Board of Directors takes this opportunity to thank the staff for its loyalty and effort over the last year and to thank the shareholders for their continued support.

Norman J. Mackenzie
President

Robert P. McBean
Executive Vice President

February 24, 1982


MISSILE
STEEN RIVER
GOLDEN NORTH
FORT ST. JOHN
MARTEN HILLS
STURGEON LAKE
SWAN HILLS
ASHMONT
WILD RIVER
EDMONTON
RED DEER
STOLBERG
STRACHAN
RICINUS
DRUMHELLER
CALGARY
GRAND FORKS
CLARESHOLM
MEDICINE HAT
LETHBRIDGE
6TH MERIDIAN
5TH MERIDIAN
4TH MERIDIAN
SCARBORO RESOURCES LIMITED
LAND HOLDINGS
● WORKING INTERESTS
✱ NET PROFITS INTERESTS
MILES
0 50 100 150
0 50 100 150 200
KILOMETRES

Exploration Activities

During the past year, the Company continued to increase its domestic and foreign land holdings and as well, participated in the drilling of 24 wells of which 17 were located in Canada, four (4) in the United States, one (1) in Abu Dhabi, U.A.E. and one (1) offshore Libya.

Scarboro has used Limited Partnerships in financing both its domestic land acquisition and exploration program, whereas in the United States, the Company has operated within a joint venture in partnership with a Denver based organization whose exploration philosophy is consistent with the Company's.

Foreign prospects outside the United States and Canada have increased with the acquisition of working interests in Libya, Tunisia and the Adriatic Sea. The Company is adhering to its policy of obtaining small but significant working interest in a number of areas of high potential reserves.

Scarboro Resources Limited Land Holdings

November 30, 1981

	1981		1980	
	Gross Acres	**Net Acres(1)**	Gross Acres	Net Acres
Canada				
Alberta	**199,146**	**34,033**	158,156	20,829
British Columbia	**10,850**	**1,728**	23,691	1,316
Saskatchewan	**5,597**	**2,666**	320	27
	215,593	**38,427**	182,167	22,182
Foreign				
United States	**361,418**	**28,876**	183,000	15,181
Abu Dhabi	**1,944,756**	**97,238**	1,944,756	97,238
Italy	**261,974**	**43,178**	113,400	32,740
Libya	**3,870,243**	**193,512**	—	—
Tunisia	**123,500**	**11,115**	—	—
	6,561,891	**373,919**	2,241,156	145,159
Total	**6,777,484**	**412,346**	2,423,323	167,341

(1) In addition to the above, the Company holds a 7% gross overriding royalty, convertible to a 35% working interest in 43,505 net acres in Canada and the United States.

