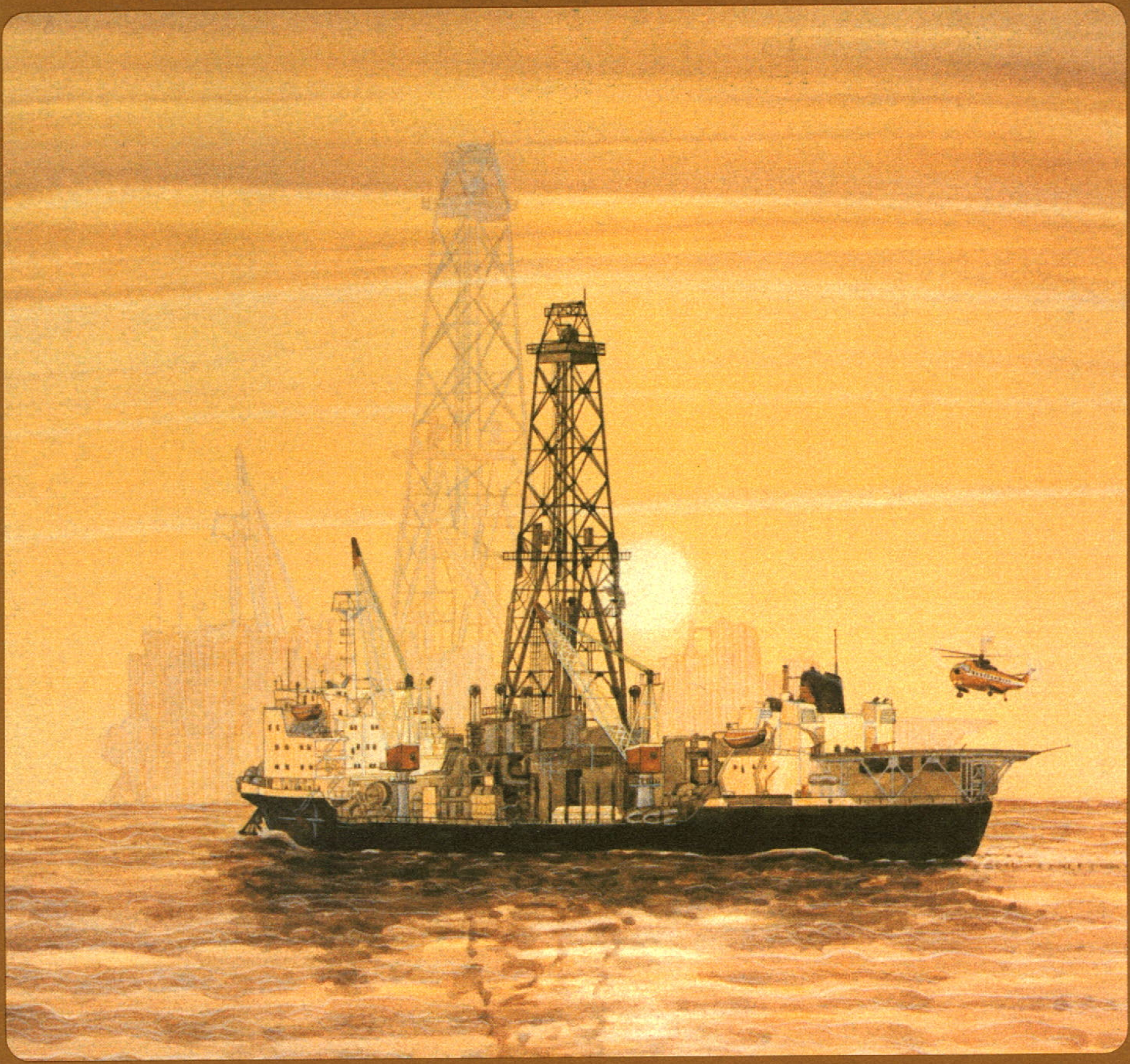


RANCHMEN'S RESOURCES (1976) LTD.

1981 Annual Report

CORPORATE INFORMATION

HEAD OFFICE

#500, 500 - 5th Avenue S.W.
Calgary, Alberta
T2P 3L5
(403) 265-0262
Telex: 03-826638

SUBSIDIARY COMPANIES

Ranchmen's Exploration Ltd.
Bluemount Minerals Ltd.
Brady Oil and Gas Limited
98555 Alberta Ltd.
123079 Oil & Gas Ltd.

TRANSFER AGENT

Montreal Trust Company
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

BANKERS

The Royal Bank of Canada
Main Branch
339 - 8th Avenue S.W.
Calgary, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.
2500, 700 - 2nd Street S.W.
Calgary, Alberta

SOLICITORS

Howard, Mackie
300, 330 - 5th Avenue S.W.
Calgary, Alberta

McDonald & Hayden
#500, 500 - 5th Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Alberta Stock Exchange
Montreal Stock Exchange

DIRECTORS

R.W. Andrew — Calgary
C. Byler — Calgary
J. Canaple — Paris
J. Le Chevalier — Paris
W.R. Gulliver — Calgary
W.A. Howard — Calgary
J.P. Januard — Calgary
J.G. McDonald — Calgary
A. Le Menestrel — Paris
W. Scott — Tulsa
H.N. Stewart — Calgary

OFFICERS

J.G. McDonald, Q.C.
Chairman of the Board and President

J.P. Januard, Ing. Civil des Mines
Executive Vice President, Finance

K.E. Sully, P.Eng.
Vice President and Chief Operating Officer

E.K. Kaita, C.A.
Vice President and Controller

T.D. Brooker, P.Eng.
Vice President — Operations

R.G. Powers
Secretary

J. Brackpool
Assistant Secretary

The Annual Meeting of the Company will be held in Salon "A" - 2nd Floor, Delta's Bow Valley Inn, 209 - 4th Avenue S.E., Calgary, on Monday, May 10, 1982 at 10:00 a.m. Calgary Time.

HIGHLIGHTS

RANCHMEN'S RESOURCES (1976) LTD.

	December 31, 1981	1980	1979	1978	1977
Financial					
Gross Income	$13,031,148	7,572,593	5,536,202	5,465,213	5,213,548
Cash Flow from Operations	5,484,059	3,226,192	1,843,908	1,760,636	1,204,165
per share	1.78	1.58	1.28	1.29	0.88
Earnings (Loss)	345,960	409,926	633,418	26,439	(292,576)
per share	(.15)	.20	.46	.02	(.22)
Working Capital (Deficit)	8,658,980	2,568,185	1,011,206	(748,952)	(883,846)
Capital Expenditures	6,589,947	3,630,992	3,404,231	1,621,030	2,730,607
Debt — Long Term	49,713,750	8,000,000	8,378,996*	11,314,394	11,622,810
Current	2,000,000	165,552*	38,363	407,908	341,928
Production					
Oil (barrels per day)	557	426	351	347	432
Gas (million cubic feet per day)	9.030	5.896	5.474	6.794	7.612
Reserves (Proved plus Probable)					
Oil (barrels)	4,360,358	2,976,100	1,891,838	2,205,054	2,088,378
Gas (billion cubic feet)	58.950	35.411	27.514	38.465	30.189
Net Lands (acres)	209,043	179,008	123,237	171,990	209,715

*Net of term deposit for redemption of first $2,000,000 Debenture due December, 1981.

REPORT TO SHAREHOLDERS

J.G. McDonald

1981 was a very good year for our Company by all objective standards, and the results achieved are remarkable in the context of troubled financial markets and exceptionally high interest rates.

During the year we moved into our new premises, closed our transactions with Total Eastcan Exploration Ltd. and the institutional shareholders of Ranchmen's Exploration Ltd., raised $15 million of new working capital, and acquired additional onstream reserve interests worth approximately $5.6 million through the purchase of 78% of Canadian Oil & Gas Fund (1975) which we now manage as general partner. The Company drilled or participated through farmout in 74 wells in Alberta of which 52 were successful gas wells, 8 were productive oil wells, and 14 were dry holes — a success ratio of 81%.

At year end our proven plus probable reserves represented 1.3 barrels of oil and 17 MCF of gas per common share.

Financial

Our corporate revenue increased over 1980 by 65% to $9.1 million, and our net cash flow increased by 70% to $5.5 million. Applying a conservative schedule of oil and gas price escalation to current proven plus probable reserves leads to a cash flow forecast increasing to $13 million by 1985.

