

**RANCHMEN'S  
RESOURCES  
(1976) LTD.**

**ANNUAL REPORT 1978**





**HEAD OFFICE**

550 Daon Building  
444 Fifth Avenue S.W.  
Calgary, Alberta, T2P 2T8

**SUBSIDIARY COMPANIES**

Bluemount Minerals Ltd.  
Bluemount Minerals, Inc.  
Brady Oil and Gas Limited

**TRANSFER AGENT**

Montreal Trust Company  
411 Eighth Avenue S.W.  
Calgary, Alberta

**BANKERS**

The Royal Bank of Canada  
Main Branch  
339 Eighth Avenue S.W.  
Calgary, Alberta

**AUDITORS**

Peat, Marwick, Mitchell & Co.  
2500, 700 Second Street S.W.  
Calgary, Alberta

**SOLICITORS**

Howard, Dixon & Mackie  
Third Floor, One Calgary Place  
330 Fifth Avenue S.W.  
Calgary, Alberta

**STOCK EXCHANGE LISTING**

Alberta Stock Exchange

**DIRECTORS**

R. W. Andrew, Calgary  
G. R. Bongard, Toronto  
W. R. Gulliver, Calgary  
P. N. Holtby, Toronto  
W. A. Howard, Calgary  
J. G. McDonald, Calgary  
J. S. Poyen, Calgary  
W. Scott, Tulsa, Oklahoma  
H. N. Stewart, Calgary  
R. J. White, Calgary

**OFFICERS AND KEY PERSONNEL****Chairman of the Board**

J. G. McDonald

**President**

R. J. White

**Controller**

E. K. Kaita

**Manager — Operations**

T. D. Brooker

**Manager — Engineering**

K. E. Sully

**Secretary**

R. G. Powers

**Assistant Secretary**

Carol P. Todd

COVER PHOTOGRAPH:  
*Development drilling Deer Mountain*

The Annual Meeting of the Company will be held in the Banff Room, Calgary Inn, 320 Fourth Avenue S.W., Calgary, on Monday, June 25, 1979 at 9:30 a.m. local time. The Notice of Meeting is enclosed with this report.





Left to Right: Back Row: R. J. White, P. N. Holtby, R. W. Andrew, W. Scott, R. G. Powers, J. G. McDonald

Left to Right: Front Row: W. A. Howard, H. N. Stewart, J. S. Poyen

Missing from Photo: G. R. Bongard, W. R. Gulliver

## First Quarter Statement of Earnings and Cash Flow

January 1 to March 31

(unaudited)

	1979	1978
<b>Production:</b>		
Oil (barrels) . . . . .	34,034	32,558
Natural Gas (thousand cubic feet) . . . . .	714,376	682,080
<b>Revenue:</b>		
Gross Sales . . . . .	\$1,488,888	1,328,074
Royalties Paid (Net of Alberta Royalty Tax Credit) . . . . .	375,438	347,143
Net Sales . . . . .	1,113,450	980,931
Other . . . . .	16,134	16,921
	<u>1,129,584</u>	<u>997,852</u>
<b>Expenses:</b>		
Production . . . . .	162,109	184,196
General and administrative . . . . .	142,786	147,077
Depreciation, depletion and amortization . . . . .	343,000	305,000
Interest . . . . .	258,651	210,208
	<u>906,546</u>	<u>846,481</u>
Profit before income taxes . . . . .	223,038	151,371
Deferred Income Taxes . . . . .	148,000	135,000
Net Profit . . . . .	<u>\$ 75,038</u>	<u>16,371</u>
Net Profit as above . . . . .	\$ 75,038	16,371
Add items not requiring working capital . . . . .	491,000	440,000
Cash Flow from operations . . . . .	<u>\$ 566,038</u>	<u>456,371</u>
Cash Flow per share . . . . .	<u>\$ .40</u>	<u>.33</u>

Note: (1) Per share figures give effect to the conversion as noted in Note 8(a) to the December 31, 1978 financial statements.

(2) This statement does not give effect to the sale of certain oil & gas properties as more fully discussed in Note 8(b) to the December 31, 1978 financial statements.



# Report of the Directors to the Shareholders

On behalf of the Board of Directors, it is my pleasure to present our 1978 Annual Report and a brief summary for the first quarter of 1979.

## First Quarter 1979

The statement of cash flow, with comparative figures for the first quarter of 1978, is summarized on the preceding page. Revenue from production is up marginally and overall expense is relatively unchanged, resulting in cash flow similar to the first quarter of last year. This statement does not reflect the sale of certain oil and gas properties as more fully discussed under "Oil and Gas Programs".

## Financial

Comparative financial highlights are summarized below. Cash flow increased 46% to \$1.29 per share and the net loss of 0.22¢ one year ago improved to a modest profit of .02¢ in 1978. Outstanding debt and working capital deficiency improved slightly while capital expenditures were substantially less. Additional comments are provided on page four.