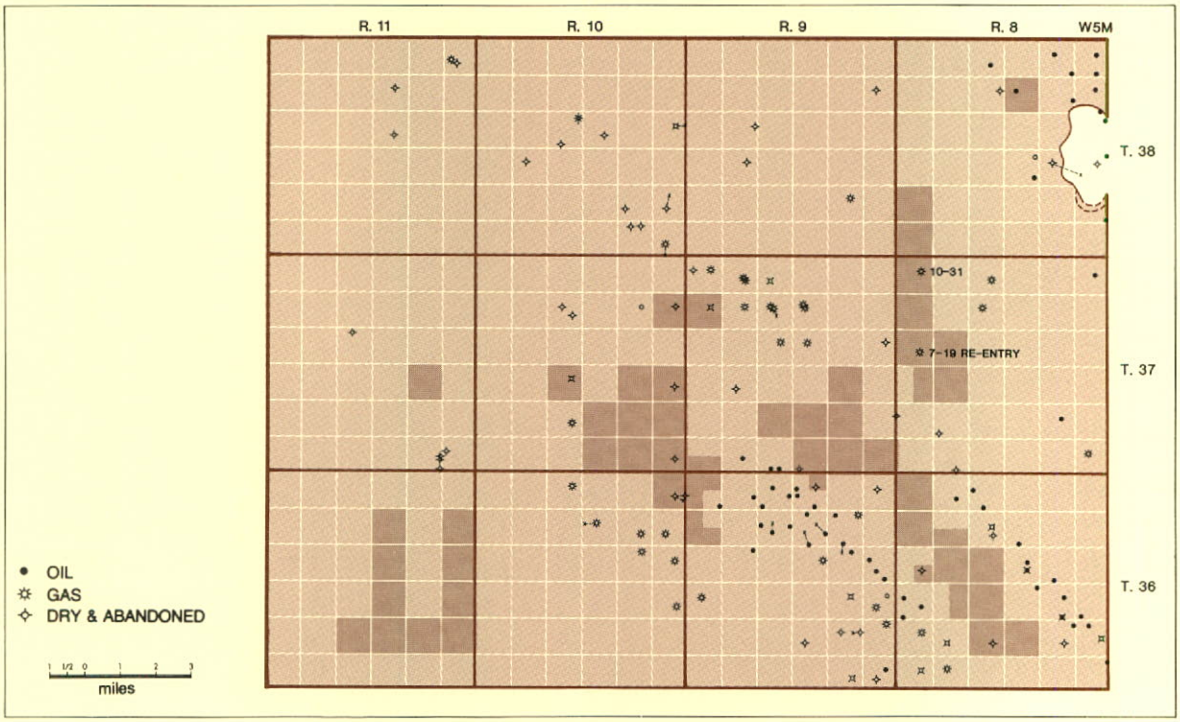
Canadian Exploration

During 1981, the Company participated in the drilling of 17 wells resulting in six (6) gas wells, two (2) oil wells, seven (7) abandonments, with two (2) wells currently drilling and acquired 41,917 gross acres (9,649 net acres) of petroleum and natural gas rights at Provincial Crown Sales.

The Company directed its efforts towards the development of new plays and extensions of existing trends in areas of medium to high risk and established a significant land position in the prospect areas early in the exploration phase. By use of its Limited Partnerships, the Company has participated in and maintained control of a significant working interest in areas where potentially large reserves may be established.

Alberta

Strachan-Ricinus (Crimson)



During the past two years, the Company established a significant land position in the Crimson area and controls with various Limited Partnerships, interests ranging from 27 1/2% to 100% in 31,360 gross acres. In the past year the Company has participated in the drilling of two (2) completed gas wells and plans are to proceed with the drilling of several exploration wells in the area prior to a major development program. Crimson and its development will be the principal area of activity in Canada for the Company over the next few years.

Steen River

The Company and its Limited Partners have a 7 1/2% interest in 5,120 acres and a well has been completed as a potential oil well. After production testing, further drilling is planned in the area. Oil production from the Steen River discovery will qualify as new oil.

Claresholm

The Company and its Limited Partners have a 15% interest in 6,400 acres on which a well was completed as a suspended gas well in 1981. The deep potential of the area is still to be evaluated.

Sturgeon Lake South

The Company and its Limited Partners hold a 50% interest in 640 acres in which a seismic program has been carried out, defining a Devonian Leduc reef. The prospect also has Triassic sand potential. Drilling plans currently are subject to the Company's request for a definition as to whether oil production from the lease qualifies as new oil.

British Columbia

Missile

The Company and its Limited Partners have a net 8 1/3% interest in a well currently drilling to evaluate a potential Devonian Keg River reef. The total prospect area earned by the partners is 3,894 gross acres and the well is scheduled to be completed prior to April 1982.

Saskatchewan

Eastend and Landing North

The Company and its Limited Partners have acquired a 100% interest in a total of 5,880 acres and anticipates the drilling of several wells to test the Jurassic oil potential once royalty rates and new oil prices are established.

