

upl '77

ANNUAL REPORT

ULSTER PETROLEUMS LTD.



ULSTER PETROLEUMS LTD.

Corporate

DIRECTORS:

Mr. A. Bryce Cameron, Sorrento, B.C.
Dr. A. Cree — West Sedona, Arizona, U.S.A.
Mr. B. A. Macdonald — Calgary, Alberta
Mr. D. C. Traxel — Calgary, Alberta
Mr. R. A. Hayes — Calgary, Alberta

OFFICERS:

Mr. A. Bryce Cameron — President
Mr. D. C. Traxel — Vice-President & Secretary-Treasurer
Mr. R. A. Hayes — General Manager & Assistant Secretary

HEAD OFFICE:

#565, 808 - 4th Avenue S.W., Calgary, Alberta T2P 0K4 Canada; Phone: 269-6911 (403)

LEGAL COUNSEL:

Harradence & Company
8th Flr., 205 - 5th Ave. S.W.
Calgary, Alberta

AUDITORS:

Peat, Marwick, Mitchell & Co.
2600, 500 - 4th Avenue S.W.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT:

Canada Trust Company
239 - 8th Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTINGS:

Toronto Stock Exchange
Vancouver Stock Exchange
Share Symbol: ULP



ULSTER PETROLEUMS LTD.

1977 Highlights

	December 31	
	1977	1976
FINANCIAL		
Working Capital Provided From Operations	\$ 465,000	\$ 144,000
Per Share	09¢	03¢
Net Earnings (Loss)	\$ 182,000	\$ (187,000)
Per Share	04¢	(04¢)
Oil and Gas Sales, Less Royalties	\$1,079,000	\$ 1,051,000
Working Capital (Deficiency)	\$ 99,000	\$ (245,000)
Shares Outstanding	5,354,675	5,354,675

	December 31, 1977	
	Net Acres	Gross Acres
SUMMARY OF LAND HOLDINGS		
CANADA:		
Western Canada	45,004	118,187
Northern Canada	324,438	856,299
FOREIGN:		
North Sea	332	37,955
TOTAL	<u>369,774</u>	<u>1,012,441</u>

	December 31, 1977	
	Net (1)	Gross (2)
SUMMARY OF RESERVES		
Crude Oil		
Proven and Probable (barrels)	<u>43,000</u>	<u>55,000</u>
Natural Gas (3)		
Proven and Probable (million cubic feet)	<u>8,600</u>	<u>18,000</u>

(1) After royalties and mineral taxes.

(2) Before royalty deductions

(3) Excluding shut-in reserves.



Report to The Shareholders

The past year marked a critical turning point in the history of Ulster Petroleums Ltd. — 1977 was a year in which:

- A new and aggressive management team was assembled to chart the Company's future.
- The Company reported its first net profit and a record cash flow from operations.
- The foundation was laid for a substantial exploration and development program for 1978.

Individually, any one of these steps can be considered a significant achievement. Collectively, however, they mark an exceptional year for your Company.

Effective July 31st, 1977, the Board of Directors terminated the Company's management arrangement with Acroll Oil & Gas Ltd. and recruited a separate management group of our own. We are pleased to report that the new management has achieved most of our short-term goals and made considerable progress towards our long-term objectives. The Board of Directors intends to augment this team with additional people of equal calibre, particularly in the area of exploration personnel in the near future.

In 1977, a year of corporate reorganization and consolidation, it is gratifying to be able to report that new plateaus were achieved in all significant financial areas. More importantly, however, these results have created a sound financial and operational base which will allow your Company to actively and aggressively participate in the record levels of industry exploration and development activity now occurring in Canada and the United States.

During 1977, the Board of Directors received the resignation of Gerald N. Ross from the Board. Mr. R. A. Hayes, a senior member of Ulster's management team, has agreed to fill this Board position.