	Year Ending December 31	
	1978	1977
Gross Sales . . . . .	\$5,422,363	5,052,416
Cash Flow from operations . . . . .	1,760,636	1,204,165
Per Share . . . . .	1.29	.88
Net Earnings (Loss) . . . . .	26,439	(292,576)
Per Share . . . . .	.02	(.22)
Working Capital deficiency . . . . .	748,952	883,846
Long Term Debt . . . . .	11,314,394	11,622,810
Capital Expenditures . . . . .	1,621,030	2,730,607
Total Common Shares		
Outstanding . . . . .	1,367,934	1,367,934

During the year, the Company received \$314,837 as an advance against the purchase of natural gas to be delivered at a later date. Most of this prepayment was a direct result of negotiations between the producing industry and TransCanada PipeLines which calls for the interruption of up to 20% of annual production, to be paid for now and produced later.

## Operations

Operating highlights are set out below with comparative values for the previous year. Total reserves of oil and gas showed an appreciable increase although average daily production was less. Further discussion is included on page five.

	Year Ending December 31	
	1978	1977
Oil (barrels per day) . . . . .	347	432
Gas (million cubic feet per day) . . . . .	6.794	7.612
<b>Net Proved and Probable Reserves</b>		
Oil (barrels) . . . . .	2,205,000	2,088,378
Gas (billion cubic feet) . . . . .	38.465	30.189
<b>Oil and Gas Lands</b>		
Gross Acres . . . . .	620,648	824,719
Net Acres . . . . .	171,990	209,715

## Development Program

The main thrust of the 1978 capital program was in drilling and completing new wells with only modest requirements for surface facilities. The Company participated in 71 wells: 50 were completed as gas wells, 11 as oil wells and 10 were dry. Of the four wells farmed out, three were gas wells and one was dry. Of the 50 new gas wells, 41 were infill wells in producing projects.

## Reserves & Cash Flow

The summary of net reserves and their projected cash flows, at varying discount rates, are presented on page six. This information has been prepared by independent engineers as of December 31, 1978.

## Ranchmen's Exploration Ltd. (R.E.L.)

This wholly-owned subsidiary company is being activated and financed by a group of private investors for a total of \$10,014,200. Your Company will own 20% of the equity shares of R.E.L. and will be appointed manager.

The Company sold assets as at January 1, 1979 in the amount of \$4,441,600 to R.E.L. and granted farmout rights on a similar basis as the REDPAR 1977 Partnership. It is expected that the Company and R.E.L. will participate in ongoing oil and gas activity as joint venture partners.

The proceeds of sale will be used by the Company to retire debt and for general corporate purposes.

## Shareholders' Equity

The 14,500 Series "B" Preferred Shares owned by Canadian Oil & Gas Fund Ltd. were recently exchanged for Class "C" Common Vot-

ing Shares, increasing the issued number of Shares of that class to 109,462 shares.

At the special General Meeting to be held June 25, 1979, the shareholders will be asked to approve the consolidation of the Class "B" Common Shares into Class "A" Common Shares (three for two basis). If approved, the total outstanding Common Shares will be reduced although the Class "A" listed shares will be increased to 1,221,800.

### 1979 Activity

During the early part of the current year, a major capital program was undertaken at Deer Mountain that included the construction of flow-lines and battery and the drilling of two new oil wells. More recently, a new oil well was completed at Kiron, south of the town of Camrose.

For the rest of the year, a drilling program of 12 to 15 wells is being planned and another five to ten wells will be drilled by farmout to others.

### Current Outlook

During the fall of 1978, the Province of Alberta had shut-in oil production capacity estimated from 300,000 to 400,000 barrels per day. The political crisis in Iran precipitated an interruption of crude production from that country and a world-wide reduction of inventory resulted. Canadian producers have been requested to increase production rates and high productivity will likely be required throughout the current year. This development supports our Company's heavier emphasis on oil development in 1978-1979.

In contrast to the shortage of crude oil, natural gas is still in a condition of over-supply. Producers continue to suffer from lack of new contracts and contractual restrictions in existing ones. The Company is fortunate in having most of its gas reserves under contract.

The recently released report of the National Energy Board found a small amount of gas (2.0 Trillion cubic feet) surplus to Canadian requirements. There is widespread feeling that the Board has seriously under-estimated the country's gas reserves and that subsequent hearings will lead to an increased surplus available for export. Frontier reserves were not considered in the report and recent discoveries in the Eastcoast offshore and Arctic Islands will add substantially to those reserves.

Current political discussions may lead to the enlargement of the Canadian market through lower priced gas. However, immediate export would be most beneficial to the country and the producing industry.

### Staff

The employees of the Company have provided outstanding service during the past year and the Directors are pleased to acknowledge their continuing contribution.

On behalf of the Board of Directors



R. J. White,  
President



## FINANCIAL

Key financial results for 1978 are summarized on the following table with comparative values for 1977:

	1978	1977
Sales of Natural Gas and Crude Oil . . .	\$5,422,363	5,052,416
Net Revenue . . . . .	4,039,062	3,905,986
Expenses — Cash . . .	2,278,426	2,701,821
— Non Cash . . . . .	1,734,197	1,496,741
Net Profit (Loss) per share . . . . .	.02	(.22)
Cash flow from Operations per share . . . . .	1.29	.88
Capital Expenditures . .	1,621,030	2,730,607
Working Capital deficiency at year end . . . . .	748,952	883,846

Sales and net revenue showed a modest increase over 1977, although a 16.66% working interest in the Bluemount Lands was sold to REDPAR 1977 at the beginning of the reporting period which reduced the company's share in a number of producing properties from 72.17% to 55.51%.