Other Activities

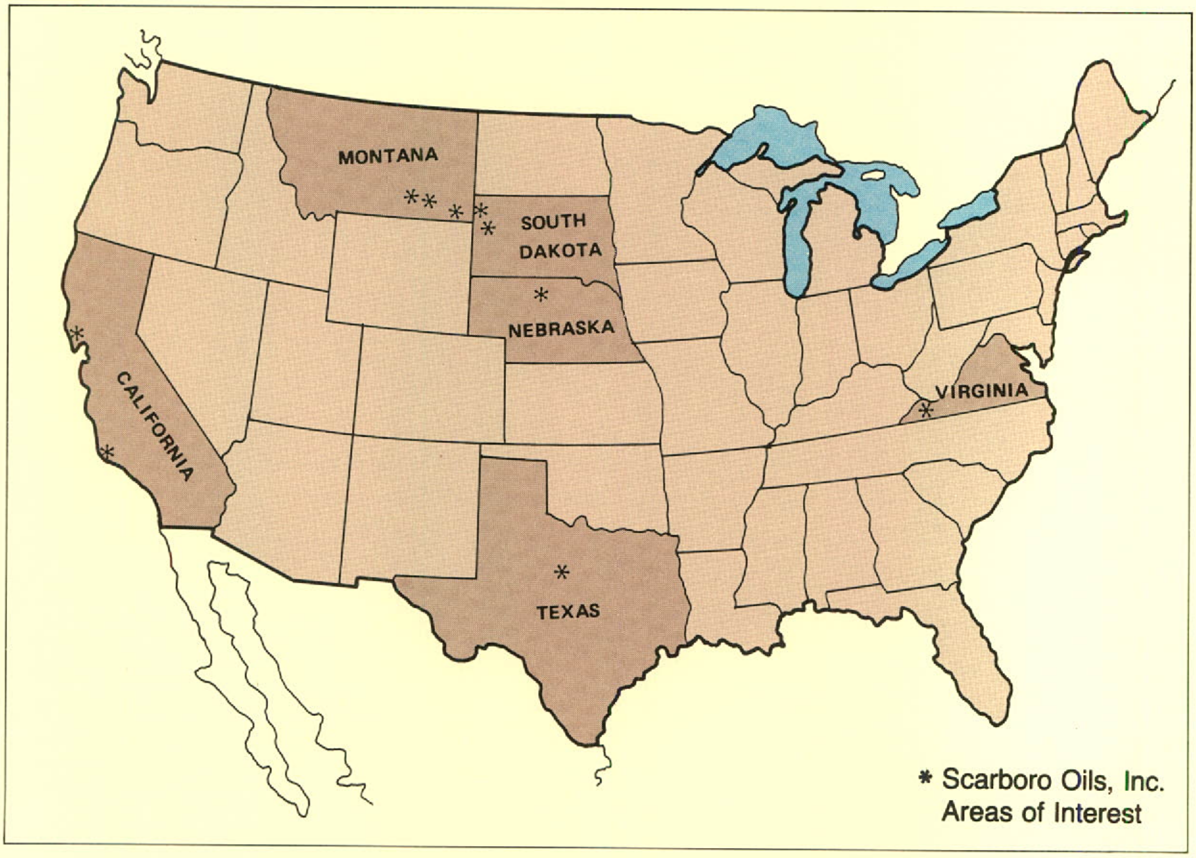
Galena Point

A geological field party examined the Company's mineral permit in the Galena Point area of the Northwest Territories this past summer, where a lead deposit was found with assay values that warrant further economic review.

United States Exploration

U.S. Joint Venture Operations

During the past year, the Company, through its wholly owned subsidiary, Scarboro Oils, Inc., entered into an agreement with a Denver based private exploration company to act as prospect generator and operator for the Joint Venture. Scarboro Oils, Inc. pays 18% of the costs and holds an 18% interest before payout which reduces to a 14.85% interest after payout of each individual prospect.



California

Beehive Bend (Glenn and Colusa Counties)

Scarboro Oils, Inc. holds an 8.1% working interest before payout in 2,798 gross acres in the Sacramento Valley on which two (2) wells have been drilled and completed. The first well has been production tested and has an indicated flow rate of 2.3 MMCF per day with the second well currently waiting production testing after having a drill stem test of 3.9 MMCF per day. Plans are to have the two (2) wells onstream within six months and proceed with a development program in the area.

Texas

Runnels & South Coleman Counties

Scarboro Oils, Inc. holds a 16.875% interest in a total of 8,838 acres in the two counties. Two (2) wells have been drilled to date with one (1) abandonment and the other a completed oil well at 4,800 feet in the Ellenburger formation which is currently on production. Plans are being formulated to proceed with additional drilling in the area.

Fisher County

Scarboro Oils, Inc. has a net 12.0% interest in a 160 acre prospect on which one (1) well has been drilled and completed as an oil well.

South Dakota and Montana

The Joint Venture has acquired 64,756 gross acres in the Williston Basin with the prospect having both shallow gas and deeper Red River potential. This acreage is coincident with the South Dakota acreage acquired outside the Joint Venture.

U.S. Operations (outside Joint Venture)

Virginia

Scarboro Oils, Inc. has an 8 1/3% working interest in 68,970 gross acres in the Appalachian overthrust belt in southwest Virginia. Two (2) wells were drilled this past year, the first is a gas well in the Early Grove Field and the second is suspended waiting further evaluation. A 50 mile seismic survey has been completed and interpretation is currently underway. Further drilling is anticipated in the second or third quarter of 1982.