Net earnings have decreased 16% due to increases in depletion, depreciation and deferred income tax provisions.

The Company's acquisition from Total Eastcan Exploration Ltd. of a 12% working interest on the Labrador Shelf amounting to $47 million has been accounted for as a separate offshore cost centre and will be excluded from the depletion calculation until reserves are proven and production has commenced. These costs will be added to the Company's Canadian Development Expense Tax pool. The Company anticipates that it will not pay current taxes for several years.

Alberta exploration and development expenses incurred in 1981 were $4.7 million, of which $517,000 was recovered by offsetting Provincial Petroleum Incentive Payments against Petroleum and Gas Revenue Tax ("PGRT") payable.

Offshore exploration expenses incurred in 1981 were $11.5 million, of which it is anticipated that approximately $9.2 million will be returned as Federal Petroleum Incentive Payments.

The Company's debt position remains very attractive. The first of five equal annual instalments was paid in December on the Company's $10,000,000, 7½% income debentures. The Company's debt was increased by $43.7 million in July, through the issuance of a 1% 20-year debenture, which is convertible into Class "A" Common Stock at a price of $12.50 per share, but constrained in its conversion if it is detrimental to the Company's "75% plus" Canadian Ownership Rate.

As of September 1, 1981, the Alberta Royalty Rebate was increased to 50% of Alberta Crown Royalties, not to exceed $2 million per annum. On an annualized basis for 1981, this increased rebate would have added approximately $700,000 to the Company's net cash flow, or approximately $0.20 per common share outstanding.

In 1982 this rebate is projected to be approximately $1.8 million, and will be allocated to debt retirement.

Management and Staff

The Directors have appointed J.P. Januard as Executive Vice President, Finance, and K.E. Sully as Vice President and Chief Operating Officer. Management additions during 1981 include V.L. Everts as Land Manager, and G.B. Pendlebury as Exploration Manager.

The Directors on behalf of themselves and all shareholders wish to congratulate our able and conscientious staff. During 1981 the Company accomplished the completion of corporate and operational programs that would normally have required a much larger group. Our team is exceptional.

On Behalf of the Board of Directors

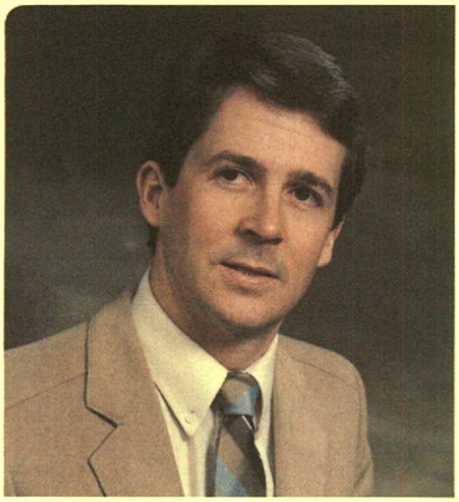
JOHN G. McDONALD
Chairman and President

Directors

Your Board of Directors was reconstituted in 1981 with eleven members, namely: R.W. Andrew, C.W. Byler, J. Le Chevalier, J. Canaple, W.R. Gulliver, W.A. Howard, J.P. Januard, J.G. McDonald, A. Le Menestrel, W. Scott, and H.N. Stewart.

J.P. Januard, Executive Vice President, Finance

CORPORATE GROWTH



K.E. Sully
Vice President and
Chief Operating Officer

Ranchmen's was organized to acquire the rights to explore for, develop and produce petroleum and natural gas in Canada. The Company was formed through the amalgamation on January 4, 1977 of Ranchmen's Resources (1975) Ltd., Ranchmen's Minerals Ltd., Ranchmen's Development Ltd., Davoil Natural Resources Limited, Bluemount Resources Ltd. and Ark Explorations Limited.

The period from 1977 to 1979 was characterized by divestiture of interest to public partnerships and joint ventures managed by the Company to finance the development of the extensive lands formerly held by Bluemount.

The Company financed the development through the sale and farmout of approximately 19% of the former Bluemount interest to Ranchmen's Exploration & Development Partnership (1976) (REDPAR'76) in December, 1976, 9% to a private investor group in December 1976, 17% to Ranchmen's Exploration & Development Partnership (1977) (REDPAR'77) in December, 1977, and 13% to Ranchmen's Exploration Ltd. (REL) effective January, 1979. Ranchmen's retained a 20% interest in REL.

During this period, the Company experienced a modest increase in cash flow from operations, retired its bank borrowings, and maintained a capital program of 2 to 3 million dollars per year. However, because of the divestitures of interest, the Company's reserves and annual production declined.

The period from 1980 to present has been characterized by the consolidation of previously held interests. In June, 1980, the Company acquired approximately 94% and 96% of REDPAR'76 and REDPAR'77 respectively, through a rollover for shares, and in July, 1981 acquired approximately 78% of Canadian Oil & Gas Fund (1975) (COGF'75).

During 1980 and 1981, approximately 77% of the private investor group was acquired through the exchange of shares, represented by 98555 Alberta Ltd. and 123079 Oil & Gas Ltd. and in July 1981, the remaining 80% interest of REL was acquired through a share exchange.

During 1981 the Company purchased its interest in the Labrador Shelf for $47 million. Also during 1981, the Company completed its first public financing with the successful issue at $25 per share of 600,000 $2.45 Cumulative Redeemable Convertible First Preferred Shares. The issue was used to finance a $12 million development program which is currently ongoing in Alberta and for the redemption of bonds which had been issued by REL.

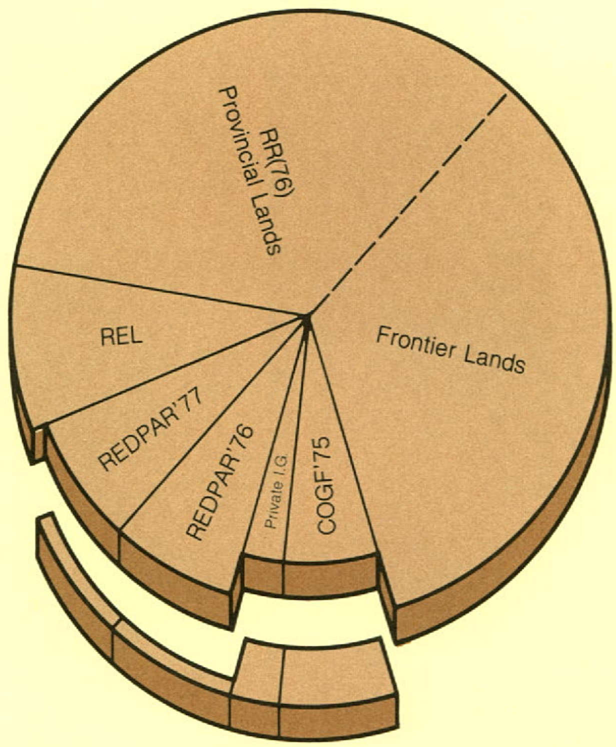
The Company has established a strong asset base, which generates significant cash flows. Even in uncertain times, it is well positioned to become exposed to new areas.

The future will be characterized by a commitment to exploration in the frontier lands, with a possible divestiture of a portion of its interest to better balance expenditures with cash flow. Onshore, the Company will continue to develop its acreage concentrating on those areas which will qualify for the new oil price, and may also become actively involved for the first time, in joint ventures with other operators in exploration and development in new areas in Alberta. The Company will continue to pursue the acquisition, directly or indirectly, of onshore Canadian oil and gas properties.

