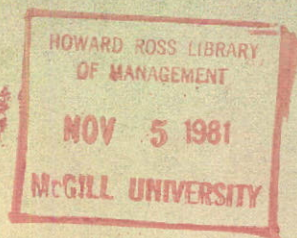


ULSTER

ULSTER  
PETROLEUMS  
LTD.

ANNUAL REPORT 1980





## **CORPORATE**

### **DIRECTORS:**

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

### **OFFICERS:**

Donne C. Traxel — President  
Robert A. Hayes — Vice  
President  
Anne C. Ries — Secretary

### **HEAD OFFICE:**

Suite 730, 700 - 4th Avenue S.W.  
Calgary, Alberta T2P 3J4  
Phone (403) 269-6911

### **LEGAL COUNSEL:**

Moore Martin  
665, 800 - 6th Ave. S.W.  
Calgary, Alberta

### **AUDITORS:**

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

### **REGISTRAR AND TRANSFER AGENT:**

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

### **STOCK EXCHANGE LISTING:**

Toronto Stock Exchange  
Share Symbol: ULP

### **ANNUAL MEETING:**

10:00 A.M. on Friday  
June 26th, 1981  
Room 308, International Hotel  
220 - 4th Avenue S.W.  
Calgary, Alberta

**1980 HIGHLIGHTS  
FINANCIAL**

	1980	1979
Net Earnings.....	\$ 163,000	\$ 27,000
Per Share .....	\$ 0.02	\$ 0.00
Working Capital Provided		
From Operations .....	\$1,034,000	\$ 605,000
Per Share .....	\$ 0.12	\$ 0.08
Oil and Gas Sales .....	\$1,577,000	\$1,080,000
Additions to Resource Properties.....	\$8,351,000	\$2,276,000

**SUMMARY OF PRODUCTION DATA**

Natural Gas Production		
Annual production — mcf. ....	608,522	568,460
Daily average — mcf .....	1,667	1,557
Crude Oil Production		
Annual production — barrels.....	19,194	7,001
Daily average — barrels.....	53	19

**NET PROVEN PLUS PROBABLE RESERVES**

Oil — barrels.....	971,000	760,000
— m <sup>3</sup> .....	154,300	120,800
Gas — bcf.....	8.2	5.3
— 10 <sup>3</sup> m <sup>3</sup> .....	231,000	140,500
Sulphur		
— long tons .....	33,682	—

**SUMMARY OF WELLS DRILLED**

**EXPLORATORY**

Oil .....	6	—
Gas.....	5	2
Dry .....	7	2
Drilling .....	6	—
TOTAL .....	24	4
Average Working Interest.....	17.5%	13.2%

**DEVELOPMENT**

Oil .....	17	14
Gas.....	3	14
Dry .....	3	—
Drilling .....	1	—
TOTAL .....	24	28
Average Working Interest.....	20.7%	13.0%

**SUMMARY OF LAND HOLDINGS (1)**

	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA:				
Western .....	276,000	61,300	160,000	48,600
Northern.....	742,500	200,800	742,500	200,800
FOREIGN				
United States ..	65,200	8,200	66,800	9,000
North Sea .....	38,000	300	38,000	300
TOTAL: .....	1,121,700	270,600	1,007,300	258,700

(1) Excluding royalty interests

## REPORT TO SHAREHOLDERS



1980 marked a year of unprecedented growth and activity for Ulster Petroleum Ltd.

- Exploration and development expenditures exceeded \$8,300,000 — an amount greater than the total accumulated expenditures of the Company since its inception in 1970.
- Cash flows from operations exceeded \$1,000,000 for the first time ever — an increase of 70% over 1979's level.
- Ulster participated in the drilling of a record number of wells — 24 exploratory wells with an indicated success ratio of 60% and 24 development wells with a success ratio of 86%.
- Ulster earned and/or purchased an interest in 137,700 gross acres of land in Western Canada during the year — increasing the Company's exposure in this area by more than 70%.

Although the remarkable proportional growth rates experienced in 1980 are significant in themselves, they more importantly signal a new level of maturity of your Company and a magnitude of operations that can be expected in the future.

The recently announced National Energy Program is not expected to adversely effect Ulster's exploration activities and growth plans. In fact, since Ulster is effectively 100% Canadian owned certain features of this Program are expected to have a positive impact on the Company, for example: The introduction of cash grants to finance exploration and developmental drilling will have an immediate and positive effect on Ulster's Canadian exploration budget, whereas earned depletion, which these grants are replacing, would only have benefited the Company when it became taxable. Simply stated, Ulster will be able to drill more wells (excluding the effects of inflation) in 1981 than we were able to drill in 1980 with the same amount of Company funds.

These positive developments will be somewhat offset by the fact that production incomes will grow slower than previously projected due to the current depression of prices and lack of markets for new reserves found by the Company. We are, however, cautiously optimistic that these are problems which can be resolved by the various levels of government in the short rather than long-term.

Much of 1980's record growth is directly attributable to the substantial amounts (\$7,041,000 in 1980) of new equity capital which Ulster's shareholders have injected into the Company. These injections have placed Ulster in a strong financial position and thus have enabled the Company to pursue an aggressive exploration policy based on long-term growth and profitability, rather than short-term expedience.



This maturity of exploration philosophy is clearly evidenced by the number of land oriented exploration programs in which Ulster has participated in Western Canada and the United States during the year (eg. Berland River, Turner Valley, Bergen, Crimson Lake and Edson). It is very encouraging to be able to report that the initial exploratory wells in the majority of these new areas have been successful and that the Company controls additional acreage in each of these areas. Accordingly, management is optimistic that many of these initial exploratory successes can be followed up and developed into substantial new oil and gas reserves and future cash flows for your Company.

With these objectives in mind the Company's 1981 capital budget is expected to be approximately \$10,000,000, with equal emphasis placed on long-term exploration programs and on developmental drilling aimed at improving current cash flows. The Company expects to finance these activities from the proceeds of its March 1981 rights offering which netted \$7,271,000 and from existing cash flows from operations.

The 1980 drilling season in the Beaufort Sea was one of the shortest on record and accordingly very little new information was released. Recent announcements and corporate restructuring by Dome, however, point to an extremely active 1981 drilling season which should see five wells tested during this summer.