South Dakota

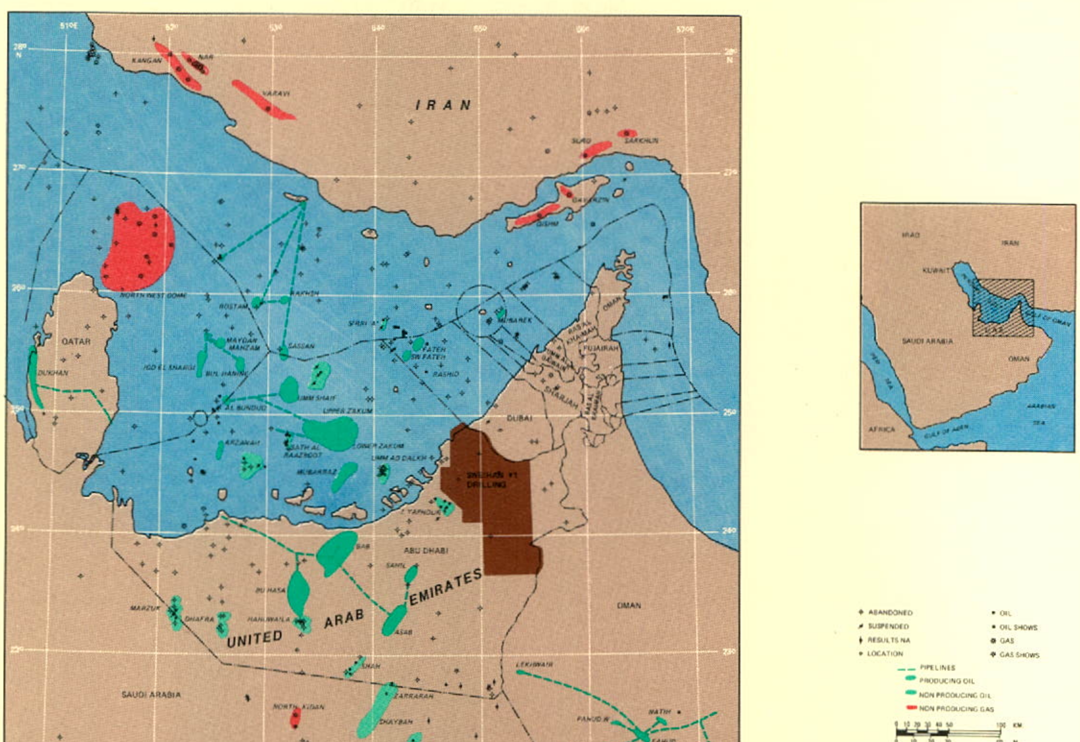
In Harding and Butte Counties, Scarboro has a 9.16% interest in 65,067 gross acres. Seismic has been completed and is now being interpreted. The first of four Cretaceous Shannon tests are expected to commence shortly with a deeper Red River test slated for the second quarter of 1982.

International Exploration

Abu Dhabi, U.A.E.

Scarboro holds a net 5% working interest in a 1,944,756 acre concession located onshore Abu Dhabi. One seismic crew has been operating throughout the past year and has recorded in excess of 1,600 km of new data. Processing of the new data and reprocessing of acquired data is continuing with interpretations having identified several features. The first well, Sweihan No. 1, has been cased to a total depth of 14,442 feet and testing is currently in progress.

The rig may be released to another operator in the area for one well after which Scarboro and partners will reacquire the rig and commence drilling a second well.

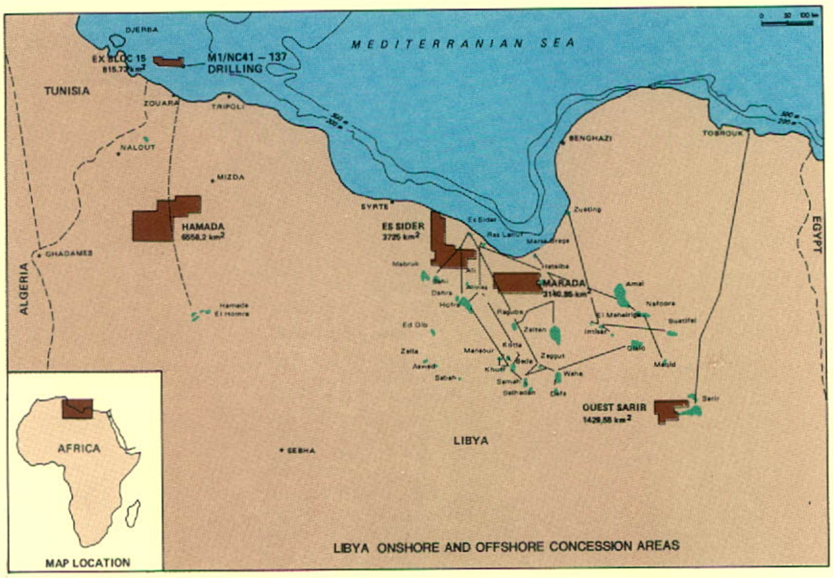


ABU DHABI
ONSHORE CONCESSION AREA

Libya

During the past year, the Company acquired, subject to formal government approval, a 5% working interest in five (5) separate concession areas awarded to Elf-Aquitaine in December 1980 under terms of an Exploration Production Sharing Agreement (EPSA '80).