Cash expense in 1978 was \$423,395 less than in 1977 as a direct result of the conversion in late 1977 of \$10 Million bank debt to income debentures. This interest expense saving was the main factor in cash flow increasing to \$1.29/share from \$.88 during the previous year. Similarly, net profit was \$.02 compared to a \$.22 loss the year before. The income debenture interest is equal to 1.5% plus one-half the prime rate with a minimum of 5.5% and a maximum of 7.5%. The rate has been at the maximum since late 1978, however, this expense is not deductible for tax purposes. By comparison, the current rate of interest on demand loans is 13.5%, and is fully deductible.

Working capital deficit at year-end was \$748,952 compared to \$883,846 at the same time one year earlier. Of this amount \$663,442 is owing to the parent company. The Company has arranged a new financing through Ranchmen's Exploration Ltd. (see Oil and Gas Programs) as a means of improving the Company's working capital position.

### Prepaid Gas

During 1978, the industry and the principal gas purchaser, TransCanada, negotiated an agreement that provided for a voluntary cutback in gas production of up to 20%. The "take or pay"

agreement provides that the buyer must pay the current price during shutdown period and when the gas is taken at a subsequent time, he must pay any incremental appreciation in gas price. The Company also received payment from Syncrude for gas that was not taken in the Tower & Wander projects in Northern Alberta.

The Company's gas paid for, but not taken, amounted to \$314,837 during the 1978 fiscal period and is set up as a liability for accounting purposes.

"Take or pay" payments received are treated as non-refundable advances and will be taken into income when the gas is delivered in future years.

### Capital Expenditures

Capital Expenditures of \$1,621,030 were less than the \$2,730,607 invested in 1977. During the most recent reporting period, the development emphasis was on drilling and completion operations whereas in 1977 substantial funds were spent on gas plant facilities. In addition, capital requirements were reduced further as a result of the sale of 16.66% of Bluemount lands to REDPAR 1977.

### Preferred Shares

In February of 1979, Canadian Oil & Gas Fund Ltd. purchased the 14,500 Series "B" Convertible Cumulative Redeemable Preferred Shares which were subsequently exchanged in April for 39,200 Class "C" Common Voting Shares. Class "C" Common Voting Shares outstanding now total 109,462.

### Class "B" Common Shares

At the special General Meeting set for June 25, 1979, the Shareholders will be asked to approve the consolidation of the Class "B" Common Non-Voting Shares with the Class "A" Common Non-Voting Shares, on a three for two basis. Following the consolidation, outstanding Class "A" Common Non-Voting Shares would increase by 151,730 from 1,070,070 to 1,221,800, and total outstanding Common Shares would be reduced by 75,872 to 1,331,262 Shares.

Class "B" Shares have received approximately \$1,200,000 in dividends while the Class "A" and Class "C" have received none. The effective conversion of Class "B" shares into a smaller number of Class "A" takes this difference into account.



## Oil and Gas Programs

The Company has arranged to activate its wholly-owned subsidiary, Ranchmen's Exploration Ltd. (R.E.L.). R.E.L. will be financed through the sale of First Mortgage Bonds and common shares to a group of private investors, with a ratio of 40 Common Shares (\$10.00 each) sold with each \$1,000 bond for a total of \$10,014,200. The transaction is expected to close in early July. Ranchmen's will manage the company and retain 20% of the Common Shares. The Common Shares of R.E.L. are exchangeable for Class "A" Common Shares of Ranchmen's Resources (1976) Ltd. on a one for one basis until June 30, 1983.

Under the plan, Ranchmen's will sell an interest in the Bluemount Lands, Med. Hat #4, and Princess to R.E.L. The proceeds of sale of \$4,441,600 will be used to reduce Company debt, and for general corporate purposes.

R.E.L. will join with the two public partnerships (REDPAR 1976 & REDPAR 1977) and the Company in the continuing development of the Bluemount Lands, and will partner with the Company exclusively in new projects.

Approximately 40% of the capital funds of R.E.L. will be used to purchase property from Ranchmen's and 60% for exploration and development. R.E.L. will purchase 13.21% in the Bluemount Lands and be granted a farmout from the REDPAR 1976 Partnership and the Company, under which it will increase its interest in new wells by paying 26.42% of cost to increase its interest from 13.21% to 19.815%.

## OPERATIONS

### Drilling Program

During 1978, the Company participated in a total of 71 wells with 50 completed as gas wells, 11 as oil wells and 10 dry holes. The entire drilling program was located in Alberta.

In southeastern Alberta, the Company participated in four gas wells at Matziwin, 19 at Princess, 10 at Hilda and eight more on the Med. Hat #4 property. These four areas are under contract and the wells were immediately connected to producing facilities.

Two gas wells were drilled at Granor in north-central Alberta, increasing to five the shut-in gas wells within the Company's 36 sec-

tions of land. These reserves have been contracted to Pan Alberta Gas Ltd., subject to gas export approval from the National Energy Board. However, because of the remoteness of the area, production is not anticipated until the early 1980's.

A further three gas wells were drilled at Kessler-Provost, Nestow, and Waskwei on lands currently under contract, and are expected to provide new revenue in 1979.

Three new wells drilled at Thompson Lake and the single well at Bon Accord were not completed due to gas contracts not being available at this time. These wells were drilled to preserve leases that were due to expire.