During 1980 Ulster entered into two exploration agreements with Dome covering approximately one half of the Company's Beaufort acreage. Although neither of these

agreements provide for a definitive drilling commitment, they do cover lands in the more remote areas of the Beaufort Sea which would have required a substantial cash investment if carried at the Company's expense. Ulster has not, however, committed its lands which are immediately adjacent to Dome's current exploration activities. These lands offer the greatest apparent potential and as such we believe that it is in the best interests of the Company to keep our options open in these areas for the time being. Dome's continued commitment to exploration in the Beaufort Sea (in spite of the apparent negative aspects of the NEP) and their specific interest in Ulster's holdings are very positive indications of the future potential of the Beaufort Sea in general and your Company's holdings in particular.

As Ulster enters 1981 the long-term future has never been brighter — the people and the financial resources are in place for continuing growth and success.

ON BEHALF OF THE BOARD  
OF DIRECTORS



Donne C. Traxel  
President



## EXPLORATION AND DEVELOPMENT ACTIVITY

Ulster participated in the drilling of 48 gross wells (19.1% average working interest) during 1980, compared to 32 during the preceding year. In addition, the Company acquired a 17.7% average working interest in 41,300 acres at Alberta land sales and earned an average working interest of 6.5% in an additional 86,400 acres through its drilling activities. Details of the company's major exploration and development activities are summarized below.

### BERLAND RIVER

Ulster is participating (10% working interest before payout) in an \$18 million exploration program on 86,800 gross acres of farmin and Crown acquired lands in the Berland River area with Westgrowth Petroleum Ltd. Five of the nine commitment wells on this program have been drilled and cased, one well was junked due to mechanical problems, and the remaining three wells are still drilling. Initial production testing of these wells has been encouraging, however, additional evaluation and drilling will likely be required to ascertain the extent and commercial viability of the Cardium oil and Lower Cretaceous gas reserves discovered to date.

### GOLDEN - OGSTON - CADOTTE AREAS

Ulster has entered into an exploration agreement whereby the Company (40% interest) and its partners have the right to earn a 50% working interest in 81,280 gross acres in the Golden Area of Alberta over the next two years. The majority of these lands were acquired by the Farmor at Alberta Crown Land sales in 1980 after completion of a comprehensive geological and geophysical study of this highly oil prone area. During the current winter drilling season, Ulster and its partners drilled four exploratory wells on this acreage and acquired 400 miles of new seismic data which

was concentrated over available Crown lands. The results obtained from these initial test wells (three of which have been cased for evaluation), together with the results obtained by other operators in the immediate area, will provide the impetus and direction for what is expected to be a two year, \$20 million land acquisition, drilling and seismic program by the Ulster group in this area.

### BERGEN

During 1980 Ulster (15% working interest) participated in the drilling of a 2,450 meter exploratory test well on a 9,280 acre licence which was purchased by the Company and its partners in April 1980. The initial well on these lands was completed in December and is now producing oil from the Cardium sand formation.

In addition, the Company recently conducted a seismic program on this licence in an attempt to identify potential drilling prospects in the deeper Devonian formations which are also productive in this area. The results of this seismic program together with the production data from the initial well will be used to select a location for delineation drilling during 1981.