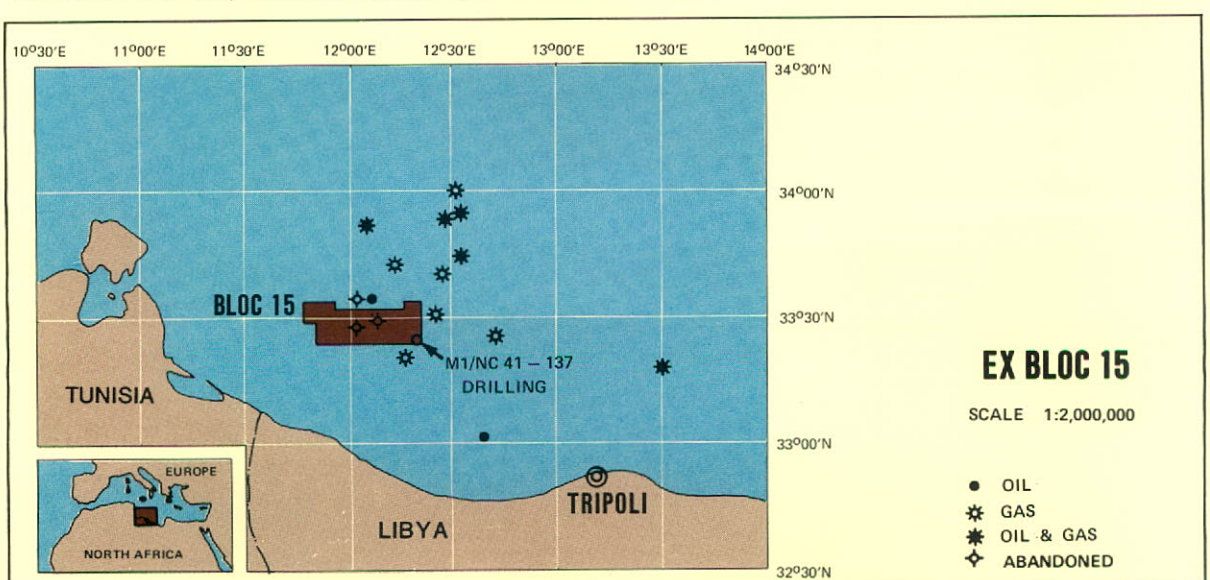
The concession areas cover a total of 3,870,000 acres with four (4) concessions located onshore and one (1) offshore. The Company will participate in an extensive seismic and drilling program over the next four (4) years to fulfill the work commitments under EPSA '80. Two (2) seismic crews have been contracted and work is expected to commence in the first quarter 1982.



LIBYA ONSHORE AND OFFSHORE CONCESSION AREAS

On the 201,800 acres, Block 15 offshore concession, 300 km of seismic detailing has been completed with the first of two commitment wells M1/NC41-137 spudding October 29, 1981. Casing was run to total depth and an extensive production testing program is underway. Scarboro's interest in the first well is 2 1/2%.

The second well on Block 15 is to be spudded mid-summer 1982 on a separate anomaly located northwest of the M1/NC41-137 well, with Scarboro having a 5% interest.



Italy

Onshore

Scarboro owns a net 33 1/3% working interest in an 88,347 acre permit at Basentello and a net 25% working interest in a 25,236 acre permit at Serre Alte, both located in Southern Italy. A seismic survey was conducted at Basentello during the year and interpretation of the data is currently being carried out. At Serre Alte, the operator was unable to obtain a suitable crew for the permit and the seismic program originally planned has been postponed to the summer 1982.

Offshore

During the year, Scarboro acquired a 5% working interest in Permit DR56CL located in the Adriatic Sea immediately offshore Brindisi in Southern Italy. Marine seismic has been carried out and initial interpretation indicates that a potentially drillable structure exists on the permit. Further seismic is planned for 1982 with possible drilling not to occur before late 1983.

Tunisia

During 1981, a consortium, in which Scarboro holds a 9% working interest, was awarded an offshore concession covering 123,500 acres located off the northeast coast of Tunisia. The operator has completed a marine seismic program and the data is currently being processed with interpretation expected mid 1982.

Scanzano LPG Storage Terminal

The Company continues to pursue the proposed development of an underground salt cavern LPG storage and terminalling project on the Gulf of Taranto in Southern Italy. The project is operated by Scanzano Idrocarburi s.r.l., a company owned 50% by Scarboro.

Feasibility studies and conceptual design packages have been completed and confirm both the technical and commercial viability of the project. Although most of the required government authorizations have been obtained, the Company is still awaiting the approval of the local authorities before proceeding with the detail design and construction of the project.

Financial Review

During the past year, revenue from oil and gas operations increased by 34% over 1980 principally due to increased production from the Stolberg field. Revenue from operations in 1982 will be further enhanced as a result of the Company having earned an interest in Stolberg 6-14 in November 1981. Anticipated revenue before royalties from this well are projected at $450,000 for the forthcoming year. Cash flow from operations was $525,000 compared to $371,000 in 1980. Upon taking into account the effect of Petroleum Incentive payments under the N.E.P., adjusted cash flow was $830,000.

The Company continued its agressive exploration program in Canada and Internationally with increased emphasis on the United States. Capital expenditures in Canada were $5.90 million in 1981 while $1.36 million and $2.71 million was expended on United States and overseas properties respectively.

In Canada, land acquisition and drilling expenditures were primarily financed through the Company's existing Limited Partnerships. Scarboro has continued this philosophy into 1982 with the closing of the Scarboro Resources 81 Landfund in December 1981. The Company as General Partner contributes 30% of acquisition costs to earn a 50% working interest in all prospects acquired.