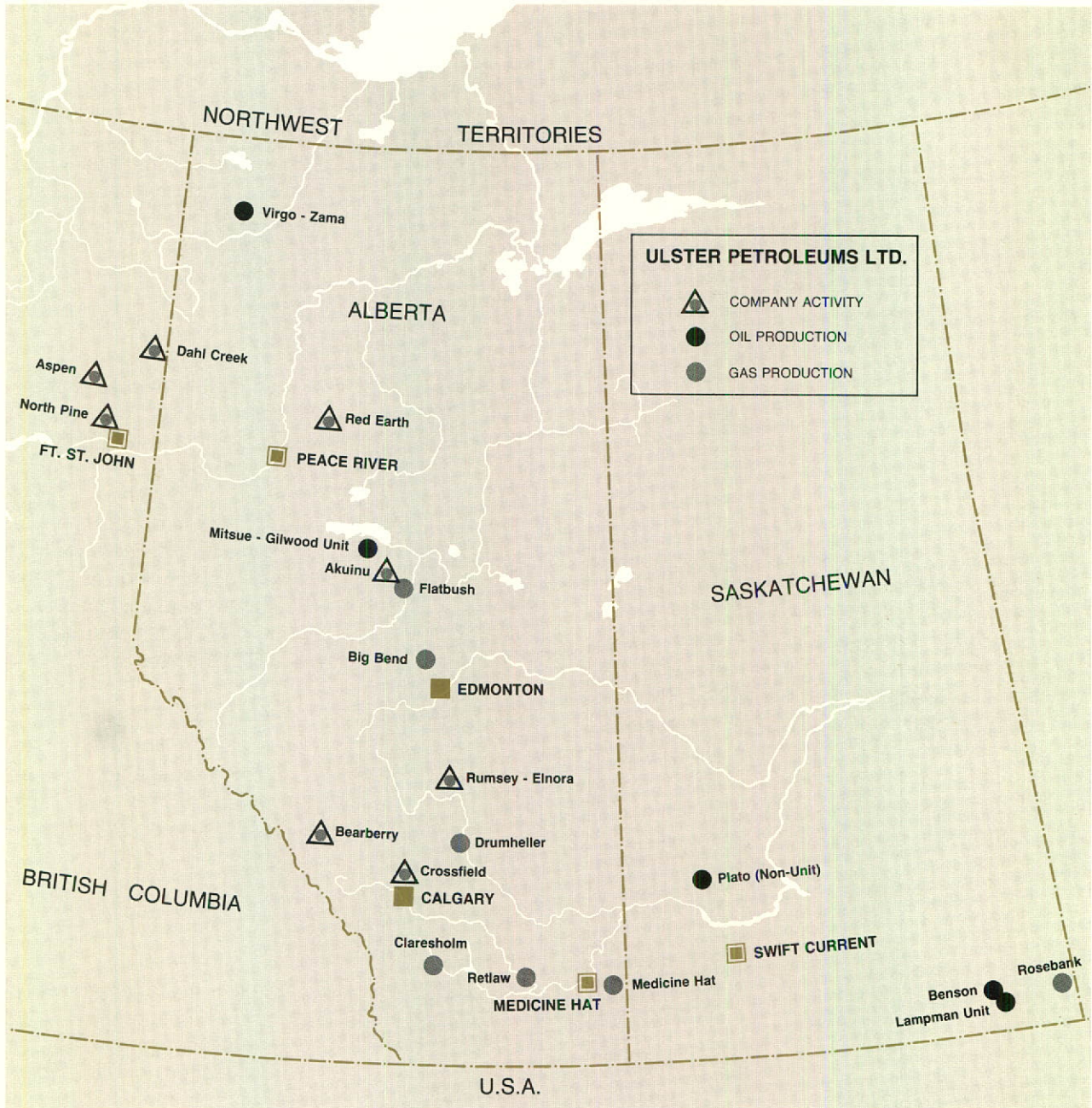
In summary, management is encouraged by the progress achieved during the past year and is optimistic that a sound foundation for the future has been laid.

On Behalf of the Board of Directors,



President

ULSTER PETROLEUMS LTD.