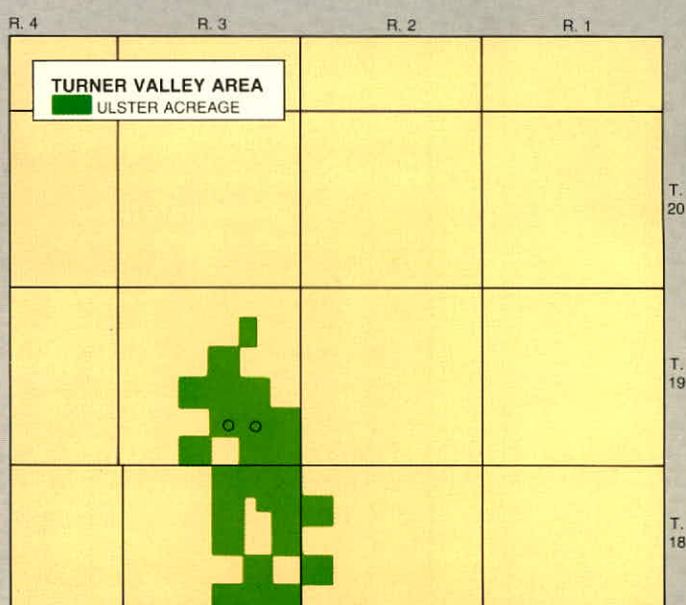
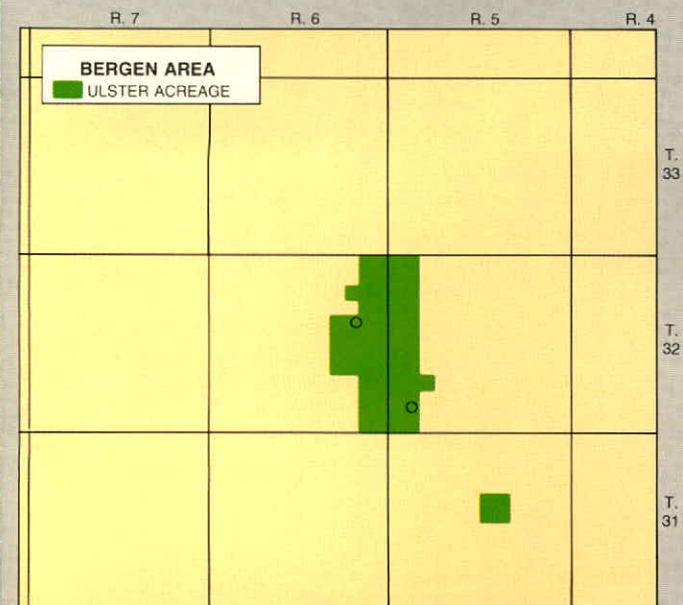
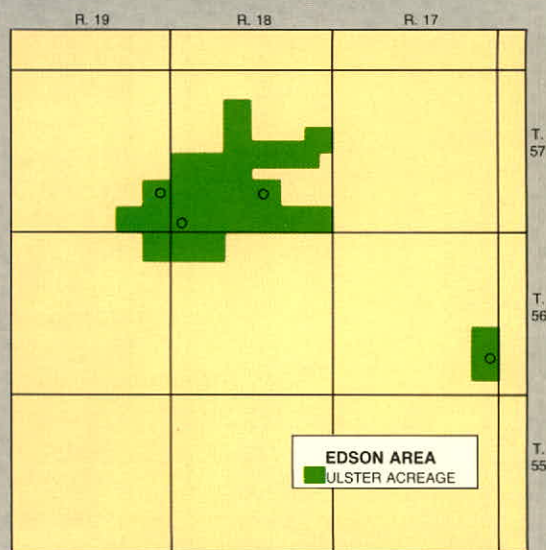
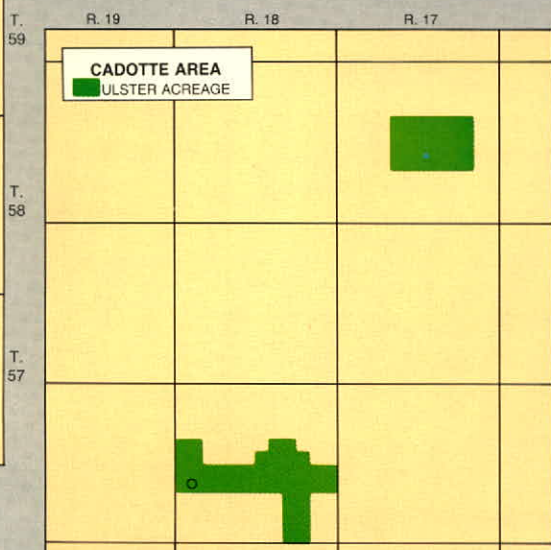
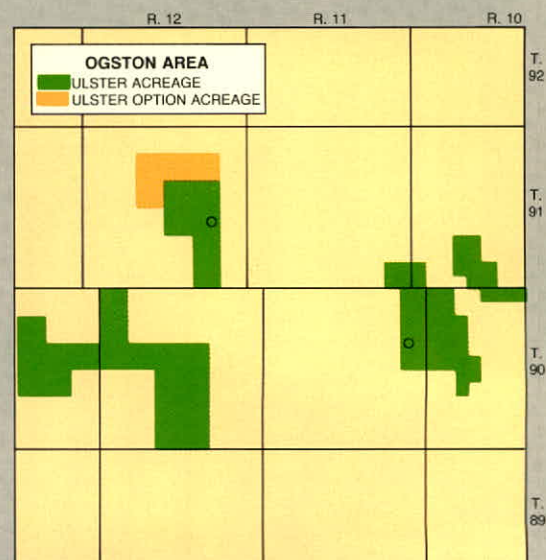
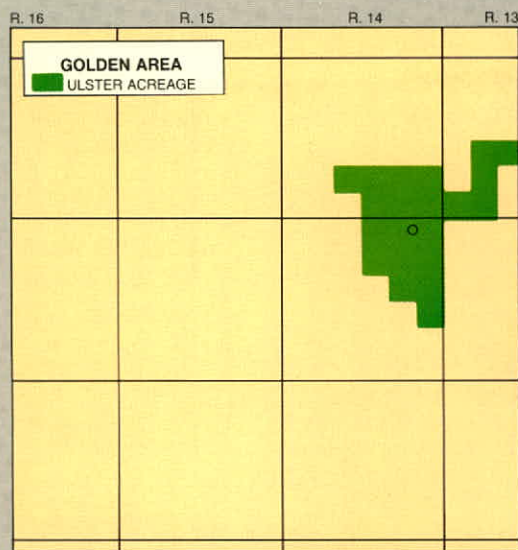
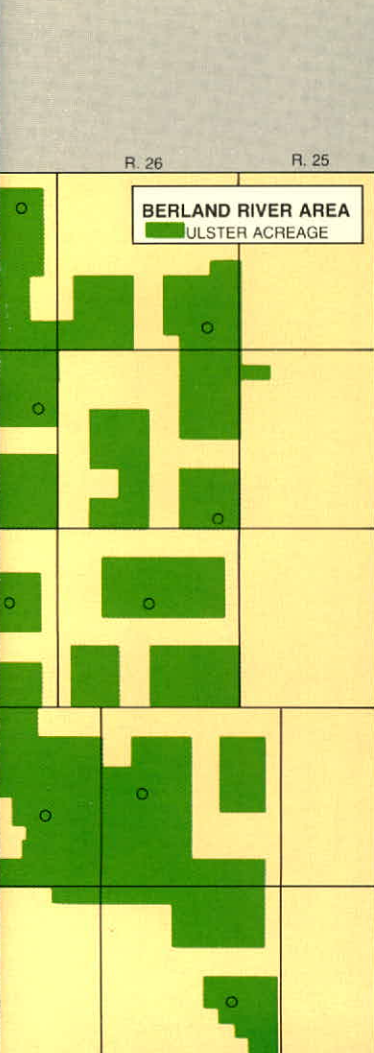
### TURNER VALLEY

During the latter part of 1979 and early 1980 the Company acquired an average 5% working interest in 14,400 gross acres in the Turner Valley area of Alberta and drilled both a 4,365 meter and a 1,350 meter exploratory well on these lands. Although independent engineering reports confirm the discovery of proven undeveloped and probable additional reserves in both of these wells, they have been suspended pending further engineering studies and geological and geophysical interpretations. This work should be completed early in 1981 with additional exploratory work commencing shortly thereafter.

R. 1









## EDSON AREA

During 1980 Ulster drilled three indicated gas wells and one dryhole (10.3% average working interest) in the Edson-Whitecourt Area of Alberta. Two of these wells have been production tested and assigned proven plus probable recoverable gas reserves of 14.4 bcf by independent engineering consultants. Ulster and its partners are currently drilling a follow-up well and testing the third well to confirm the extent of the reserves on the Company's acreage. Although these lands are not under contract, the potential reserves on the Company's land holdings (18% average working interest in 16,800 gross acres) appears to be substantial.

## LITTLE BOW

During 1980 Ulster participated in an extensive seismic and geological evaluation of the oil and gas potential in the Little Bow area of southern Alberta. As a result of this study, Ulster and its partners have been selectively acquiring prospective acreage and to date have drilled three exploratory wells. One of these wells was completed in December and is now producing oil from the Glauconite sand formation. Testing of the oil and gas potential of the remaining two wells should be completed early in 1981.