Subsequent to year end, the Company through a private placement issued $5,100,000 in Convertible Debentures bearing interest at a rate of 12% per annum and convertible into common shares at a price of $4.00 per share for 5 years. Management believes that with a lower fixed rate of interest, the Company will be able to forecast its financing obligations in the current year with a greater degree of certainty. Proceeds from the offering will be principally used to retire current bank indebtedness and thereby allow the Company to avoid the volatility in interest rates that has been experienced in the past year.

Petroleum and Natural Gas Production

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

	1981	1980
Natural Gas (mcf)	**497,712**	373,838
Daily Average (mcf/d)	**1,364**	1,024
Crude Oil and Natural Gas Liquids (bbls)	**56,990**	52,746
Daily Average (bbls/d)	**156**	145

Scarboro Resources Limited and Subsidiaries

Consolidated Balance Sheet

at November 30, 1981

	1981 $	1980 $
Assets		
Current Assets		
Cash and short-term deposits		1,458,721
Accounts receivable (Note 6)	1,282,977	574,431
Employee share purchase loan receivable (Note 5)	739,659	
Operating advances (Note 2)	824,327	32,809
	2,846,963	2,065,961
Property, plant and equipment (Notes 3 & 6)	21,006,847	11,613,990
Investments (Note 4)	558,551	1,454,352
Employee share purchase loan receivable (Note 5)	1,721,430	
	26,133,791	15,134,303
Liabilities		
Current Liabilities		
Outstanding cheques	632,379	
Accounts payable	557,188	514,020
	1,189,567	514,020
Long-term debt (Note 6)	4,246,415	
Deferred revenue	90,000	29,020
Deferred income taxes	45,900	45,900
	5,571,882	588,940
Commitments and contingencies (Note 7)		
Shareholders' Equity		
Share capital (Note 5)	21,108,643	14,620,113
Deficit	546,734	74,750
	20,561,909	14,545,363
	26,133,791	15,134,303

Approved by the Directors

Norman J. Mackenzie, Director

Robert P. McBean, Director

See accompanying notes

Scarboro Resources Limited and Subsidiaries

Consolidated Statement of Loss

for the year November 30, 1981

	1981 $	1980 $
Revenue		
Petroleum and natural gas sales	2,244,905	1,675,291
Interest and other income	84,509	199,005
	2,329,414	1,874,296
Expenses		
Royalties and production costs	967,299	875,003
General and administrative	688,644	689,158
Depletion and depreciation	766,912	498,045
Mining properties abandoned	220,305	
Dry holes and abandonments	18,598	43,899
Interest on long-term debt	155,940	18,273
	2,817,698	2,124,378
Loss from operations	488,284	250,082
Share of loss in limited partnership (Note 4)	1,900	13,656
Loss before tax credits and Petroleum Gas Revenue Tax	490,184	263,738
Alberta Royalty Tax Credit	(156,000)	(122,167)
Petroleum Gas Revenue Tax	137,800	
	(18,200)	(122,167)
Loss	471,984	141,571
Loss per common share	.06	.03

See accompanying notes

Scarboro Resources Limited and Subsidiaries

Consolidated Statement of Deficit

for the year November 30, 1981

	1981 $	1980 $
Deficit (retained earnings) — beginning of year	74,750	(66,821)
Loss for year	471,984	141,571
Deficit — end of year	546,734	74,750

See accompanying notes

Scarboro Resources Limited and Subsidiaries

Consolidated Statement of Changes in Financial Position

for the year November 30, 1981

	1981 $	1980 $
Source of Working Capital		
Loss for the year	471,984	141,571
Items not affecting working captial:		
Depletion and depreciation	766,912	498,045
Share of loss in Limited Partnership	1,900	13,656
(Gain) loss on disposal of equipment	(10,990)	414
Mining properties abandoned	220,305	
Dry holes and abandonments	18,598	
	524,741	370,544
Capital stock issued (Note 5)	6,488,530	9,812,551
Increase (decrease) in long-term debt	4,246,415	(3,346,500)
Proportionate consolidation of Limited Partnership investment	926,401	
Proceeds on disposal of fixed assets	219,830	800
Increase (decrease) in deferred revenue	60,980	(23,268)
	12,466,897	6,814,127
Use of Working Capital		
Additions to petroleum and natural gas properties	9,972,433	2,968,034
Employee share purchase loan receivable	1,721,430	
Additions to pipeline and production equipment	198,498	979,767
Additions to other costs	395,173	
Additions to other equipment and leasehold improvements	41,408	71,887
Investment in Limited Partnership	32,500	1,026,584
	12,361,442	5,046.272
Increase in working capital	105,455	1,767,855
Working capital (deficiency) — Beginning of year	1,551,941	(215,914)
Working capital — End of year	1,657,396	1,551,941
Represented by:		
Current assets	2,846,963	2,065,961
Current liabilities	1,189,567	514,020
	1,657,396	1,551,941

See accompanying notes

Scarboro Resources Limited and Subsidiaries

Notes to Consolidated Financial Statements

at November 30, 1981

1. *Accounting Policies:*

(a) Principles of consolidation

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

The excess of the carrying value of the Company's investment in Scarboro Oils Limited and the Scarboro Oils '79 Program over the underlying net book values ($1,540,788 and $1,627,704 respectively) at the dates of acquisition have been allocated to petroleum and natural gas properties and are being amortized on the same basis as the related assets.