Two new Basal Quartz oil wells were drilled at Bellshill Lake; one has been completed as a producing well and the other will be tested in the early summer. At Kiron, one well was completed as a marginal Viking oil well and two others are awaiting completion. Of the remaining six oil wells drilled, two were at Provost and four were in the Warburg Belly River Unit.

A complete summary of the drilling program follows:

### Well Drilling Summary

Company Participation	% Company Working Interest	% Company		
		Oil	Gas	Dry
Airdrie . . . . .	14	—	—	1
Bellshill Lake . . . . .	24 - 47	2	—	1
Bon Accord . . . . .	47	—	1	—
Granor . . . . .	6.25	—	2	—
Hilda Gas Unit . . . . .	1.18	—	10	—
Holden . . . . .	12	—	—	1
Kessler-Provost . . . . .	47	—	1	1
Kiron . . . . .	47	3	—	—
Matziwin . . . . .	5.75	—	4	—
Med. Hat #4 . . . . .	23.5	—	8	—
Nestow . . . . .	16.67	—	1	1
Princess Project . . . . .	.22	—	18	—
Princess . . . . .	65	—	1	—
Provost Veteran . . . . .	1.97	1	—	1
Provost . . . . .	42	1	—	—
Springburn . . . . .	2.4	—	—	1
Thompson Lake . . . . .	24 - 47	—	3	—
Warburg . . . . .	.68	4	—	2
Waskwei . . . . .	11 - 20	—	1	1
<b>Company Farmout</b>				
Bellshill Lake . . . . .	8.32*	—	1	—
Bruce . . . . .	2.08*	—	1	—
Horizon . . . . .	.375*	—	1	—
Wild River . . . . .	13.9	—	—	1
		11	53	11

\* Royalty Interest



The Company has extensive undeveloped land holdings throughout Alberta, and intends to encourage farmouts to other operators on those lands which are not in close proximity to the Company's prime prospects. Under the terms of most farmout agreements, the other operator pays all well costs to earn a large interest in the farmout lands until the cost of the well has been recovered, after which both parties share more or less equally in the proceeds of production. During 1978, farmouts resulted in three gas wells, which are currently shut-in without gas purchase contracts.

### Deer Mountain

Construction of surface facilities to service the producing wells at Deer Mountain was started in late 1978. These include a central battery for treating and storage, flowlines connecting individual wells to the battery, and service roads to provide access to both. The initial phase of the construction program is now essentially complete.

The well drilling program planned for late fall was delayed and drilling did not start until early January of 1979. Two wells were drilled and completed and will be placed on production following spring break-up.

The total cost of this program to Ranchmen's and its partners is estimated at \$1.8 Million. Activity will be resumed in the last quarter of 1979 with two to four wells planned.

### Production and Reserves

Average daily oil production during 1978 was 347 barrels per day, a 20% decrease from the 432 barrels per day in 1977. Natural gas production was also lower at 6.794 million cubic feet per day compared to 7.612 in 1977, a reduction of 11%.

Additions to reserves during the year, after deducting annual production, was 116,632 barrels of oil and 8.276 billion cubic feet of gas for an increase of 6% and 27%, respectively.

Lower production rates during the year resulted mainly from the sale of 16.66% interest in certain lands to REDPAR 1977, a public Partnership. The effect of this sale on reserves was more than offset by the addition of new reserves. Reserve additions are attributable to two factors:

1. participation in 61 successful wells,
2. revision of Crown Royalties on gas reserves, which reduced royalties payable on low deliverability wells, thereby extending their producing life.

### Land

The Company's net land inventory was reduced 18% from 209,715 acres to 171,990 acres, while the gross interest was reduced 24% from 824,719 to 620,648. While some of this change reflects the normal expiration of leases, most of the reduction is reflected in the surrender of lands in the Northwest Territories and the sale of a 16.66% interest in certain property to the REDPAR 1977 Partnership.

### SUMMARY OF NET RESERVES

Property	Proven		Proven plus Probable Additional	
	Oil	Gas	Oil	Gas
	(barrels)	(billion cubic feet)	(barrels)	(billion cubic feet)
Amisk . . . . .	85,491		85,491	
Bellshill Lake . . . . .	112,495		112,495	
Deer Mountain . . . . .	216,611		1,547,609	
Provost Project 10 . . . . .	90,027		90,027	
Other Oil . . . . .	369,432		369,432	
Kessler Provost . . . . .		3.806		4.261
Princess . . . . .		1.997		1.997
Medicine Hat #4 . . . . .		8.041		8.041
Rosalind . . . . .		2.710		3.342
Other Gas . . . . .		16.032		20.824
Total . . . . .	874,056	32.586	2,205,054	38.465