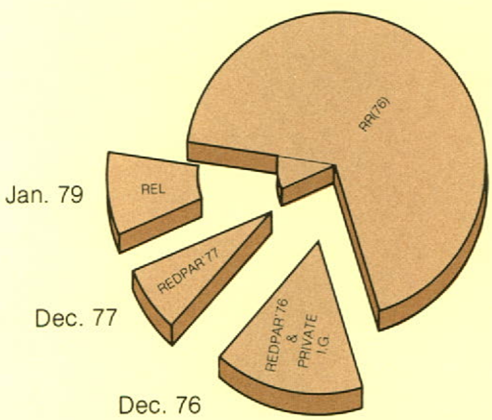
GROWTH OF OIL & GAS ASSETS

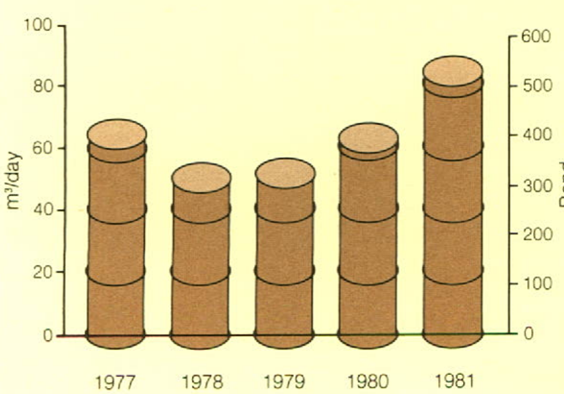
	Dec. 1976	Dec. 1981
	(Millions of Dollars)	
Oil & Gas Reserves (DCF 20%)	$29	86
Provincial Undeveloped Land	2	5
Frontier Land (at cost)	-	49
	$31	140

December 1981

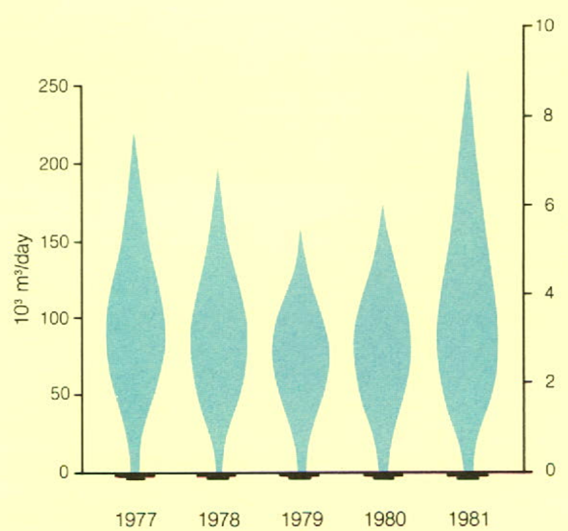


December 1976



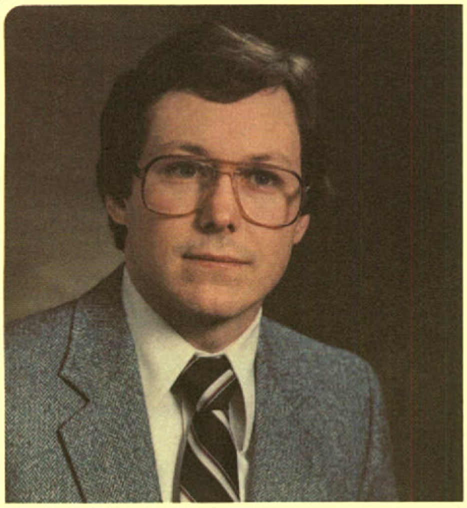


Daily Oil Production



Daily Gas Production

OPERATIONS - ONSHORE



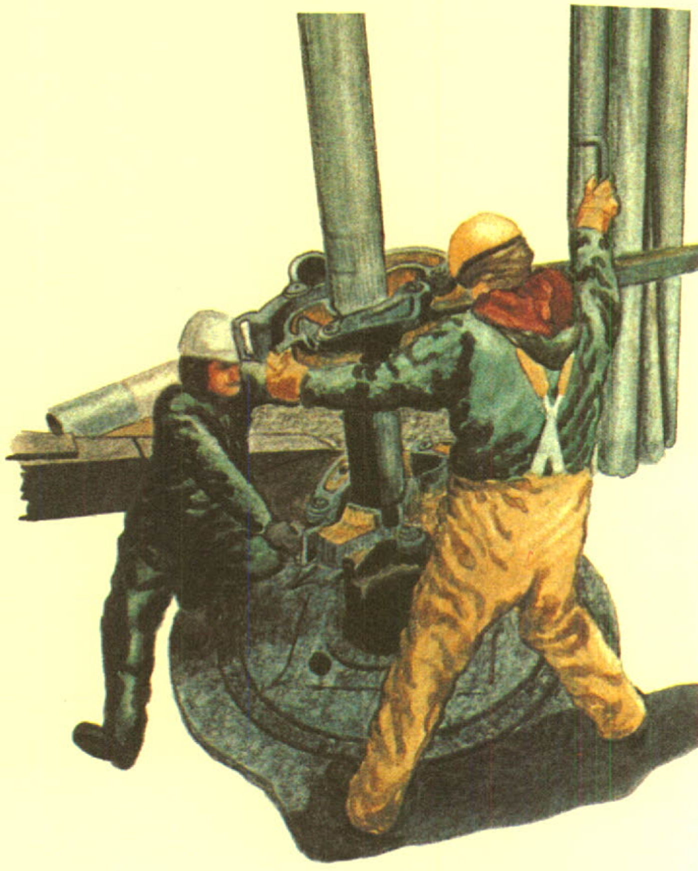
T.D. Brooker
Vice President — Operations

WORKING INTEREST PROJECTS

1981 Drilling Summary	NORP Oil	Old Oil	Gas	Dry	Net Wells
Battle (Kiron)	-	1	-	1	2.00
Corbett Creek	1	-	2	-	0.13
Deer Mountain	2	-	-	-	2.00
Forestburg	-	-	-	1	0.25
Hilda Gas Unit	-	-	4	-	0.05
Kessler-Provost	1	-	3	-	1.50
Matziwin	-	-	6	-	0.35
Princess	-	-	20	-	0.05
Ranfurly	-	-	2	3	0.17
Rosalind	-	-	2	-	1.85
Warwick	-	-	2	-	0.40
Werner	-	-	1	-	0.06
Whitecourt	-	-	-	1	1.00
Willesden Green	-	1	-	-	0.08
Total of 54 wells:	4	2	42	6	9.89

In 1981, the Company continued to maximize its cash flow by development drilling, participating directly in 54 wells, which resulted in 42 gas wells and 6 oil wells; a success ratio of 89%. Even with the current industry slowdown, the Company managed to have 20 wells drilled by others on Company lands, which resulted in 10 gas wells and 2 oil wells, a success ratio of 60%. As a result of its successful public financing in 1981, the Company has been able to escalate its drilling program, and has participated in 7.7 net wells in the first quarter of 1982 compared to 9.9 net wells in all of 1981.

Of major significance to the Company is the introduction of the New Oil Reference Price (NORP) program, granting essentially world price to oil pools or extensions of existing oil pools discovered on or after January 1, 1981, and to production from an oil pool three or more years after prior production ceased. Four of the 1981 oil wells and five of the first quarter 1982 wells will soon be producing NORP oil. After royalties and operating costs, the Company anticipates a return of approximately $30.00 per barrel, compared to approximately $12.00 per barrel based on old oil prices. The Company's return per barrel is greater than the industry average for two reasons. Firstly, the production rate from these wells is not high enough to pay the maximum provincial royalty, and secondly, the Company is able to take full advantage of the new 50% credit on provincial royalties.



Deer Mountain

The introduction of the NORP will have a very positive impact on the economics of the Company's continuing development in Deer Mountain. The increase in before-tax revenue to $30.00 per barrel will dramatically reduce the payout, improve the rate of return, and make a significant contribution to an improved 1982 cash flow.

Two successful NORP oil wells were drilled in 1981 and are producing a total of 120 barrels of oil per day (BOPD). The Company has drilled four wells in the first quarter of 1982 which are currently being completed. Three of these wells will qualify for NORP.

At the end of this winter's drilling program the Company estimates its share of production from 15 wells in Deer Mountain could average 380 BOPD including 245 BOPD from six NORP wells.