## CRIMSON LAKE

During 1980 Ulster (20% working interest) participated in the drilling of a 2,800 meter exploratory test well on a 9,760 acre licence which was purchased by the Company and its partners in 1979. The Company expects to complete this well in the Cardium formation early in 1981.

## WAINWRIGHT

The Company holds a 25% average working interest in approximately 9,920 acres of petroleum and natural gas leases in the Wainwright area of

east-central Alberta. During 1980 the Company drilled eight wells on the acreage — seven of these wells have been completed as Sparky oil wells and the eighth as a Colony gas well.

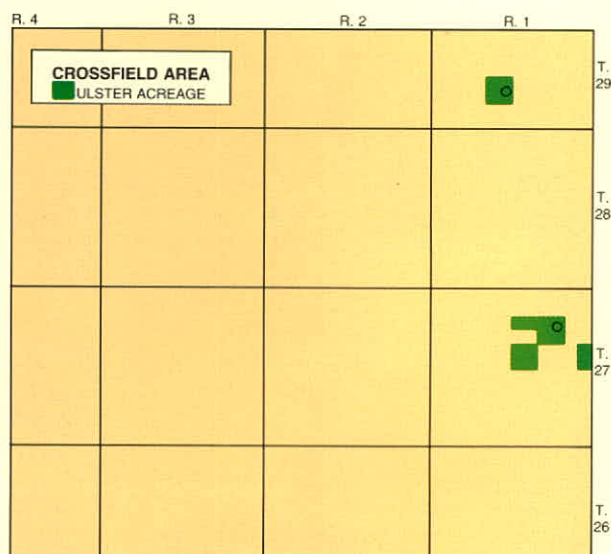
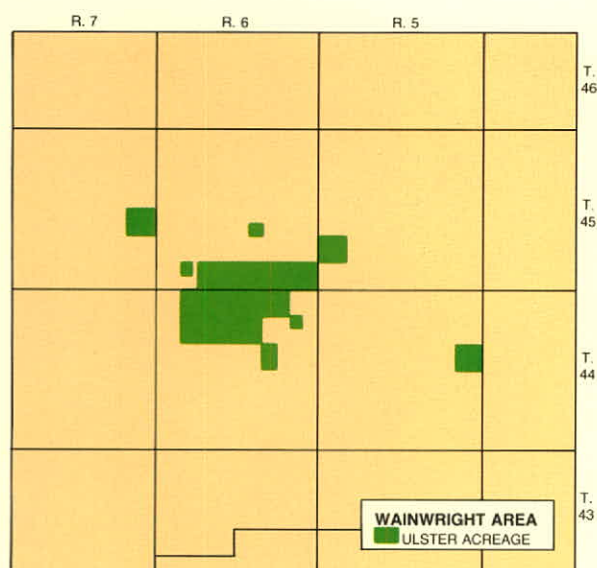
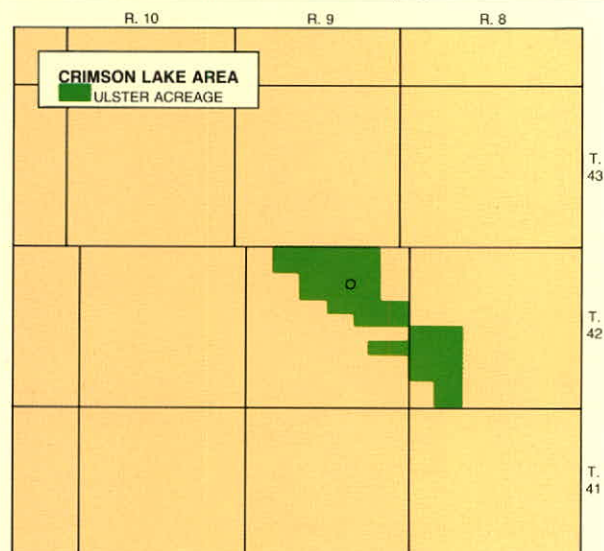
An extensive reservoir study is currently being conducted to determine ways of increasing the recovery factor from our existing wells in this area. The success of this study, together with any significant increase in heavy oil prices, could provide the incentive for substantial additional drilling on Ulster's lands in the future.

## CROSSFIELD

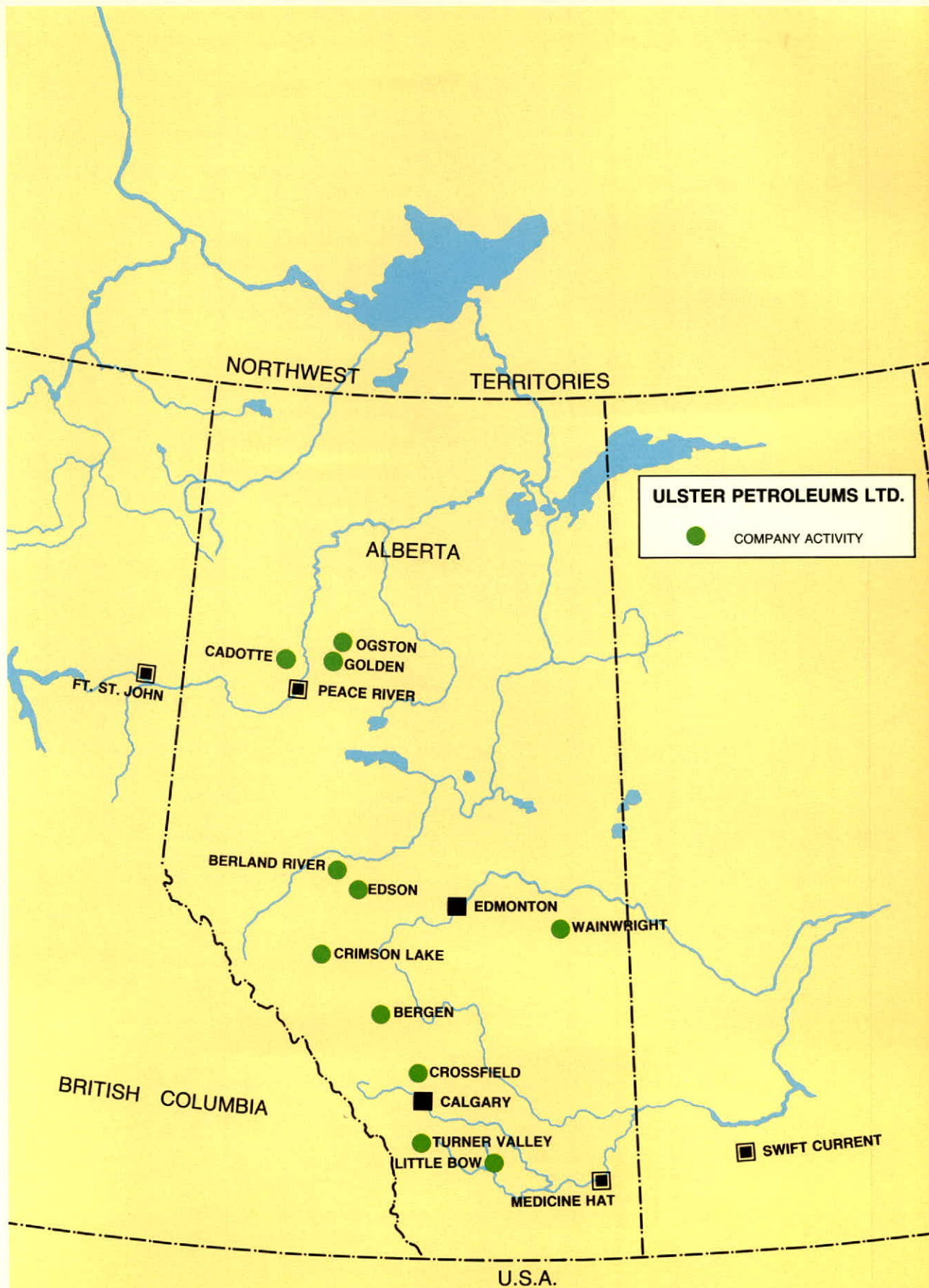
During 1980 Ulster commenced drilling two 3,000 meter developmental wells on Company owned acreage adjoining the Crossfield Unit in central Alberta. Ulster expects to complete and tie in both of these wells prior to year end in 1981.