Exploration and Development Activity

Ulster had an interest in eleven wells drilled in Alberta during 1977. Of this total, eight were completed as gas wells in the Medicine Hat area and are currently on production. The remaining three were completed as shut-in gas wells and are awaiting gas purchase contracts and/or additional drilling in the immediate area.

Although the overall success ratio for 1977 was encouraging, management believes that the future growth of the Company will be dependent on:

- **Dedication of Additional Funds to Exploration and Development Activity** — Ulster has relied almost entirely on farmee drilling for development of its acreage and as such the Company's drilling and lease acquisition expenditures were nominal in 1977. The Company's exploration and development budget for 1978, however, is expected to be approximately \$1,500,000 and will involve direct participation in excess of twenty-five wells in addition to continued farmee drilling. The following detailed narrative outlines a number of commitments already made for 1978.
- **Pursuit of an Exploration Strategy Which Combines Acceptable Levels of Risk and Short-Term Marketability of Production** — To the extent practical, Ulster is endeavouring to direct its exploration efforts into areas which face the fewest market restrictions. By doing so, the Company's exploration activities can be expected to have a more immediate and positive impact on both short and long-term net earnings and cash flows.
- **Diversification of Exploration Efforts** — As a result of the 1977 property sales, approximately 80% of the Company's revenues are now derived from the Medicine Hat area. Although this operation provides a very positive financial contribution, investments in other areas of Western Canada are necessary to ensure diversification of the Company's revenue base and geographical representation. In addition, due to the present uncertainty with respect to gas markets in Alberta, Ulster is actively pursuing a number of drilling proposals in the United States.

The index map on Page 4 of this report highlights the areas of current activity which are described in the following narrative.

BRITISH COLUMBIA ACTIVITY

Dahl Creek:

The Company has continued to increase its land holdings in the Dahl Creek area due to the favourable market conditions for natural gas in British Columbia. Ulster now holds an interest in 9,643 gross lease acres containing a shut-in gas well and a dual oil/gas well drilled by the Company and its partners.

In excess of twenty wells have recently been drilled, or are scheduled for drilling, on adjacent acreage by other companies. An application has been made to the British Columbia Petroleum Corporation for a gas purchase contract for this gas field and a gas pipeline is scheduled for construction in this area during the summer.

Aspen

Subsequent to the year end, Ulster purchased an interest in a drilling reservation and a petroleum and natural gas lease containing 8,371 and 697 gross acres respectively in the Aspen area of British Columbia. This acreage contains a Charlie Lake dolomite gas well, which on completion flowed 2.88 mmcf/d of gas with excellent reservoir pressures. A second well is scheduled for drilling on this reservation after spring breakup. Production is expected to commence in the latter part of 1978 from the first well drilled on this acreage.

North Pine

A well will also be drilled in the North Pine area of British Columbia in 1978 on acreage 25% owned by Ulster. A number of producing gas wells have already been drilled by third parties on adjoining interests.

ALBERTA ACTIVITY

Medicine Hat

Farmees drilled eight wells on Company owned acreage in the Medicine Hat area of Alberta in 1977. All of these wells were completed as gas wells and commenced production in December, 1977. Ulster has a 100% working interest in one of these wells and a 10% overriding royalty interest (convertible to a 40% working interest after payout) in the remaining seven wells. Additional drilling is anticipated during 1978 on Company owned acreage in the Medicine Hat area. The extent of Ulster's direct participation in this proposed drilling is currently being evaluated by management.

Crossfield

The Company holds an interest in 1,920 gross acres (840 net acres) in the Crossfield area of Alberta (including an interest purchased at the January 27, 1978 Alberta Crown Sale). Ulster has farmed out a portion of this acreage and the 7,900 foot test well was completed as a Glauconite oil well by the farmee early in 1978. Based on geological evaluations and drilling results available to date, it is anticipated that additional drilling will be undertaken by both the farmee and your Company on this acreage in 1978.

Bearberry

Drilling has been completed on a deep-test well in the Bearberry area of the Alberta Foothills in which the Company has a 1.22% interest but did not contribute to the costs. Although the primary target formation proved non-productive, a secondary gas zone has been successfully completed and this well is currently classified as a shut-in gas well.