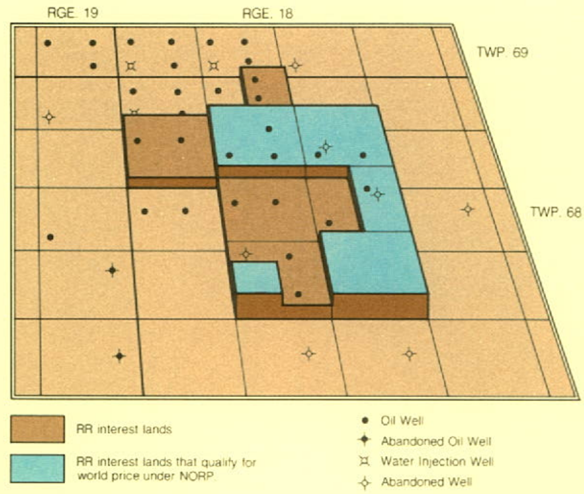
The Company intends to drill four wells in the next winter season and implement a water flood recovery project. The majority of the probable oil reserves of the Company have been assigned to the infill locations and the incremental recovery associated with the waterflood.

Whitecourt

The well at Whitecourt, which has been shut-in waiting on the construction of a pipeline across the Athabasca River, is also expected to qualify for the world price under the NORP program.

The pipeline, to conserve the gas produced with the oil, has been completed and work has started on the design of the required processing equipment with production slated to resume in the fourth quarter of 1982. Although the offset well was dry and abandoned, the economics of the project are very attractive.

Deer Mountain



Rosalind

Development drilling at Rosalind continued to be successful with two more gas wells drilled and completed in 1982. Both wells increased the Company's proven reserves in the area and will allow for longer maximum utilization of the expanded facilities installed in 1980.

Two additional wells are planned for early in 1982, one to hold expiring acreage, and the other to evaluate several horizons being produced in the adjacent wells which are deeper than the main producing formation.

Kessler-Provost

The Company has continued to develop gas reserves in this area and drilled four successful wells in 1981. One of these wells is tied-in and producing, and two are still shut-in, but will be commencing production this summer with sales to an industrial contract.

The fourth well discovered a small oil reservoir below the gas reservoir and is currently producing 16 barrels of NORP oil per day.

OPERATIONS - ONSHORE (CONTINUED)

Other Projects

During 1982 six additional wells will be placed on production through gas gathering systems which are currently being constructed, adding approximately 2 million cubic feet per day (MMCFD) to the Company's net production.

A majority of the Company's shut-in gas reserves have been contracted to KannGaz Producers Ltd. with production anticipated to begin in November 1983.

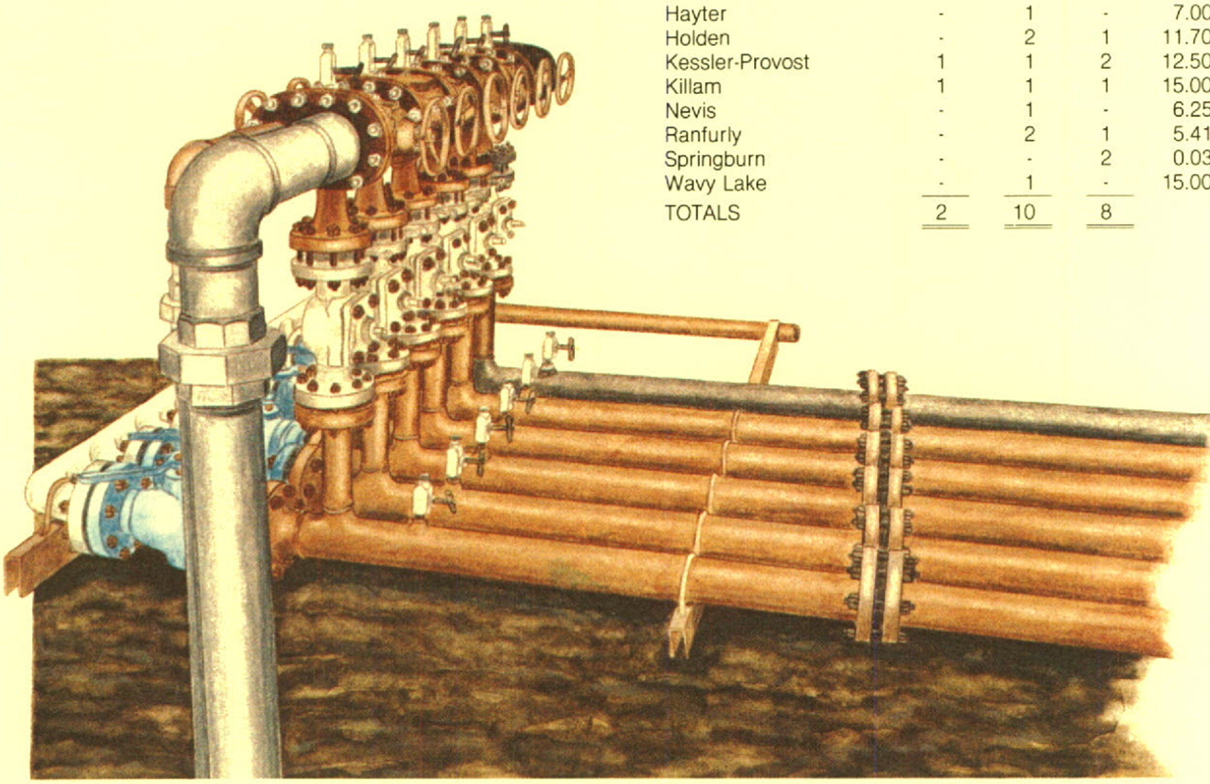
FARMOUTS

Other operators drilled 20 wells on Company lands in 1981 resulting in 2 oil wells, and 10 gas wells, a success ratio of 60%.

One of the oil wells drilled in the Kessler area qualifies under the NORP program and is currently producing at 16 BOPD. An offset well, which also qualifies for NORP, has recently been drilled with the Company a 50% participant. Initial indications are that it will produce at a similar rate.

Most of these gas wells have not been placed on production, which was a major factor in the decision to farm-out these prospects. Thus, although they do not contribute to immediate cash flow, they improve the Company's reserve position and asset base.

1981 Drilling Summary	Oil Wells	Gas Wells	Dry Wells	Royalty Interest
Forestburg	-	-	1	15.00%
Galahad	-	1	-	12.50%
Hayter	-	1	-	7.00%
Holden	-	2	1	11.70%
Kessler-Provost	1	1	2	12.50%
Killam	1	1	1	15.00%
Nevis	-	1	-	6.25%
Ranfurly	-	2	1	5.41%
Springburn	-	-	2	0.03%
Wavy Lake	-	1	-	15.00%
TOTALS	2	10	8	



PRODUCTION, RESERVES & LAND HOLDINGS AT YEAR END

	1981	1980	1979	1978	1977
Land holdings:					
Onshore					
Gross hectares	**256,575**	244,606	239,054	248,259	329,888
Net hectares	**83,617**	71,603	49,295	68,796	83,886
Offshore					
Gross hectares	**8,913,439**	-	-	-	-
Net hectares	**1,069,613**	-	-	-	-
Reserves:					
Proven Oil, m^3	**335,977**	207,831	141,869	138,896	151,593
Probable Oil, m^3	**357,320**	265,101	158,763	211,509	180,271
Total, m^3	**693,297**	472,932	300,632	350,405	331,864
Proven Gas, 10^3 m^3	**1,454,989**	897,891	673,235	917,948	715,518
Probable Gas, 10^3 m^3	**205,631**	99,637	101,834	165,611	134,906
Total, 10^3 m^3	**1,660,620**	997,528	775,069	1,083,559	850,424
Present value of reserves, at 20% DCF:					
Proven, M$	**73,255**	34,058	25,934	20,448	19,199
Probable, M$	**12,910**	3,178	2,844	2,676	2,630
Total, M$	**86,165**	37,236	28,778	23,124	21,829
Undeveloped Land Value:					
Onshore, M$	**5,450**	5,301	3,248	2,526	2,086
Offshore, M$ (at cost)	**49,379**	-	-	-	-
Production:					
Oil, m^3/day	**88.5**	67.7	55.8	55.1	68.6
Gas, 10^3 m^3/day	**254.4**	166.1	154.2	191.4	214.4

Conversion Equivalents

1 Acre	=	.4 Hectares
1 Barrel	=	.159 Cubic Metres
1 Mcf	=	.02817 10^3 m^3

Independent engineering consultants have estimated the reserves and the future net cash flow of the Company effective December 31, 1981, after deduction of all royalties and interests owned by others, operating expenses, anticipated capital expenditures, Petroleum and Gas Revenue Tax, and the recently introduced Incremental Oil Revenue Tax, but before the deduction of income taxes.