## UNITED STATES

During recent years approximately 80% of the Company's activities have been conducted in Western Canada with the remaining 20% occurring in the United States. This division is not the result of a fixed corporate policy but rather adoption of an exploration policy which requires that all prospects, whether they be Canadian or US, meet fairly onerous financial, land and risk parameters. Simply stated — even though US prices are often twice as high, very few of the United States prospects we have examined offer the same long-term potential as those available to the Company in Canada. Management expects that this trend will continue and accordingly the majority of the Company's exploration activity in 1981 will be conducted in Alberta.







## BEAUFORT SEA

The drilling season in the Beaufort Sea during 1980 was one of the shortest on record due to extremely poor weather and ice conditions. Dome did, however, complete production testing in the Tarsuit A-25 well and commence drilling five additional wells in the Beaufort Sea. Following suspension of drilling operations, Dome announced the following results:

- (1) The Tarsuit A-25 well, drilled in 1979, was found to have a 160 foot oil zone present at the 5,000 foot level based on electric log interpretation. Subsequent testing of this zone in early 1980 indicated production rates of up to 800 BOPD employing restricted choke sizes. From seismic interpretation, this zone appears to be broadly distributed within a large structure which could contain a major oil accumulation. Before the drilling season terminated, a second large dredge was brought into the area and work commenced on an artificial island 3½ miles east of the Tarsuit oil discovery. This island will permit the drilling of several step out wells during the winter of 1981-82 to establish whether the Tarsuit reservoir is commercial.
- (2) The Kopanoar step-out well, 21-44, initially projected for a depth of 14,000 feet, reached 10,400. Indications are that this well is approximately 400 feet above the oil reservoir encountered in the discovery well in 1979. The Kopanoar discovery well, determined to have a productive capacity in excess of 12,000 barrels of oil per day, is located 2½ miles east of 21-44.
- (3) Koakoak 0-22, originally projected for 16,000 feet, reached 12,200 feet. Electric

logs and core data established the presence of sandstone beds which had oil and gas shows in the lower part of this well.

- (4) Orvilruk 0-3, projected as a 15,000 foot test, reached 11,800. This well also penetrated porous sands, but no log or core evaluations were conducted. The bottom of this well is immediately above the primary objective horizons.
- (5) Kenalooak 2J-94, projected for a total depth of 16,000 feet, reached 11,200 feet.
- (6) Kilannak A-77, planned as a 10,000 foot well, terminated at 2,300 feet at season end.

Dome also announced that it expected to complete drilling and testing on all of the above wells in 1981.

The Esso Issungnak 0-61 well in the Beaufort Sea was also confirmed as a dual zone discovery during the year. This well flowed 2,400 barrels of crude during a closed chamber drillstem test from the 3,000 m - 3,005 m interval. As well, a drillstem test, slightly uphole from the above test, recovered 5 mmcf/d with 45 barrels of condensate per mmcf of gas. The absolute open flow for this test was calculated at 50 mmcf/d. Ulster has no interest in the wells described in detail above but has lands in the vicinity of both the Tarsuit and Orvilruk wells.

During 1980, Ulster entered into two exploration agreements with Dome on a portion of its Beaufort Sea acreage.