### CASH FLOW SUMMARY

#### Proven Plus Probable Reserves (thousands of dollars)

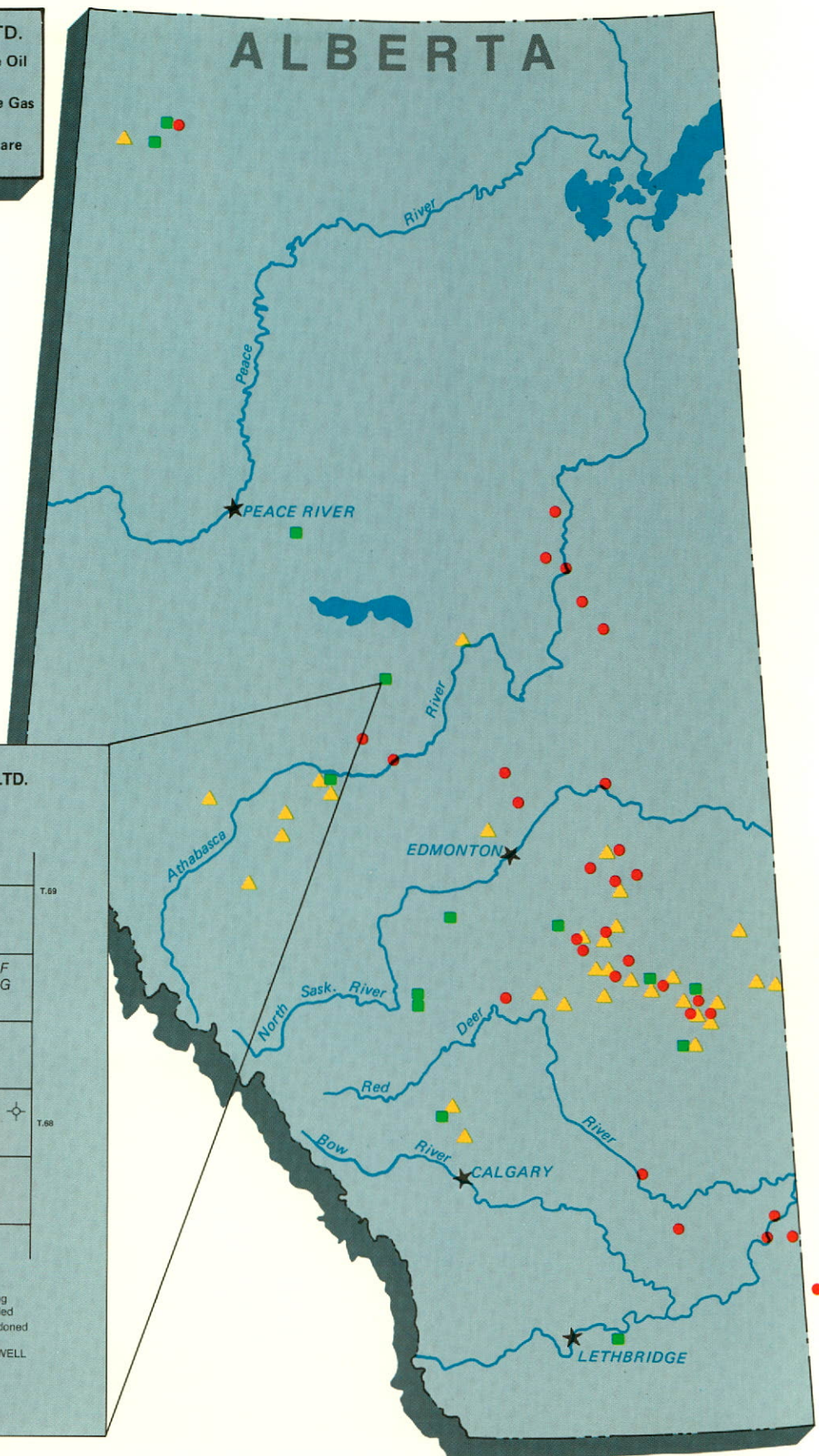
Property	Discounted at			
	0%	9%	15%	20%
<b>Oil</b>				
Amisk . . . . .	664	212	131	96
Bellshill Lake . . . . .	1,630	1,057	851	732
Deer Mountain . . . . .	22,303	5,767	2,644	1,340
Provost Project 10 . . . . .	1,140	810	675	593
Other . . . . .	5,869	3,032	2,329	1,969
Sub-Total . . . . .	31,606	10,878	6,630	4,730
<b>Gas</b>				
Kessler Provost . . . . .	8,716	3,743	2,526	1,945
Princess . . . . .	5,085	1,636	1,077	832
Medicine Hat #4 . . . . .	15,300	7,534	5,298	4,160
Rosalind . . . . .	6,998	4,031	3,073	2,552
Other . . . . .	49,421	17,931	11,714	8,905
Sub-Total . . . . .	85,520	34,875	23,688	18,394
Total . . . . .	117,126	45,753	30,318	23,124

The Fair Market Value of the undeveloped lands is \$2,526,000.

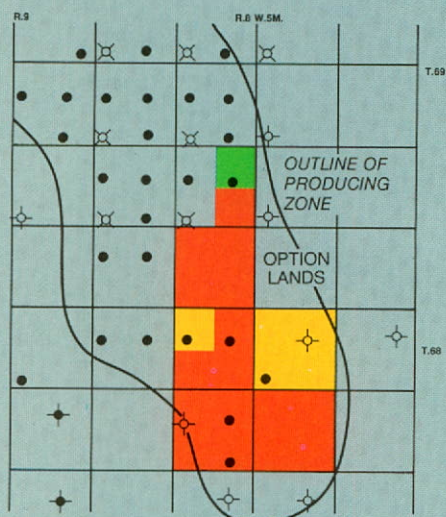


# RANCHMEN'S RESOURCES (1976) LTD.

- General Area in which Proven and Probable Oil Reserves are located.
- General Area in which Proven and Probable Gas Reserves are located.
- ▲ General Area in which Undeveloped Lands are located.