An increase in the Company's net working interest land of 16.8% to 209,043 acres has occurred largely due to the acquisition of REL. This includes undeveloped net acreage of 149,763 acres which is being evaluated for drilling prospects as part of the current Development Drilling Program. The fair market value of these lands at December 31, 1982 is determined by independent engineers to be $5.45 million.

OPERATIONS - OFFSHORE

Ranchmen's presently holds working interests in 22,283,597 gross acres (approximately 2,674,032 net acres) under federal exploratory permits, of which 18,468,728 gross acres (approximately 2,216,380 net acres) are also held under exploratory permits granted by the Province of Newfoundland. The permits parallel the Labrador coast for 600 miles.

Ranchmen's interest in the Labrador Sea permits is held through its participation in a joint venture (the "Labrador Group") in which Ranchmen's has approximately a 12% working interest. The other participants in the Labrador Group are Gulf Canada Resources Inc., Petro-Canada Exploration Inc., Canterra Energy Ltd., AGIP Canada Ltd., Suncor Inc., Amerada Minerals Corporation of Canada Ltd., and Total Petroleum (North America) Ltd.

Of major significance to the Company is the assurance by the Federal Minister of Energy, Mines, and Resources that the work program, land tenure, and acreage relinquishment which has been negotiated will be satisfactory, and that if a satisfactory Canada benefits package can be negotiated by early September, new Exploration Agreements will be granted under the provisions of Bill C-48. Land tenure has been restored to the level which Ranchmen's acquired from Total Eastcan Exploration Ltd. as a result of these negotiations.

It is expected that 10 Exploration Agreements will be granted covering a total of about 22.28 million acres with a 5 year term until February 28, 1987. The work program will include the drilling of one exploration well on each of the Exploration Agreements, and completing 6,400 km of seismic on the lands during the term of the Exploration Agreements. In December, 1984, after three additional drilling seasons to further evaluate the lands, the holdings will be reduced to approximately 11.14 million acres, through a series of acreage selections with the Federal government. The Group will be able to retain acreage surrounding discoveries and planned drilling locations.

1981 Results

The Labrador Group conducted a 3200 km seismic program, continued its environmental program and worked on five wells with three drillships.

The North Leif I-05, approximately 140 km from land, was drilled to 3512 m and evaluated by the drillship Pelerin. Testing over a 9 m interval at 3100 m, yielded 22.8 barrels of 33.1° API oil in a four hour test. This is the first oil recovery off the Labrador coast. Other structures in the area are being evaluated for further drilling.

The Bjarni O-82 well, approximately 90 km from land, was drilled to 2650 m in 1979. Last summer the well was re-entered and tested by the drillship Ben Ocean Lancer. Net pay of 67 m, having an average porosity of 18.7%, was tested through two intervals, 2314 m - 2342 m and 2291 m - 2296 m. The well flowed at rates up to 20 million cubic feet per day (MMCFD) of gas and condensate at 775 BPD.

The Ben Ocean Lancer then moved 8 km and re-entered North Bjarni F-06, which had been drilled to 423 m in 1980. The well was drilled to 2812 m and is an indicated new gas discovery with net pay of 177 m and average porosity of 17%.

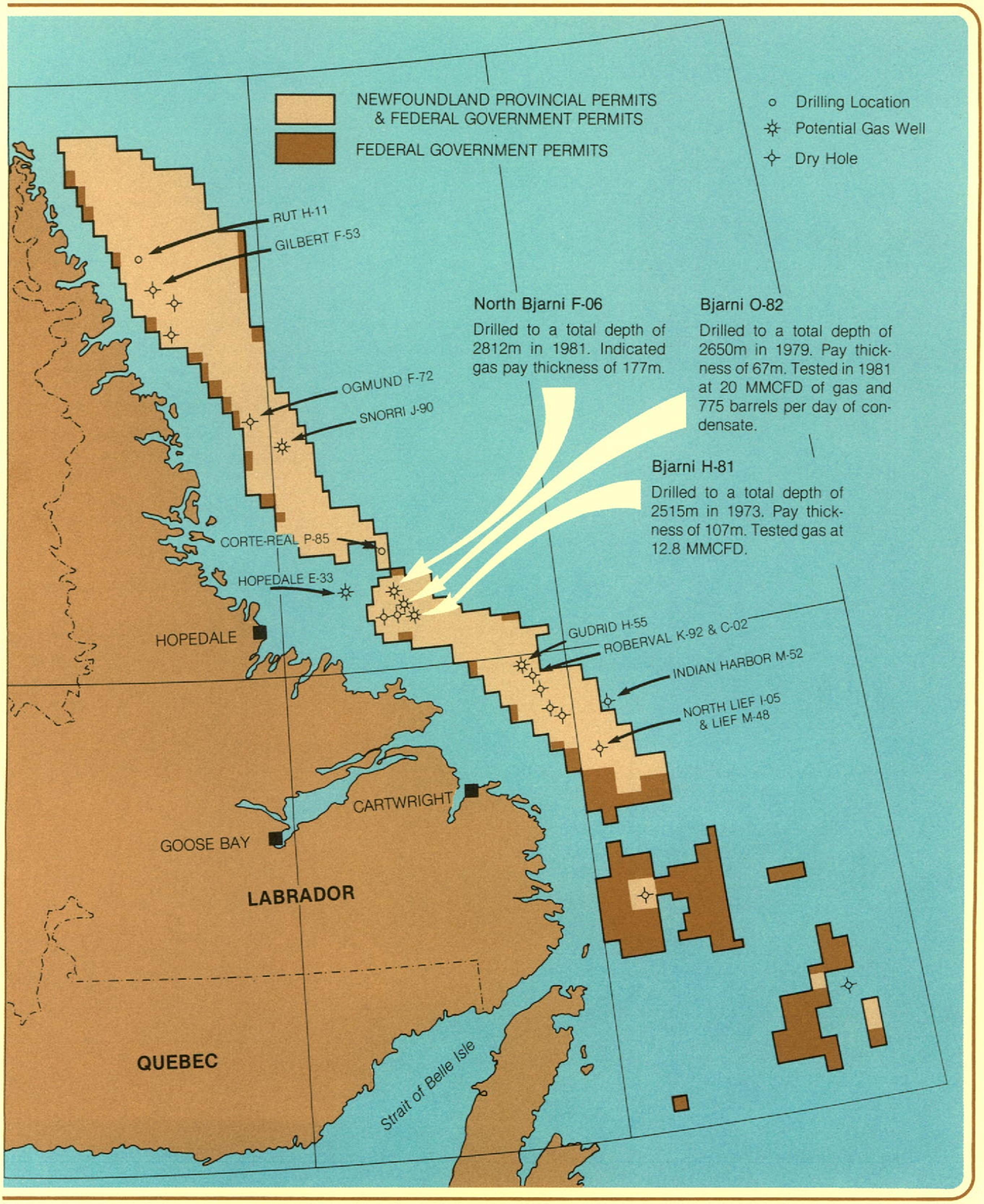
The drillship Pacnorse I started and suspended two wells in the summer of 1981. Rut H-11 was drilled to 3527 m and Corte-Real P-85 was drilled to 770 m. The Corte-Real location is approximately 150 km from land with a water depth of 450 m.

Planned 1982 Activity

The North Bjarni F-06 well will be re-entered and evaluated.

Both the Rut H-11 and Corte-Real P-85 wells will be re-entered and drilled to total depths of 5262 m and 5300 m, respectively.

Drilling may be started on a new location which is as yet unnamed.


NEWFOUNDLAND PROVINCIAL PERMITS & FEDERAL GOVERNMENT PERMITS
FEDERAL GOVERNMENT PERMITS
Drilling Location
Potential Gas Well
Dry Hole
RUT H-11
GILBERT F-53
OGMUND F-72
SNORRI J-90
CORTE-REAL P-85
HOPEDALE E-33
HOPEDALE
GUDRID H-55
ROBERVAL K-92 & C-02
INDIAN HARBOR M-52
NORTH LIEF I-05 & LIEF M-48
CARTWRIGHT
GOOSE BAY
LABRADOR
QUEBEC
Strait of Belle Isle
North Bjarni F-06
Drilled to a total depth of 2812m in 1981. Indicated gas pay thickness of 177m.
Bjarni O-82
Drilled to a total depth of 2650m in 1979. Pay thickness of 67m. Tested in 1981 at 20 MMCFD of gas and 775 barrels per day of condensate.
Bjarni H-81
Drilled to a total depth of 2515m in 1973. Pay thickness of 107m. Tested gas at 12.8 MMCFD.