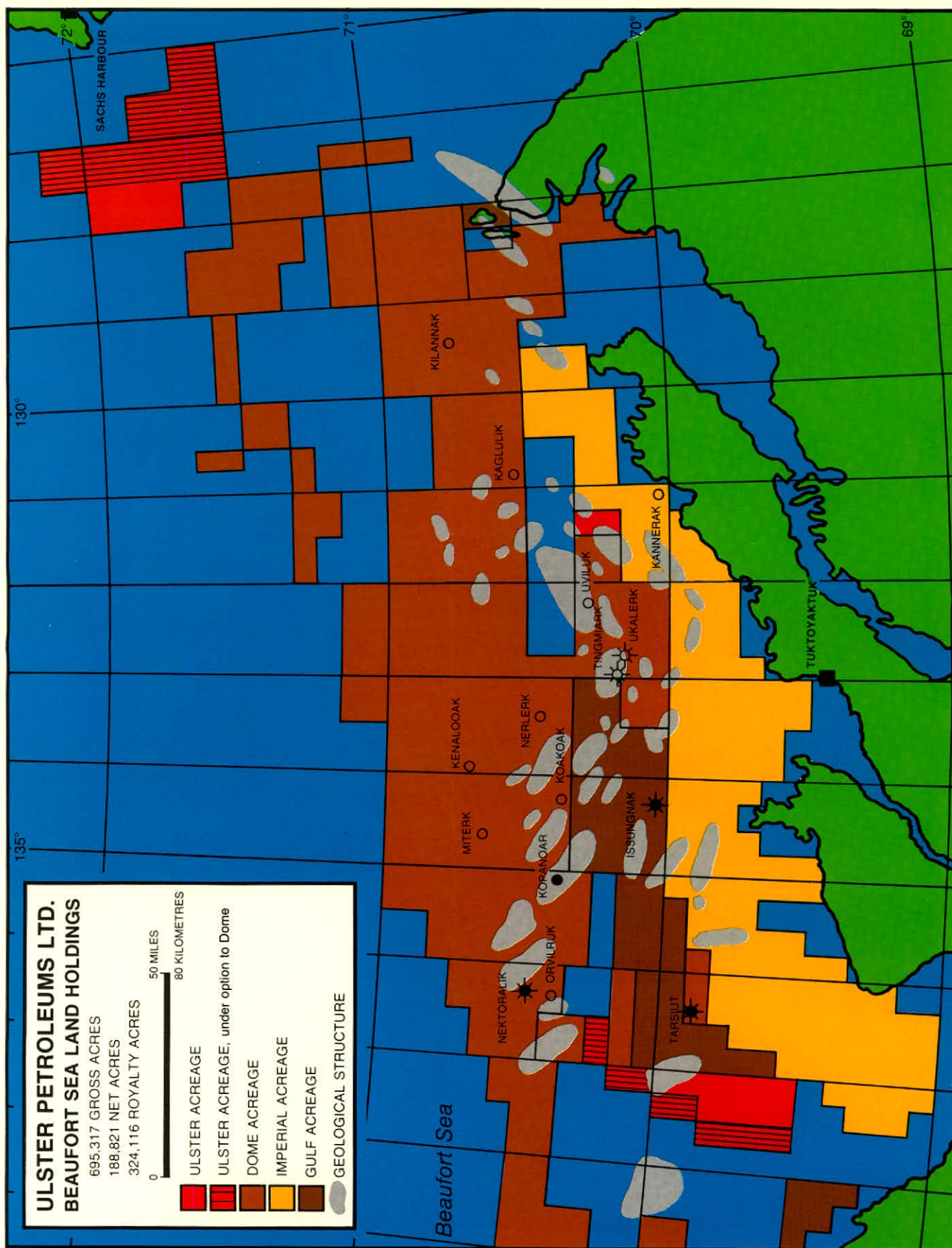
- (1) In March 1980, Ulster and its working interest partners granted Dome Petroleum Limited a seismic option on 149,021 acres (Ulster — 2.5% working interest) in the Beaufort Sea. Under the terms of this agreement Dome

committed to shoot 150 km of new seismic and acquire 100 km of existing seismic data on these lands. After completion of this program, Dome can elect, on or before December 31, 1982, to drill a 3,600 metre test well during the 1983 drilling season, to earn a 50% working interest in approximately one half of the option acreage. An adjoining 102,000 acre block of lands (Ulster — 15% working interest) was not farmed out to Dome, however, because of its proximity to current exploration activity.

- (2) In August 1980, Ulster and its working interest partners entered into an agreement with Dome Petroleum Limited, whereby Dome became entitled to earn an interest in 400,347 gross acres (Ulster — 42.32% working interest) by assuming responsibility for all work obligations on these lands through August 1983.

Although neither of the above agreements provide for a definitive drilling commitment, Dome's work commitment on Ulster's lands, combined with their drilling success in the Beaufort Sea, point to substantial potential for Ulster's land holdings.







## FINANCIAL REVIEW AND ANALYSIS

Cash flows from operations increased 70% to \$1,034,000 in 1980; petroleum and natural gas revenues increased 46% to \$1,577,000; and net earnings for the year were \$163,000 compared to \$27,000 in 1979.

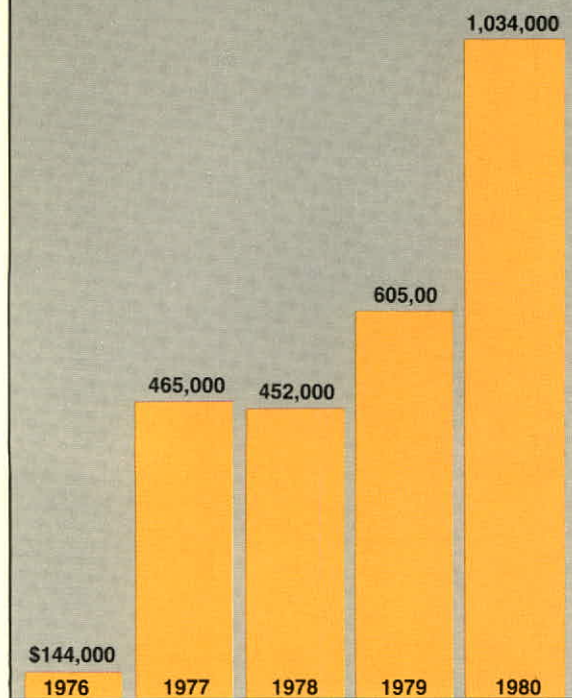
These improvements are primarily attributable to a combination of increasing production volumes and higher product prices for both oil and gas sales during the year. Although the former trend is expected to continue in 1981 as more of the Company's successful wells are put onto production, the prices received for the Company's production are expected to remain flat under the National Energy proposals.

The major charge included in the Company's statement of earnings continues to be depletion (\$638,000 in 1980). As noted in the 1979 Annual Report, Ulster has adopted an exploration policy which places primary emphasis on acquiring large acreage positions in highly prospective areas. Since only limited, or in many cases no drilling activity, has been conducted on these lands to date the proven developed reserves recognized by the Company represent only a very small fraction of their total potential. In the longer term, Management is confident that this policy will provide substantially greater reserves and production revenues than could have been achieved if the Company had only drilled farmout wells on third party lands. In the short-term, however, reported depletion expense will continue at disproportionately high rates with a corresponding reduction in net earnings.