## RANCHMEN'S RESOURCES (1976) LTD. DEER MOUNTAIN



### Company Interests

55.514 47.184 27.757

- OILWELL — Producing
- OILWELL — Suspended or Abandoned
- ⊕ DRY HOLE
- ⊕ WATER INJECTION WELL

1 1/2 0 SCALE 1 2  
MILES





# RANCHMEN'S RESOURCES (1976) LTD.

## Consolidated Balance Sheet

DECEMBER 31, 1978  
(with comparative figures for 1977)

### Assets

	1978	1977
<b>Current assets:</b>		
Cash . . . . .	\$ 588,028	443,716
Accounts receivable . . . . .	1,469,994	1,073,965
Inventory of material and supplies, at cost . . . . .	186,929	123,495
Total current assets . . . . .	<u>2,244,951</u>	<u>1,641,176</u>
<b>Non-current investments and receivables:</b>		
Mortgages receivable, net of current portion . . . . .	279,322	271,029
Real estate held for resale, at cost . . . . .	369,104	373,690
	<u>648,426</u>	<u>644,719</u>
<b>Property and equipment, at cost less depreciation and depletion:</b>		
Oil and gas properties . . . . .	18,036,639	16,671,077
Production equipment . . . . .	2,301,147	2,099,633
Office equipment . . . . .	73,345	69,391
	<u>20,411,131</u>	<u>18,840,101</u>
Less accumulated depreciation and depletion . . . . .	<u>2,445,797</u>	<u>1,283,016</u>
	<u>17,965,334</u>	<u>17,557,085</u>
<b>Other assets:</b>		
Unamortized financing costs . . . . .	334,949	395,146
Sundry, at cost . . . . .	166,688	116,081
	<u>501,637</u>	<u>511,227</u>
	<u>\$21,360,348</u>	<u>20,354,207</u>

Approved on behalf of the Board:

 , Director

 , Director

See accompanying notes.



## Liabilities and Shareholders' Equity

	1978	1977
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities . . . . .	\$ 1,922,553	1,573,672
Current portion of long-term debt . . . . .	407,908	341,928
Due to parent company, Canadian Oil & Gas Fund Ltd. . . . .	663,442	609,422
Total current liabilities . . . . .	<u>2,993,903</u>	<u>2,525,022</u>
<b>Long-term debt (Note 3):</b>		
Bank loans — net of current portion . . . . .	1,282,450	1,587,504
Income debentures . . . . .	10,000,000	10,000,000
Mortgage payable, net of current portion . . . . .	31,944	35,306
	<u>11,314,394</u>	<u>11,622,810</u>
<b>Prepayment for future gas production . . . . .</b>	<u>314,837</u>	<u>—</u>
<b>Deferred income taxes . . . . .</b>	<u>922,074</u>	<u>406,074</u>
<b>Minority interest in subsidiary . . . . .</b>	<u>3,423</u>	<u>3,423</u>
<b>Shareholders' equity:</b>		
Share capital (Note 4):		
Preferred shares with a nominal or par value of \$10 per share		
Authorized: 1,400,000 Shares		
Issued: 14,500 Series "B" 8% Convertible		
Cumulative Redeemable Preferred Shares (Note 8(a)) . . . . .	145,000	145,000
Common shares without nominal or par value		
Authorized 5,000,000 Shares divided into		
4,400,000 Class "A" Common Non-Voting Shares		
300,000 Class "B" Common Non-Voting Shares		
300,000 Class "C" Common Voting Shares		
Issued: 1,070,070 Class "A" Common Non-Voting Shares . . . . .	4,512,085	4,512,085
227,602 Class "B" Common Non-Voting Shares . . . . .	1,138,012	1,138,012
70,262 Class "C" Common Voting Shares (Note 8(a)) . . . . .	351,312	351,312
Contributed surplus . . . . .	1,737,590	1,737,590
Deficit . . . . .	<u>(2,072,282)</u>	<u>(2,087,121)</u>
	<u>5,811,717</u>	<u>5,796,878</u>
<b>Commitment and contingent liability (Note 5)</b>	<u>\$21,360,348</u>	<u>20,354,207</u>

See accompanying notes.



# RANCHMEN'S RESOURCES (1976) LTD.

## Consolidated Statement of Earnings and Deficit

Year Ended December 31, 1978  
(with comparative figures for 1977)

	1978	1977
<b>Revenues:</b>		
Sales of natural gas and crude oil . . . . .	<b>\$5,422,363</b>	5,052,416
Less royalties (net of Alberta Royalty Tax Credit of \$295,000, 1977 — \$258,190) . . . . .	<b>1,426,151</b>	1,307,562
Production revenue . . . . .	<b>3,996,212</b>	3,744,854
Other . . . . .	<b>42,850</b>	161,132
	<b>4,039,062</b>	3,905,986
<b>Expenses:</b>		
Operating . . . . .	<b>805,113</b>	680,041
General and administrative . . . . .	<b>427,518</b>	457,760
Expenses of assessing corporate acquisitions . . . . .	<b>—</b>	84,468
Outside consulting fees . . . . .	<b>140,355</b>	123,513
Depreciation . . . . .	<b>131,000</b>	158,000
Depletion . . . . .	<b>1,027,000</b>	1,106,544
Amortization of financing expenses . . . . .	<b>60,197</b>	60,197
Interest — long-term debt . . . . .	<b>874,843</b>	1,332,206
— other . . . . .	<b>30,597</b>	23,833
	<b>3,496,623</b>	4,026,562
Earnings (loss) before deferred income taxes . . . . .	<b>542,439</b>	(120,576)
<b>Deferred income taxes (Note 7) . . . . .</b>	<b>516,000</b>	172,000
Net earnings (loss) . . . . .	<b>26,439</b>	(292,576)
Deficit, beginning of period . . . . .	<b>2,087,121</b>	697,283
Dividend paid on Class "B" Common Shares . . . . .	<b>—</b>	1,085,662
Dividends paid on Preferred Shares . . . . .	<b>11,600</b>	11,600
Deficit, end of period . . . . .	<b>\$2,072,282</b>	2,087,121
Earnings (loss) per share . . . . .	<b>\$ .02</b>	(.22)