Other Alberta

Ulster has committed to participate in the drilling of four wells in the Rumsey and Elnora areas of Alberta during 1978. Subject to favourable drilling results, a number of additional locations are available to Ulster and its partners under existing farm-out agreements.

Ulster participated in a 5,000 foot Granite Wash oil discovery in the Red Earth area in Alberta. This well was spudded March 12, 1978 on a 960 acre farmout.

A well will also be drilled in the Akuinu area of Alberta in 1978 on acreage 50% owned by Ulster. Although there is no immediate market for this gas in this area, Ulster is required to drill this acreage to retain its interest in the related Crown leases. Successful gas wells have been drilled on three sections which adjoin Ulster's interests.

OTHER CANADIAN ACTIVITY

Yukon Territory

An article in the February 27, 1978 edition of OILWEEK highlighted Aquitaine Co. of Canada's proposed drilling program in South Eagle Plains area in the Yukon Territory. Ulster Petroleum Ltd. holds a 3% gross overriding royalty interest in Yukon Permit #6448 (26,153 acres) on which the initial 14,000 foot wildcat test in that program was spudded on March 8, 1978.

According to OILWEEK, this well is located on a "large geological structure north of the Peel River and west of five discoveries in the Porcupine River - Chance Region". This location was "identified and

isolated for drilling on the basis of five years of seismic work" and is located "close to the proposed corridor for the Mackenzie Delta Dempster Highway lateral to the Alaska Highway gas pipeline".

Beaufort Sea

Ulster has a 10% carried interest through the first well in 102,336 gross lease acres in the Beaufort Sea. Dome Petroleum Limited made a number of significant discoveries in the vicinity of these leases in 1977 and has announced two additional wells (Watsek E-56 and Nektoralik L-63) to be drilled within 50 miles on both sides of Ulster's acreage during 1978. Although drilling activity has not occurred on Ulster's interests to date, the geological potential for hydrocarbons is believed to be considerable in this section of the Beaufort Sea.

Offshore Labrador

Due to the high cost of maintaining its Offshore Labrador permits and Ulster's inability to farm them out, the Company surrendered its interests in this area in 1977.

Contact Lake

Ulster Petroleum Ltd. has an interest (3% of net smelter returns) in 2,129 acres of mining leases in the Northwest Territories. Echo Bay Mines Ltd., the operator of these leases, carried out extensive airborne, geochemical and trenching programs on this property in 1977. Additional geochemical studies and diamond drilling are scheduled on this acreage in 1978 to pursue to encouraging leads identified from the initial phase of this exploration program.

FOREIGN ACTIVITY

British North Sea

On February 7, 1978, British Petroleum abandoned its 13,324 foot well 211/2-1 drilled on a British North Sea block in which Ulster has a 0.875% carried interest. Despite the initial disappointment in the outcome of this well, the partners agree that there is geological merit in retaining our interest in a portion of this block. Accordingly, application has been made to retain the north half of the block, an area of 19,422 acres. Ulster did not contribute to the cost of this well and will be able to maintain this acreage in good standing indefinitely for a nominal cost.

British Onshore

The Company was unable to obtain government approval for a farmout of its interests in various onshore production licences in the United Kingdom. In view of the prohibitive cost of maintaining its interest in these licences, Ulster elected to dispose of them in 1977.

Operational and Financial Review and Analysis

During 1977, management undertook a comprehensive study of the Company's holdings designed to identify and dispose of those which were non-profitable, and to maximize its return from retained interests. As a result of this study:

- Ulster redesigned its compressor facilities in Medicine Hat to allow for maximization of production from the Company's wells and to allow for the generation of additional revenues through the compression of third party production in this area. These modifications were successfully completed in February, 1978 at a nominal cost. Management believes that these changes will have a significant positive impact in offsetting normal depleting production from Ulster's interests in this gas field.
- Operating procedures were also modified in the Medicine Hat gas field in an effort to minimize production costs.
- Ulster sold its interest in the Plato Viking Voluntary Unit No. 1, in Saskatchewan, effective September 30, 1977. This sale was deemed in the Company's best interest due to the restrictive nature of Saskatchewan royalty and mineral income taxes, and the high operating costs of the Unit. The Company's remaining interests in Saskatchewan are nominal and their sale is currently being negotiated.
- Ulster liquidated its wholly-owned subsidiaries, Parthenon Petroleums Ltd., and Ulster Petroleums Canada Ltd. (U.K. subsidiary). The properties of these companies were sold where possible and the remaining interests surrendered.