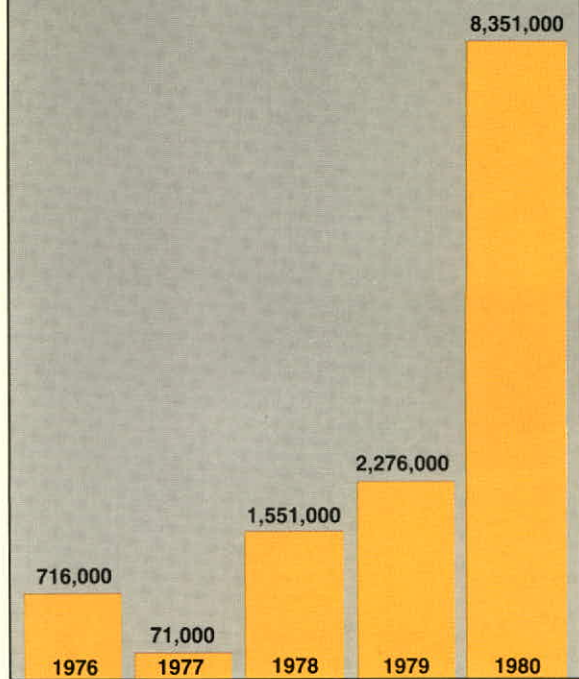
In 1980 Ulster raised in excess of \$7,000,000 through a successful rights offering to its shareholders (\$2,848,000) and two private placements of shares at market (\$4,193,000). These funds, combined with the Company's record 1980 cash flows from operations, allowed Ulster to continue to finance its extensive exploration activities without the need for debt financing. This trend is expected to continue in 1981 with the result that the majority of the Company's record \$10,000,000 exploration budget for 1981 will be financed from the proceeds (\$7,271,000) of a successful rights offering made to our shareholders in March 1981.



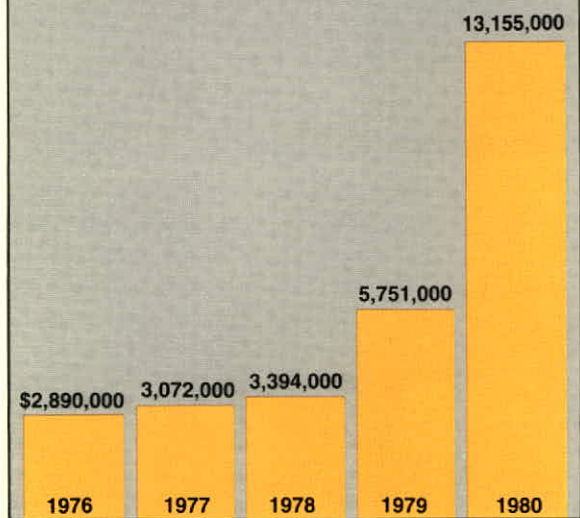
### FUNDS PROVIDED FROM OPERATIONS



### EXPLORATION EXPENDITURES



### SHAREHOLDERS' EQUITY





# ULSTER

PETROLEUMS LTD.

## BALANCE SHEET

December 31, 1980  
(with comparative figures for 1979)

### ASSETS

	1980	1979
CURRENT ASSETS:		
Cash .....	\$ 745,000	286,000
Accounts receivable .....	566,000	519,000
Total current assets .....	1,311,000	805,000
DEFERRED INCOME TAXES .....	153,000	110,000
PROPERTY, PLANT AND EQUIPMENT (Note 2) .....	14,109,000	6,472,000
OTHER ASSETS, AT COST .....	26,000	59,000
	<u>\$15,599,000</u>	<u>7,446,000</u>

ON BEHALF OF THE BOARD,

*O. Innes*, Director

*R. G. Hay*, Director

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES:

Accounts payable and accrued liabilities .....	<b>\$ 2,071,000</b>	590,000
DEFERRED REVENUE .....	<b>173,000</b>	155,000
LONG-TERM DEBT (Note 3) .....	—	950,000
ADVANCES UNDER PRIVATE PLACEMENT (Note 4) .....	<b>200,000</b>	—

### SHAREHOLDERS' EQUITY:

Share capital (Note 4) .....	<b>16,500,000</b>	9,259,000
Deficit .....	<b>(3,345,000)</b>	(3,508,000)
	<b><u>13,155,000</u></b>	<u>5,751,000</u>
	<b><u>\$15,599,000</u></b>	<u>7,446,000</u>

See accompanying notes.



# ULSTER

PETROLEUMS LTD.

## STATEMENT OF EARNINGS AND DEFICIT

Year ended December 31, 1980  
(with comparative figures for 1979)

	1980	1979
REVENUE:		
Petroleum and natural gas.....	\$ 1,577,000	1,080,000
Other .....	179,000	174,000
	<u>1,756,000</u>	<u>1,254,000</u>
EXPENSES:		
Production .....	484,000	451,000
General and administrative .....	273,000	178,000
Interest on long-term debt.....	20,000	51,000
Depletion .....	638,000	493,000
Depreciation and amortization .....	76,000	85,000
	<u>1,491,000</u>	<u>1,258,000</u>
Earnings (loss) before income taxes .....	265,000	(4,000)
INCOME TAXES (Note 6):		
Deferred .....	157,000	—
Alberta royalty tax credit .....	(55,000)	(31,000)
	<u>102,000</u>	<u>(31,000)</u>
Net earnings .....	163,000	27,000
Deficit, beginning of year .....	3,508,000	3,535,000
Deficit, end of year .....	<u>\$3,345,000</u>	<u>3,508,000</u>
Net earnings per share .....	<u>\$ 0.02</u>	<u>—</u>

See accompanying notes.

## STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1980

(with comparative figures for 1979)

	1980	1979
<b>FUNDS PROVIDED FROM:</b>		
Operations.....	\$ 1,034,000	605,000
Increase in long-term debt.....	—	950,000
Issue of shares.....	7,041,000	2,220,000
Advances under private placement.....	200,000	—
Deferred revenue.....	18,000	76,000
Other assets.....	33,000	55,000
	<u>8,326,000</u>	<u>3,906,000</u>
<b>FUNDS APPLIED TO:</b>		
Reduction of long-term debt.....	950,000	1,462,000
Additions to property, plant and equipment.....	8,351,000	2,276,000
Other.....	—	4,000
	<u>9,301,000</u>	<u>3,742,000</u>
Increase (decrease) in working capital.....	(975,000)	164,000
Working capital, beginning of year.....	215,000	51,000
Working capital (deficiency), end of year.....	<u>\$ (760,000)</u>	<u>215,000</u>

See accompanying notes.