FINANCIAL

E.K. Kaita
Vice President
and Controller

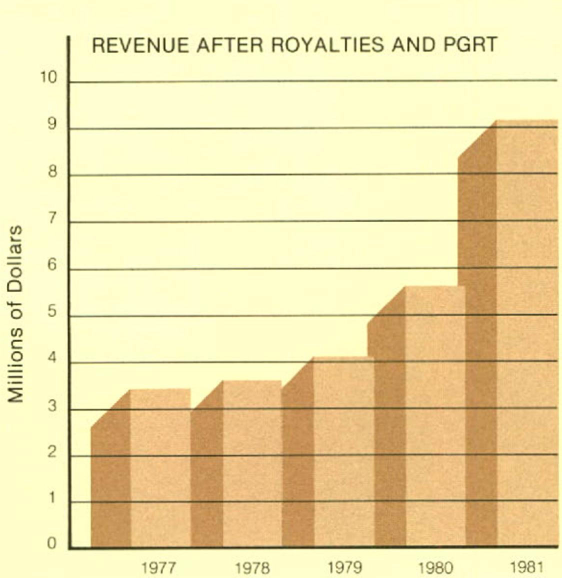
The dramatic increase in total assets in 1981 was largely attributable to the acquisition of an approximate 12% interest on the Labrador Shelf for $47 million and this year's exploration program on these lands, of which your Company's share was approximately $11.5 million before Petroleum Incentive Payments ("PIP") and $2.3 million after "PIP".

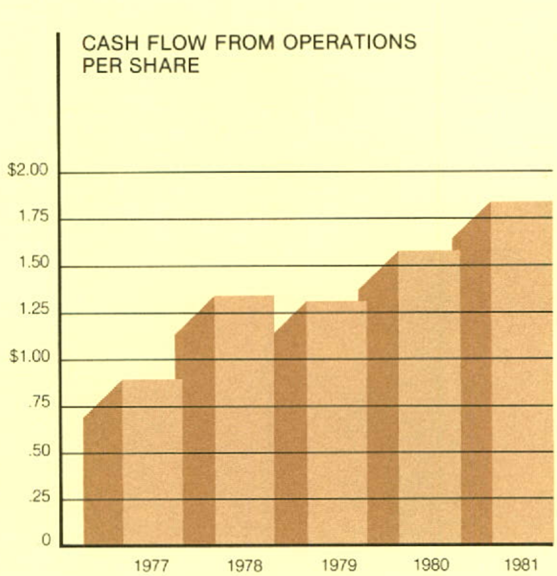
During the year the Company also acquired all of the shares of Ranchmen's Exploration Limited and 123079 Oil & Gas Limited as well as the General Partnership Interest of Canadian Oil & Gas Fund (1975) and approximately 78% of the Limited Partnership Interests of Canadian Oil & Gas Fund (1975).

Revenue and cash flow from operations have increased because of acquisitions, more properties coming on-stream and increases in the price of oil and gas. On the other hand, the new Petroleum Gas Revenue Tax has reduced our earnings in 1981 by $638,653.

Although the 1981 interest expense is higher than 1980 our debt position still remains very attractive. During the year we issued $43.7 million 1% 20-year convertible debentures and repaid $2 million on our income debentures which have a maximum interest rate of 7.5%.

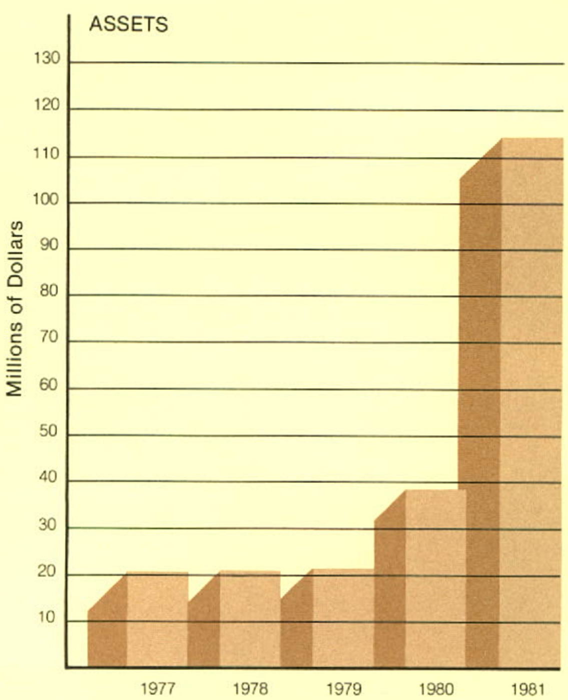
We have continued to spend more than our cash flow from operations on capital expenditures. Our 1981 capital expenditures are shown net of accrued Federal and Provincial "PIP".

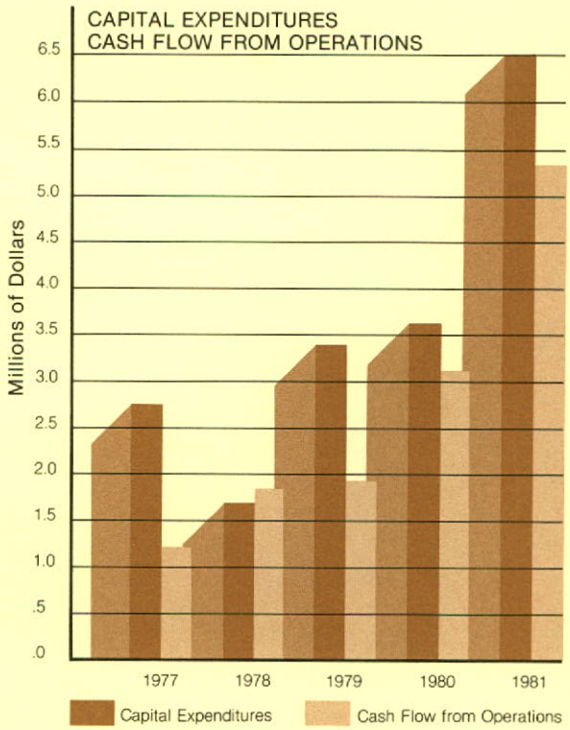




Selected Balance Sheet Data
(as at December 31st):

	1981	1980	1979	1978	1977
Current assets	$ 17,429,571	6,878,877	3,174,217	2,244,951	1,641,176
Current liabilities	8,770,591	4,310,692	2,163,011	2,993,903	2,525,022
Working capital (deficiency)	8,658,980	2,568,185	1,011,206	(748,952)	(883,846)
Total assets	117,071,440	39,959,428	21,614,970	21,360,348	20,354,207
Long-term debt —					
Bank borrowings	-	-	-	1,314,394	1,622,810
Income debenture (max. 7½%)	6,000,000	8,000,000	10,000,000	10,000,000	10,000,000
1% convertible debentures	43,713,750	-	-	-	-
Common shares outstanding	3,415,980	2,769,138	1,443,762	1,367,934	1,367,934
Convertible Preferred shares outstanding	825,228	-	-	14,500	14,500





FINANCIAL (CONTINUED)

Selected Financial Data

	1981	1980	1979	1978	1977
Revenues:					
Sales of natural gas & crude oil	$11,909,395	7,200,318	5,062,013	5,422,363	5,052,416
Royalties and PGRT	3,940,677	2,044,903	1,520,090	1,721,151	1,565,752
Production revenue	7,968,718	5,155,415	3,541,923	3,701,212	3,486,664
Other	1,121,753	372,275	474,189	42,850	161,132
	9,090,471	5,527,690	4,016,112	3,744,062	3,647,796
Expenses:					
Operating	1,728,354	1,028,158	643,413	805,113	680,041
General & administrative	1,717,060	904,322	603,920	567,873	665,741
Interest	979,715	753,958	948,540	905,440	1,356,039
Depletion, depreciation & amortization	3,148,742	1,766,266	1,216,197	1,218,197	1,324,741
	7,573,871	4,452,704	3,412,070	3,496,623	4,026,562
Income (loss) before income taxes	1,516,600	1,074,986	604,042	247,439	(378,766)
Income taxes:					
Current	(818,717)	(391,970)	(23,669)	(295,000)	(258,190)
Deferred	1,800,000	1,050,000	1,130,000	516,000	172,000
Minority interest	72,939	7,030	-	-	-
Other items	116,418	-	(1,135,707)	-	-
Net earnings (loss)	$ 345,960	409,926	633,418	26,439	(292,576)
Earnings (loss) per share — basic	$ (.15)	.20	.46	.02	(.22)
— fully diluted	$ (.15)	$ .15	.38	.02	(.22)
Cash flow from operations	$ 5,484,059	3,226,192	1,843,908	1,760,636	1,204,165
Per share	$ 1.78	1.58	1.28	1.29	.88
Capital expenditures	$ 6,589,947	3,630,992	3,404,231	1,621,030	2,730,607