The following table summarizes Ulster's natural gas and crude oil production for 1977 and 1976:

	1977	1976
Natural Gas Production		
— mcf	993,000	1,089,000
Daily Average — mcf	2,720	2,980
Crude Oil Production		
— barrels	16,730	28,074
Daily Average — barrels	46	77

Annual production volumes of natural gas and crude oil declined in 1977 as a direct result of the sale of certain producing properties and normal production depletion. Overall production revenues, however, remained stable due to Alberta natural gas price increases during the year.

A substantial reduction in both production and general and administrative expenses was achieved in 1977, thereby resulting in a significant improvement in net earnings and working capital provided from operations. Production expenses were reduced from \$579,000 in 1976 to \$372,000 in 1977 as a direct result of the sale of our interest in the Plato Unit and the streamlining of operations in Medicine Hat. The termination of Ulster's management contract with Acroll Oil & Gas Ltd., effective July 31, 1977, and the establishment of our own separate offices resulted in a reduction in general and administrative expenses from \$290,000 in 1976 to \$221,000 in 1977.

Net earnings were \$182,000 (4 cents per share) in 1977 compared to a net loss of \$187,000 (4 cents per share) in 1976. This change is primarily attributable to a reduction in operating expenses rather than an increase in production revenues as noted above.

Working capital provided from operations was \$465,000 (9 cents per share) in 1977 compared to \$144,000 (3 cents per share) in 1976. These funds were used to eliminate the working capital deficit of \$245,000 which existed as of December 31, 1976.

Exploration and development expenditures are budgeted for approximately \$1,500,000 in 1978. This increase will be financed from cash flow and available lines of bank credit.



ULSTER PETROLEUMS LTD.

Consolidated Balance Sheet

December 31, 1977

(with comparative figures for 1976)

Assets

	1977	1976
CURRENT ASSETS		
Cash	\$ 285,000	—
Accounts receivable	366,000	429,000
Total current assets	651,000	429,000
Property, plant and equipment (Note 2)	3,377,000	3,798,000
Other assets, at cost	121,000	122,000
	<u>\$ 4,149,000</u>	<u>4,349,000</u>

Liabilities and Shareholders' Equity

	1977	1976
CURRENT LIABILITIES:		
Outstanding cheques less cash in bank	\$ —	130,000
Accounts payable and accrued liabilities	238,000	230,000
Current portion of long-term debt	314,000	314,000
Total current liabilities	552,000	674,000
Long-term debt (Note 3)	525,000	785,000
SHAREHOLDERS' EQUITY:		
Share capital:		
Shares without nominal or par value.		
Authorized 8,000,000 shares;		
issued 5,354,675 shares	6,819,000	6,819,000
Deficit	(3,747,000)	(3,929,000)
	<u>3,072,000</u>	<u>2,890,000</u>
	<u>\$ 4,149,000</u>	<u>4,349,000</u>

Approved on behalf of the Board:

A. Ryan, Director

D. Wozel, Director

See accompanying notes.