See accompanying notes.



# RANCHMEN'S RESOURCES (1976) LTD.

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1978  
(with comparative figures for 1977)

	1978	1977
<b>Source of funds:</b>		
Operations:		
Net earnings (loss) . . . . .	\$ 26,439	(292,576)
Add items not requiring working capital:		
Depreciation . . . . .	131,000	158,000
Depletion . . . . .	1,027,000	1,106,544
Amortization of financing expenses . . . . .	60,197	60,197
Deferred income taxes . . . . .	516,000	172,000
Working capital provided from operations . . . . .	1,760,636	1,204,165
Prepayment for future gas production . . . . .	314,837	—
Mortgage receivable becoming current . . . . .	—	5,757
Increase in long-term debt . . . . .	—	15,182,625
Proceeds on sale of property and equipment . . . . .	54,781	3,047,636
Reduction of advances to Class "B" Common Shareholders . . . . .	—	1,085,662
	<u>2,130,254</u>	<u>20,525,845</u>
<b>Use of funds:</b>		
Reduction of long-term debt . . . . .	308,416	15,450,116
Additions to property and equipment . . . . .	1,621,030	2,730,607
Dividend paid on Class "B" Common Shares . . . . .	—	1,085,662
Dividends paid on Preferred Shares . . . . .	11,600	11,600
Financing costs . . . . .	—	150,000
Advances to Class "B" Common Shareholders . . . . .	—	455,205
Other . . . . .	54,314	48,809
	<u>1,995,360</u>	<u>19,931,999</u>
Increase in working capital . . . . .	134,894	593,846
Working capital deficiency, beginning of period . . . . .	883,846	1,477,692
Working capital deficiency, end of period . . . . .	<u>\$ 748,952</u>	<u>883,846</u>

See accompanying notes.



# RANCHMEN'S RESOURCES (1976) LTD.

## Notes to Consolidated Financial Statements

DECEMBER 31, 1978

### 1. Significant Accounting Policies:

#### a) Principles of Consolidation:

The consolidated balance sheet includes the accounts of Ranchmen's Resources (1976) Ltd. and its wholly-owned subsidiaries, Ranchmen's Exploration Ltd., Bluemount Minerals Inc., Bluemount Minerals Ltd., Brady Oil and Gas Limited and that company's 60% owned subsidiary, Greenvalley Holdings Limited (inactive). All significant intercompany transactions have been eliminated on consolidation.

Accounts of the United States subsidiary are immaterial.

#### b) Property and Equipment:

The Company follows the full cost method of accounting whereby all costs and expenses of exploring for and developing oil and gas reserves, including applicable administration costs, are capitalized, and these costs, together with production equipment, are being depleted or depreciated on the composite unit of production method based on estimated proven reserves as determined by independent engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in earnings.

#### c) 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.

#### d) Financing Costs:

The Company is amortizing its financing costs over an eight year period.

### 2. Changes in Accounting Policy:

With effect from January 1, 1978 the Company adopted a policy of capitalizing administrative costs related to the acquisition and development of oil and gas properties. Such charges capitalized in the year ended December 31, 1978 aggregating \$110,000, had the effect of increasing net earnings by approximately \$80,000.

### 3. Long-term debt:

Although the bank loans, which bear interest at 1.5% above prime bank rate, are payable on demand, under the agreed terms of repayment \$400,000 will be repaid within the next twelve months. The bank loans are secured by an assignment of oil and gas properties under Section 82 of the Bank Act and by a floating charge debenture on the Company's assets, both present and future, in the amount of \$1,749,135.

The Floating Rate Secured Serial Income Debentures bear interest at 1.5% plus one-half of the prime bank rate with a minimum of 5.5% and a maximum of 7.5% per annum payable semi-annually to the extent of available profit with a provision for deferral, if necessary. The debentures have been issued in five series of \$2,000,000 principal amounts, maturing on each of December 22 of 1981, 1982, 1983, 1984 and 1985. The debentures are secured by a first fixed mortgage on certain oil and gas properties and a floating charge on all assets, and are redeemable by the Company on or after December 19, 1979 with accrued interest to the date of redemption. The Company has issued warrants entitling the subscriber to purchase shares of the Company (see Note 4).

The mortgage payable which bears interest at 11.75%, is repayable in monthly instalments of \$1,040, principal and interest.