AUDITORS' REPORT

Calgary, Canada
March 16, 1982

To the Shareholders of
Ranchmen's Resources (1976) Ltd.:

We have examined the consolidated balance sheet of Ranchmen's Resources (1976) Ltd. as at December 31, 1981 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 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.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Balance Sheet

December 31, 1981
(with comparative figures for 1980)

Assets	1981	1980
Current assets:		
Cash and short-term deposits	$ 3,908,255	1,899,019
Accounts receivable	3,804,316	3,145,410
Accrued Federal Petroleum Incentive grants	9,717,000	-
Term deposit	-	1,834,448
Total current assets	17,429,571	6,878,877
Non-current investments and receivables:		
Mortgages receivable, net of current portion	198,908	198,460
Real estate held for resale, at cost less amounts written off	-	198,416
Investment in Ranchmen's Exploration Ltd., at equity	-	365,194
Investment in Canadian Oil & Gas Fund Ltd., at cost	400,000	400,000
	598,908	1,162,070
Property and equipment, at cost less depreciation and depletion:		
Oil and gas properties	48,936,762	32,283,497
Production equipment	7,470,646	4,709,249
Leasehold improvements and office equipment	376,382	94,601
	56,783,790	37,087,347
Less accumulated depreciation and depletion	8,398,919	5,430,424
	48,384,871	31,656,923
Deferred offshore exploration expense	49,379,184	-
	97,764,055	31,656,923
Other assets:		
Unamortized financing costs	1,222,147	213,486
Sundry, at cost	56,759	48,072
	1,278,906	261,558
	$117,071,440	39,959,428

On behalf of the Board:

Director

Director

See accompanying notes.

Liabilities and Shareholders' Equity	1981	1980
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,770,591	2,310,692
Current portion of long-term debt (Note 3)	2,000,000	2,000,000
Total current liabilities	8,770,591	4,310,692
Long-term debt (Note 3)	49,713,750	8,000,000
Prepayment for future gas production	2,614,238	1,407,637
Deferred income taxes	4,755,074	2,955,074
Minority interests	1,107,944	559,888
Shareholders' equity:		
Share capital (Note 4):		
Preferred shares with a nominal or par value of $25 per share Issued: 825,228 (1980 - Nil)	20,630,700	-
Common shares without nominal or par value		
Issued: 3,302,966 (1980 - 2,656,124) Class "A"	28,792,763	21,514,689
63,014 (1980 - 113,014) Class "C"	285,646	512,298
50,000 (1980 - Nil) Class "D"	226,652	-
	49,935,761	22,026,987
Contributed surplus	1,737,590	1,737,590
Deficit	(1,563,508)	(1,038,440)
	50,109,843	22,726,137
	$117,071,440	39,959,428

Commitment (Note 7)

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981
(with comparative figures for 1980)

	1981	1980
Sources of funds:		
Operations		
Net earnings	$ 345,960	409,926
Add items not requiring working capital:		
Loss on sale of real estate held for resale	116,418	-
Depreciation	409,000	201,000
Depletion	2,631,000	1,504,000
Amortization of financing costs	108,742	61,266
Deferred income taxes	1,800,000	1,050,000
Minority interest	72,939	-
Working capital provided from operations	5,484,059	3,226,192
Term deposit becoming current	-	1,621,004
Prepayment for future gas production	489,937	727,686
Proceeds on issue of shares	27,908,774	15,319,203
Proceeds on sale of real estate	81,998	-
Proceeds on sale of oil and gas properties	185,462	-
Proceeds on issue of 1% Debentures	43,713,750	-
	77,863,980	20,894,085
Use of funds:		
Reduction of long-term debt	2,000,000	2,000,000
Deferred offshore exploration expense net of Petroleum Incentive grants of $9,200,000	49,379,184	-
Additions of property and equipment net of Petroleum Incentive grants, (1981 - $517,000, 1980 - Nil)	4,210,763	3,630,992
Leasehold improvements and office equipment	281,781	-
Acquisition of wholly-owned subsidiaries and partnership interests less working capital (deficiency) of (1981 - ($4,185,745), 1980 - $2,097,659)	13,794,227	13,286,424
Dividends paid on preferred shares	871,028	-
Distributions to minority interests	113,320	38,896
Investment in Canadian Oil & Gas Fund Ltd.	-	400,000
Other (including deferred financing expenses 1981 - $1,113,746, 1980 - Nil)	1,122,882	(19,206)
	71,773,185	19,337,106
Increase in working capital	6,090,795	1,556,979
Working capital, beginning of year	2,568,185	1,011,206
Working capital, end of year	$ 8,658,980	2,568,185

See accompanying notes.

Consolidated Statement of Earnings and Deficit

RANCHMEN'S RESOURCES (1976) LTD.

Year ended December 31, 1981
(with comparative figures for 1980)

	1981	1980
Revenues:		
Sales of natural gas and crude oil	$11,909,395	7,200,318
Less royalties and petroleum and gas revenue tax (1981 - $638,653 - 1980 - Nil)	3,940,677	2,044,903
Production revenue	7,968,718	5,155,415
Other	1,121,753	372,275
	9,090,471	5,527,690
Expenses:		
Operating	1,728,354	1,028,158
General and administrative	1,717,060	904,322
Depreciation	409,000	201,000
Depletion	2,631,000	1,504,000
Interest on long-term debt — including amortization of financing costs	1,088,457	815,224
	7,573,871	4,452,704
Earnings before the following	1,516,600	1,074,986
Loss on sale of real estate held for resale	116,418	-
Minority interest	72,939	7,030
Earnings before income taxes	1,327,243	1,067,956
Income taxes (Note 5):		
Current, Net of Alberta Royalty Tax Credit	(818,717)	(391,970)
Deferred	1,800,000	1,050,000
	981,283	658,030
Net earnings	345,960	409,926
Deficit, beginning of year	1,038,440	1,448,366
Dividends paid on Preferred Shares	871,028	-
Deficit, end of year	$ 1,563,508	1,038,440
Earnings (loss) per share	$ (.15)	.20
Fully diluted earnings (loss) per share	$ (.15)	.15

See accompanying notes.

NOTES to Consolidated Financial Statements

December 31, 1981

Ranchmen's Resources (1976) Ltd. is incorporated under the Companies Act, Alberta and explores for and develops oil and gas reserves.

1. Significant Accounting Policies:

a) Principles of Consolidation:

The consolidated financial statements include the accounts of the Company; its subsidiaries; Ranchmen's Exploration & Development Partnership (1976), a limited partnership which is approximately 94% owned; Ranchmen's Exploration & Development Partnership (1977), a limited partnership which is approximately 96% owned and Canadian Oil & Gas Fund (1975), a limited partnership which is approximately 78% owned.

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 administrative 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.

A separate cost centre has been established for the off-shore Labrador Shelf. Depletion will be calculated on this cost centre when reserves are proven and production has commenced. If exploration proves to be unsuccessful and the cost centre is abandoned, the cost centre will be charged to earnings at that time.

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 to ten year period.

e) Earnings Per Share:

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year. The calculation of earnings per common share on a fully diluted basis assumes the conversion of all securities and exercise of all stock options which would have a dilutive effect on earnings per share.

f) Comparative Figures:

Certain comparative figures have been reclassified to conform with the current year's presentation.

2. Acquisitions:

On May 19, 1981 the Company acquired all of the outstanding shares of 123079 Oil & Gas Ltd., which holds working interests in lands common to the Company. Consideration consisted of 84,822 Class "A" Common, Non-Voting Shares.