The Company's investment in Scanzano Idrocarburi s.r.l. (50%) 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 and mining operations whereby all costs of exploring for and developing oil and gas reserves and mining properties 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. In calculating depletion, natural gas reserves and production are converted to equivalent barrels of oil based upon the relative sales value of each product. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of gain or loss. Any gain or loss realized on the disposition of a major property would be recognized in the statement of earnings. 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
Mining	10% straight line
Other equipment	20% declining balance
Pipeline	5% straight line

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.

(e) Limited Partnerships

The Company is involved in certain limited partnerships for the purpose of exploring for and producing oil and gas. Where the Company's investment in these limited partnerships is significant, the investment is reflected on a proportionate consolidation basis. All other investments in limited partnerships are accounted for by the equity method. Under the equity method the investment is carried on the balance sheet at cost and adjusted for the Company's share of undistributed earnings or losses of the Limited Partnership.

(f) 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.

(g) Foreign currency translation

Current assets and current liabilities of foreign subsidiaries are translated to Canadian dollars using the exchange rates in effect at the dates of the balance sheets. Other assets and liabilities are translated at the rate in effect at the date the original transaction took place. Revenue and expense items are translated using average rates of exchange prevailing throughout the year. The aggregate exchange gain or loss included in net earnings in the year ended November 30, 1981 was not significant.

(h) 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 the tax purposes and when they are recorded in the Consolidated Statement of Loss.

2. *Operating Advances:*

The operating advances to (from) investments and affiliates are as follows:

	1981	1980
	$	$
Scarboro Oils '79 Program	104,468	1,411
Scarboro Resources '81 Landfund	829,092	—
Scarboro Resources '80 Landfund	8,224	5,795
Scarboro Resources '80 Program	(231,652)	25,603
Scanzano Idrocarburi s.r.l.	114,195	—
	824,327	32,809

3. *Property, Plant and Equipment:*

The amounts at which property, plant and equipment are stated do not purport to represent their present or future realizable values. The following is a breakdown of the costs of property, plant and equipment and accumulated depreciation, depletion and amortization by major classification:

	1981			1980
	Assets at Cost	Accumulated Depletion, Depreciation and Amortization	Net Investment	Net Investment
	$	$	$	$
Canada				
Petroleum and natural gas properties including exploration and development costs	13,229,786	1,016,237	12,213,549	6,425,246
Pipeline and production equipment	3,851,152	422,394	3,428,758	3,665,021
Other equipment and leasehold improvements	202,608	100,567	102,041	113,206
Non-producing mining property				221,170
	17,283,546	1,539,198	15,744,348	10,424,643
United States				
Petroleum and natural gas properties including exploration and development costs	1,589,379		1,589,379	238,834
Production equipment	8,197		8,197	
	1,597,576		1,597,576	238,834
Other Areas				
Petroleum and natural gas properties including exploration and development costs	2,817,763		2,817,763	498,526
Other costs*	847,160		847,160	451,987
	3,664,923		3,664,923	950,513
	22,546,045	1,539,198	21,006,847	11,613,990

*Other costs represent charges relating to feasibility studies and associated costs for projects of which the outcome is not determinable at this time. Of this amount $550,000 relates to the Scanzano LPG storage facility. The Company is currently negotiating with the appropriate authorities for their approval.

4. *Investments:*

	The Scarboro Resources '80 Landfund $	Scanzano Idrocarburi s.r.l. $	Harlech Exploration U.K. Ltd. $
Balance November 30, 1980	501,064		
Investment at cost in 1981	32,500	10,270	16,617
Less: Share of operating loss for 1981	1,900		
Balance November 30, 1981	531,664	10,270	16,617

5. *Share Capital:*

(a) Authorized (See Note 10)

10,000,000 common shares with no par value.

Issue of shares

Changes in the Company's common shares for the year ended November 30, 1981 were as follows:

	Number of Shares	Consideration $
Balance November 30, 1980	6,656,339	14,620,113
The Scarboro Oils '79 Program units	632,000(1)	3,615,040
Employee share purchase plan	842,500(2)	2,873,490
Balance November 30, 1981	8,130,839	21,108,643

(1) Through an Offer to Purchase dated May 19, 1981, the Company acquired 20 units of The Scarboro Oils '79 Program for a consideration of 31,600 common shares per unit. The Company now holds, together with its wholly owned subsidiary Scarboro Oils Limited, 30 of the 41 units outstanding.