### 4. Share Capital:

The Series "B" 8% Convertible Cumulative Redeemable Preferred Shares are redeemable at par at the option of the Company after June 30, 1978 and after June 30, 1980 at the option of the holder thereof. The Series "B" Preferred Shares are convertible by the holder at certain specified dates into 39,200 Class "C" Common Voting Shares.

The Company has reserved 85,328 Class "A" Common Non-Voting Shares and 3,552 Class "C" Common Voting Shares, pursuant to an agreement entered into by Cogfac Resources Ltd. (a predecessor company) on June 24, 1975 which may be issued and exchanged for 40,000 10% Series "A" Preferred Shares (having a nominal or par value of \$10 per share) of Canadian Oil & Gas Fund Ltd. In addition, the Company has reserved 39,200 Class "C" Common Voting Shares for conversion of the Series "B" Preferred Shares.

The Company has reserved 23,334 Class "A" Common Non-Voting Shares pursuant to certain option agreements entered into by Bluemount Resources Ltd., whereby the optionee could purchase 35,000 shares of that company at any time prior to March 15, 1979 for \$5 per share. The Company has reserved 100,000 Class "A" Common Non-Voting Shares pursuant to a share purchase warrant indenture with the income debenture holders whereby the warrant holders may purchase 100,000 shares at any time prior to December 19, 1979, 1981, and 1983 at \$3.50, \$4.00 and \$5.00 per share respectively.

Pursuant to the Amalgamation Agreement under which the Company was formed, no further dividends may now be declared or paid on Class "B" Common, Non-Voting Shares unless and until dividends aggregating \$1,500,000 have been paid on the total of the issued and outstanding Class "A" Common Non-Voting Shares and Class "C" Common Voting Shares. Thereafter all common shares shall rank pari passu as to dividends.



## 5. Commitment and Contingent Liability:

- a) The Company has entered into a 25 year management agreement with a shareholder, Canadian Oil & Gas Fund Ltd., wherein the Company will pay reasonable administrative costs and 5% of the cost of property acquired and of shares of corporations acquired on behalf of the Company.
- b) In April, 1977, an action was commenced in the United States District Court of Michigan by certain minority former shareholders of Ark Explorations Limited (a predecessor company) against the company, and certain other named parties. The plaintiffs alleged non-compliance by the Company with the provisions of the Securities Act of 1933 (U.S.) and Securities Exchange Act of 1934 (U.S.). The claim is for an order directing the Company to purchase the shares of the Company held by the plaintiffs for \$438,100 (U.S.) and for exemplary damages in the amount of \$1,000,000 (U.S.). The Company has denied the plaintiffs claim, has retained United States counsel and is vigorously defending the action. Management of the Company believes that it has good and meritorious defences to both claims and has received the opinion of United States counsel that the claim for exemplary damages has little or no merit. The Company served a Counterclaim on the plaintiffs alleging inducement, misrepresentation and fraud under the Securities Exchange Act of 1934 (U.S.) and claiming damages of not less than \$250,000 plus costs.

## 6. Remuneration of Directors and Senior Officers:

The aggregate management fees and remuneration paid to directors and senior officers (which includes the five highest paid employees) for the period ended December 31, 1978 was approximately \$212,600. (1977 — approximately \$210,000).

## 7. Deferred Income Taxes:

The reported income or loss is reconciled with the income for purposes of the income tax provisions as follows:

	1978	1977
Earnings (loss) before income taxes	\$ 542,439	(120,576)
Add non-allowable items, including crown royalties, debenture interest and depletion on assets which are not deductible for income tax purposes	2,157,830	1,390,910
Income for purposes of income tax calculations before earned depletion and resource allowance	2,700,269	1,270,334
Deduct:		
Earned depletion allowance	477,227	159,250
Federal resource allowance	872,616	636,361
Income for purposes of income tax provision	\$1,350,426	474,723

## 8. Subsequent Events:

- a) On April 25, 1979 the 14,500 Series "B" Preferred Shares were converted into 39,200 Class "C" Common Shares.
- b) Subsequent to the year end a wholly-owned subsidiary, Ranchmen's Exploration Ltd., which has been inactive since incorporation, arranged to issue, subject to certain conditions, a combination of debt and Class "A" Common Shares aggregating \$10,014,200. The said Class "A" Common Shares will be exchangeable at the option of the holder for a maximum of 286,120 Class "A" Common Shares of the Company. As a result of this issue the Company's percentage ownership in Ranchmen's Exploration Ltd., will decrease to 20%. \$4,441,600 of the proceeds of this issue will be used to acquire an interest in certain oil and gas properties from the Company, which in turn will use the proceeds for the retirement of debt, and for general corporate purposes.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ranchmen's Resources (1976) Ltd. as at December 31, 1978 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.

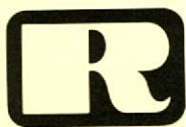
The Company is involved in litigation relating to the 1977 amalgamation as discussed in note 5.

In our opinion, subject to the effect, if any, of the ultimate resolution of the litigation referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 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, which except for the change in the method of accounting for certain administrative costs as more fully described in note 2, have been applied on a consistent basis.

Calgary, Canada  
April 30, 1979  
(Except for Note 8(b)  
which is dated May 25, 1979)

Peat, Marwick, Mitchell & Co.  
Chartered Accountants





**RANCHMEN'S RESOURCES (1976) LTD.**  
**ANNUAL REPORT 1978**