ULSTER PETROLEUMS LTD.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1977

(with comparative figures for 1976)

	1977	1976
Working capital was provided from:		
Earnings (loss) before extraordinary item	\$ 94,000	(187,000)
Add items not affecting working capital	371,000	331,000
Working capital provided from operations	465,000	144,000
Proceeds from long-term debt	—	525,000
Proceeds from sale of property, plant and equipment	210,000	1,000
Proceeds on issue of shares	—	27,000
Other	—	3,000
	<u>675,000</u>	<u>700,000</u>
Working capital was used for:		
Reduction of long-term debt	260,000	342,000
Additions to property, plant and equipment	71,000	716,000
	<u>331,000</u>	<u>1,058,000</u>
Increase (decrease) in working capital	344,000	(358,000)
Working capital (deficiency), beginning of year	(245,000)	113,000
Working capital (deficiency), end of year	<u>\$ 99,000</u>	<u>(245,000)</u>

See accompanying notes.



ULSTER PETROLEUMS LTD.

Consolidated Statement of Earnings and Deficit

Year ended December 31, 1977
(with comparative figures, for 1976)

	1977	1976
REVENUE:		
Oil and gas sales, less royalties	<u>\$1,079,000</u>	<u>1,051,000</u>
EXPENSES:		
Production	372,000	579,000
General and administrative	221,000	290,000
Interest on long-term debt	81,000	96,000
Depletion	194,000	227,000
Depreciation	<u>89,000</u>	<u>104,000</u>
	<u>957,000</u>	<u>1,296,000</u>
Earnings (loss) before the following	122,000	(245,000)
INCOME TAXES:		
Deferred	88,000	—
Alberta royalty tax credit	<u>(60,000)</u>	<u>(58,000)</u>
	<u>28,000</u>	<u>(58,000)</u>
Earnings (loss) before extraordinary item	94,000	(187,000)
Extraordinary item, reduction of income taxes resulting from application of prior years' drilling and exploration expenditures	<u>88,000</u>	<u>—</u>
Net earnings (loss)	<u>182,000</u>	<u>(187,000)</u>
Deficit, beginning of year	<u>3,929,000</u>	<u>3,742,000</u>
Deficit, end of year	<u>\$3,747,000</u>	<u>3,929,000</u>
Earnings (loss) per share:		
Before extraordinary item	\$ 0.02	(0.04)
Extraordinary item	0.02	—
	<u>\$ 0.04</u>	<u>(0.04)</u>

See accompanying notes.

ULSTER PETROLEUMS LTD.

Notes to Consolidated Financial Statements

December 31, 1977

1. Significant accounting policies:

(a) Principles of consolidation:

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

(b) Property, plant and equipment:

The Company follows the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, and costs of drilling productive and non-productive wells.

The capitalized costs are being depleted on the unit of production method based on estimated proven recoverable reserves as determined by independent consultants. Production and other equipment is being depreciated on a reducing balance basis at annual rates ranging from 5% to 20%.

2. Property, plant and equipment:

		Accumulated Depletion and Depreciation	Net Book Value	
	Cost		1977	1976
Petroleum and natural gas properties including exploration and development thereon	\$4,008,000	1,110,000	2,898,000	3,195,000
Production equipment	1,072,000	613,000	459,000	584,000
Other equipment	64,000	44,000	20,000	19,000
	<u>\$5,144,000</u>	<u>1,767,000</u>	<u>3,377,000</u>	<u>3,798,000</u>

3. Long-term debt:

	1977	1976
Bank loan with interest at 1% above bank prime rate secured by assignments of interests in certain petroleum and natural gas properties. Although payable on demand under the agreed terms of repayment approximately \$300,000 is due annually	\$810,000	1,056,000
Agreement payable, bearing interest at the rate of 12% per annum, due in three annual instalments, secured by certain equipment	29,000	43,000
	<u>839,000</u>	<u>1,099,000</u>
Deduct current portion of long-term debt	314,000	314,000
	<u>\$525,000</u>	<u>785,000</u>

4. Remuneration of directors and officers:

The aggregate direct remuneration paid by the Company to directors and senior officers during the year amounted to \$93,800 (1976 — \$151,000).

5. Anti-Inflation Act:

Under the provision of the Anti-Inflation Act and Regulations the amounts of dividends which may be paid by the Company is restricted.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ulster Petroleums Ltd. as at December 31, 1977 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, 1977 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
March 13, 1978

Peat, Marwick, Mitchell & Co.
Chartered Accountants