Details of the acquisition which has been accounted for by the purchase method are as follows:

Net Assets Acquired:	
Petroleum and natural gas properties	2,255,454
Excess of purchase consideration over book value of net assets acquired, attributable to petroleum and natural gas properties	1,627,704
	3,883,158
Working capital deficiency	(103,839)
Long-term debt	(164,279)
Purchase consideration	3,615,040

(2) 433,400 common shares at $3.70 per share,
399,100 common shares at $3.10 per share and
10,000 common shares at $3.27 per share.

(b) Common shares reserved

Warrants

The Company has reserved 850,000 common shares in respect of share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of $5.00 per common share until June 15, 1982.

(c) Employee share purchase plan

The Company has issued in trust, 709,468 common shares in respect of employee share purchase plans. The common shares were issued at prices $3.10, $3.27 and $3.70 per common share. The purchases of the shares are financed by way of extendable non-interest bearing demand loans, currently repayable over terms of two and five years. As the loans are repaid, the common shares currently in trust will be transferred to the employees.

6. *Long-Term Debt:*

The long-term debt is in the form of a Bank Production Loan, evidenced by promissory notes bearing interest at the rate of prime plus 3/4%. 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. None of the Bank Production Loan amounts have been classified as a current liability as they are secured by, and repayable from, future production proceeds and will not require the use of existing current assets.

7. *Commitments and Contingencies:*

The Company has current exploration commitments in the Middle East for approximately $2.7 million U.S. over an eight year period. Also, upon the Company's acceptance into a production sharing agreement with a national oil company in the Middle East, there will be an amount of $180,000 U.S. due and payable and a further commitment of approximately $6.6 million U.S. over a five year period.

The Company also has certain other contingent liabilities and commitments arising in the ordinary course of business. In the opinion of the management of Scarboro Resources Limited, such contingent liabilities and commitments will not result in any significant financial liability to the Company.

8. *Related Party Transactions:*

As per agreement, the Company as General Partner of the Scarboro Resources '81 Landfund, received $50,000 for organizational expenses and $50,000 as management fees on the initial capital contribution of the Limited Partners.

Also per agreement, the Company as General Partner participated with the Scarboro Resources '81 Landfund and '80 Program, whereby the Company purchased 30% of lands acquired and drilling costs incurred. For the fiscal period 1981 this amounted to $342,000 in land acquisitions and $560,000 in drilling costs.

The Company sold at cost, petroleum and natural gas acreage which was in an area of mutual interest, for $314,000 to the Limited Partners of The Scarboro Oils '79 Program.

A director of the Company was paid $20,000 for consulting fees provided in the year.

9. *Statutory Information:*

During the year $429,594 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.

10. *Subsequent Events:*

(a) Authorized Share Capital

At an Extraordinary General Meeting of the shareholders of the Company held on December 8, 1981, the shareholders gave approval to increasing the authorized capital of the Company from 10,000,000 to 20,000,000 common shares without nominal or par value and the creation of 5,000,000 preferred shares with a nominal or par value of $10 per share.

(b) Convertible Debentures

On February 26, 1982, the Company, through a private placement, issued Series A convertible debentures amounting to $2.0 million and upon receiving final regulatory approval will issue Series B convertible debentures amounting to $3.1 million. The convertible debentures bear interest at a rate of 12% per annum and are convertible at the option of the holder into common shares of the Company for a period of five years at a price of $4.00 per common share. The Series A convertible debentures are to be repaid in equal instalments beginning in 1987 through to 1991. The Series B convertible debentures will be due and payable in full on 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.

Auditor's Report

We have examined the consolidated balance sheet of Scarboro Resources Limited and Subsidiaries at November 30, 1981 and the consolidated statements of loss, 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 and Subsidiaries at November 30, 1981 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 4, 1982
(except as to note 10b,
which is as of March 5, 1982)

Vennard Johannesen & Co.
Chartered Accountants

Corporate Information

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Scarboro Resources International Ltd.

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Calgary, Alberta

Banker
Canadian Imperial Bank of Commerce
309 - 8th 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

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	=	0.405 hectares

Directors
Angus A. Mackenzie
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Norman J. Mackenzie
Calgary, Alberta
Robert P. McBean
Calgary, Alberta
James S. Palmer, Q.C.
Calgary, Alberta
John A. Tessari
Calgary, Alberta
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Vancouver, British Columbia
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London, England
Ahmed Baker,
Dubai U.A.E.

Officers & Senior Management
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Robert P. McBean
Executive Vice-President
Norman H. Bartley
Vice-President, Land
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Vice-President, Exploration
Bastiaan Groeneweg
Exploration Manager
Blaine D. Holstein
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