On July 17, 1981 the Company acquired approximately 78% of the outstanding limited partnership interests of Canadian Oil & Gas Fund (1975) and the general partnership interest of Canadian Oil & Gas Fund (1975). Consideration consisted of 204,840 and 20,388 $2.45 Cumulative Redeemable Convertible First Preferred Shares, Series A ("Preferred Shares") respectively, and included 68,400 Preferred Shares paid to a senior officer and directors in exchange for their partnership interests. On July 17, 1981 the Company issued 286,120 Class "A" Common, Non-Voting Shares in exchange for 286,120 Class "A" Common Shares of Ranchmen's Exploration Ltd. pursuant to a share exchange agreement. After the exchange Ranchmen's Exploration Ltd. became a wholly-owned subsidiary of the Company.

These acquisitions have been accounted for as purchases and their operations have been consolidated from the dates the acquisitions were made. The excess of the cost to acquire these businesses over their net book value has been allocated to oil and gas properties and is being depleted on the composite unit of production method.

Business Acquisition Table:

	Canadian Oil & Gas Fund (1975)	Ranchmen's Exploration Ltd.	123079 Oil & Gas Ltd.	Total
Net assets acquired:				
Book value of assets . . .	$3,215,432	7,646,709	394,985	11,257,126
Book value of liabilities . .	525,175	4,877,499	180,149	5,582,823
	$2,690,257	2,769,210	214,836	5,674,303
Minority interest	(588,437)	-	-	(588,437)
Previous equity investment	-	(365,194)	-	(365,194)
Adjustment of assets to fair value	3,585,187	457,184	845,439	4,887,810
	$5,687,007	2,861,200	1,060,275	9,608,482
Consideration given:				
Shares (Note 4)	$5,630,700	2,861,200	1,060,275	9,552,175
Agency fees				56,307
				$ 9,608,482

3. Long-Term Debt:

	1981	1980
Floating Rate Secured Serial Income Debentures	$ 6,000,000	8,000,000
1% Convertible Debentures	43,713,750	-
	$49,713,750	8,000,000

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 were issued in series of $2,000,000 principal amount each, maturing on each December 22, of 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 with accrued interest to the date of redemption.

During the year the Company issued a one percent (1%), 20 year, unsecured Convertible Debenture for $43,713,750 to Total Eastcan Exploration Ltd. Total Eastcan Exploration Ltd. shall from time to time convert the 1% Convertible Debentures into that number of Class "A" Shares which will be as nearly as possible equal to but not greater than the maximum number of shares that would result in the Company maintaining the minimum fixed Canadian Ownership Rate entitling the Company to the maximum Petroleum Incentive Payments. The conversion price shall be equal to $12.50 per share subject to adjustment made pursuant to anti-dilution provisions.

4. Share Capital:

The Company reorganized and increased its authorized share capital to consist of:

(A) 8,000,000 First Preferred Shares with a nominal or par value of $25 per share;
(B) 15,700,000 Class "A" Common, Non-Voting Shares, without nominal or par value;
(C) 50,000,000 Class "B" Common, Non-Voting Shares, without nominal or par value;
(D) 250,000 Class "C" Common, Voting Shares, without nominal or par value; and
(E) 50,000 Class "D" Common, Voting Shares, without nominal or par value.

During the year the following shares were issued:

	1981		1980	
	Shares	Amount	Shares	Amount
Class "A" Common, Non-Voting:				
Acquisition of partnership interests	-	$ -	1,139,174	13,941,553
Acquisition of wholly-owned subsidiaries	370,942	3,921,475	84,822	1,060,275
Exchange of 40,000 10% Series "A" Preferred Shares of Canadian Oil & Gas Fund Ltd.	-	-	85,328	384,014
Pursuant to officers' and employee options	13,000	70,350	12,500	64,375
Issue to Total Eastcan Exploration Ltd.	262,900	3,286,250	-	-
	646,842	$7,278,075	1,321,824	15,450,217

	1981 Shares	1981 Amount	1980 Shares	1980 Amount
Class "C" Common, Voting:				
Reorganization of share capital	(50,000)	$ (226,652)	-	-
Exchange of 40,000 10% Series "A" Preferred Shares of Canadian Oil & Gas Fund Ltd.	-	-	3,552	15,986
	(50,000)	$ (226,652)	3,552	15,986
Class "D" Common, Voting:				
Reorganization of share capital	50,000	$ 226,652	-	-
$2.45 Cumulative Redeemable Convertible First Preferred Shares, Series A;				
Acquisitions of partnership interests	225,228	$ 5,630,700	-	-
Pursuant to underwriting agreement	600,000	15,000,000	-	-
	825,228	$20,630,700	-	-

The Series A Preferred Shares are redeemable as follows:

August 1, 1983 to July 31, 1986	$27.45
August 1, 1986 to July 31, 1987	27.00
August 1, 1987 to July 31, 1988	26.50
August 1, 1988 to July 31, 1989	26.00
August 1, 1989 to July 31, 1990	25.50

and thereafter at the par value of $25.00.

The Series A Preferred Shares are convertible at the option of the holder into Class "B" Common, Non-Voting Shares on the following basis:

(i) from July 27, 1981 to July 31, 1986 into 2.703 Class "B" Common, Non-Voting Shares; and

(ii) from August 1, 1986 to July 31, 1991 into 2.439 Class "B" Common, Non-Voting Shares.

Under certain conditions relating to residence or citizenship of individuals, or control of corporations of the subscriber, holder or transferee, the Company may refuse any subscription, or to register or recognize any transfer or transferee of the First Preferred Shares or Class "B" Common, Non-Voting Shares and further, may sell or cause to be sold on behalf of the holder, or may redeem any such shares.

Share Option Agreements:

The following table summarizes transactions during the year under the employee stock option plan, which relates to the Class "A" Common, Non-Voting Shares:

	1981	1980
Outstanding, beginning of year	28,000	37,500
Granted	67,475	4,000
	95,475	41,500
Exercised	13,000	12,500
	82,475	29,000
Cancelled	2,775	1,000
Outstanding, end of year	79,700	28,000

As at December 31, 1981 options to purchase 10,000 Shares (1980-24,000) exerciseable as to all (1980-one half) of the options annually to December 31, 1982 at a price of $5.15 and options to purchase 3,000 shares (1980-4,000) exerciseable as to one third (1980-one quarter) of the options annually to June 30, 1984 at a price of $8.55 and options to purchase 66,700 shares (1980-nil) exerciseable as to one third (1980-nil) of the options annually to December 31, 1984 at a price of $4.14 were outstanding.

The Company has reserved an additional 74,525 Class "A" Common, Non-Voting shares for the employee stock option plan.

The Company has reserved 50,000 Class "A" Common, Non-Voting Shares pursuant to a share purchase warrant indenture whereby the holder thereof may purchase up to 50,000 Class "A" Common, Non-Voting Shares at any time up to the close of business on December 31, 1984 at a price of $3.25 per share.

5. Income Taxes:

Total income taxes amounted to $981,283 (1980-$658,030) which is greater than the amount of $648,000 (1980-$521,000) computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1981	1980
Computed "expected" tax expense	$648,000	521,000
Increase (decrease) in taxes resulting from:		
Payments to the Crown, net of provincial rebates and credits	606,000	315,000
Resource allowance	(826,000)	(583,000)
Allowance for earned depletion	(480,000)	(298,000)
Interest on income debentures	363,000	366,000
Depletion on non-tax base assets	726,000	358,000
Investment tax credit	(59,000)	-
Other — net	3,283	(20,970)
	$981,283	658,030

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 year ended December 31, 1981 was approximately $380,000 (1980 — approximately $400,000).

7. Commitment:

The Company has entered into a 25 year management agreement with its parent, Canadian Oil & Gas Fund Ltd., wherein the Company will pay its share of administrative costs. In addition the Company will pay a fee of 5% of the cost of the property acquired and of shares of corporations acquired on behalf of the Company. During 1981 a fee of $55,000 (1980 — $57,181) was incurred. The 5% fee on the acquisitions of the partnership interests and Ranchmen's Exploration Ltd. was waived.

RANCHMEN'S RESOURCES (1976) LTD.

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