**NOTES TO FINANCIAL STATEMENTS**

December 31, 1980

**1. SIGNIFICANT ACCOUNTING POLICIES:**

**a) PROPERTY, PLANT AND EQUIPMENT:**

The Company follows the full cost method of accounting whereby all direct costs related to the exploration for and development of petroleum and natural gas reserves in North America are capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, cost of drilling productive and non-productive wells and overhead expenses directly related to exploration activities.

All capitalized costs, including undeveloped and non-producing acreage, are depleted on the unit of production method based on proven recoverable reserves as determined by independent consultants.

Depreciation and amortization is provided using the following rates and methods:

Production equipment — 10% to 20% declining balance

Other equipment — 5% to 20% declining balance

Leasehold improvements — over term of lease

**b) DEFERRED REVENUE:**

Deferred revenue represents amounts received in respect of "take-or-pay" natural gas contracts. These revenues have been deferred pending ultimate natural gas delivery or expiration of the contractual delivery period. All operating costs related to these shut-in periods, however, are expensed as incurred.

**c) JOINT INTEREST OPERATIONS:**

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

**d) FOREIGN CURRENCY TRANSLATION:**

Current assets and current liabilities are translated at the rates in effect at the balance sheet dates. All other assets and liabilities are translated at rates in effect at the time the transactions occurred. Revenue and expense items, except for depletion which is translated at the rate applicable to the related asset, are translated using the approximate average monthly quoted rates of exchange. Foreign currency exchange gains and losses are included in earnings.

**e) EARNINGS PER SHARE:**

Earnings per share is calculated using the weighted monthly average number of shares outstanding during the year. Assuming the exercise of the share warrants and stock options at the beginning of 1980, there would be no dilution in earnings per share.



## 2. PROPERTY, PLANT AND EQUIPMENT:

		Accumulated Depletion, Depreciation and Amortization	Net Book Value	
	Cost		1980	1979
Producing petroleum and natural gas properties	\$ 4,995,000	1,363,000	<b>3,632,000</b>	2,405,000
Non-producing properties	10,664,000	1,030,000	<b>9,634,000</b>	3,584,000
Production equipment	1,577,000	841,000	<b>736,000</b>	461,000
Leasehold improvements	54,000	4,000	<b>50,000</b>	—
Other equipment	112,000	55,000	<b>57,000</b>	22,000
	<u>\$17,402,000</u>	<u>3,293,000</u>	<u><b>14,109,000</b></u>	<u>6,472,000</u>

## 3. LONG-TERM DEBT:

	1980	1979
Bank loan with interest at 1% above bank prime rate secured by assignment of interests in certain petroleum and natural gas properties	<u>\$ —</u>	<u>950,000</u>

## 4. SHARE CAPITAL:

	1980	1979
Authorized: 12,000,000 common shares without nominal or par value		
Issued: 9,397,050 common shares (1979 - 7,272,900)	<u>\$ 16,500,000</u>	<u>9,259,000</u>

### a) RIGHTS ISSUE:

During the year, the Company made a rights offer to its shareholders on the basis of one share for every six held at a subscription price of \$2.60. The offer was fully subscribed and resulted in the issue of an additional 1,212,150 common shares for a net consideration of \$2,991,000, including a deferred income tax benefit of \$153,000.

### b) PRIVATE PLACEMENTS:

In May 1980, the Company issued 30 units at a price of \$100,000 per unit. Each unit consisted of the right to earn 20,000 common shares of the Company and 10,000 non-assignable share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company at a price of



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\$6.00 during the period from July 1, 1981 to June 30, 1983. The proceeds of this issue were fully expended by the Company on petroleum and natural gas properties during the year and accordingly 600,000 common shares and 300,000 non-assignable share purchase warrants were issued to the investors and are reflected in the financial statements with a net consideration of \$2,957,000, including a deferred income tax benefit of \$40,000.

In November 1980, the Company issued an additional 15 units at a price of \$100,000 per unit. Each of the units consisted of the right to earn 24,000 common shares of the Company and 10,000 non-assignable share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company at a price of \$6.00 during the period from July 1, 1981 to June 30, 1983. At December 31, 1980, \$1,300,000 of the proceeds of this issue had been expended on petroleum and natural gas properties by the Company and accordingly 312,000 common shares and 130,000 non-assignable share purchase warrants were issued to the investors and are reflected in the financial statements with a net consideration of \$1,293,000, including a deferred income tax benefit of \$7,000. The remaining proceeds of \$200,000 were spent during January 1981 and resulted in the issue of an additional 48,000 common shares and 20,000 non-assignable share purchase warrants. The proceeds in respect of these unissued shares are shown as advances under private placement on the balance sheet.

Under the terms of both private placement issues, all wells drilled and production obtained accrue to the Company and the related exploration and development income tax deductions accrue to the investors resulting in petroleum and natural gas properties with a book value of \$4,300,000 having a nil cost for income tax purposes.

c) **STOCK OPTIONS:**

During 1980, the Company established an Employee Stock Option Plan, under which 200,000 shares without nominal or par value were reserved for issue to key employees of the Company.

In June 1980, the Company granted stock options to three officers and an employee of the Company for an aggregate of 120,000 shares. These options are exercisable to a maximum of 20% per annum, on a cumulative basis commencing on or after January 1, 1980. The exercise price is \$5.625 per share. The options terminate on December 31, 1989.

In November 1980, the Company granted stock options to two employees of the Company for an aggregate of 50,000 shares. The stock options are exercisable to a maximum of 20% per annum on a cumulative basis commencing on or after January 31, 1981. The exercise price is \$3.50 per share. The options terminate on December 31, 1989.

At December 31, 1980, none of the options had been exercised.

**5. REMUNERATION OF DIRECTORS AND OFFICERS:**

The aggregate remuneration paid by the Company to directors and senior officers during the year amounted to \$211,000 (1979 — \$166,000).



## 6. INCOME TAXES:

The provision for income taxes of \$102,000 (1979—(\$31,000)) differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate of 49% (1979 — 47%) to the earnings (loss) before income taxes of \$265,000 (1979 — (\$4,000)). This difference results from the following items:

	1980	1979
Computed "expected" income tax expense	\$ 129,000	(2,000)
Increase (decrease) in taxes resulting from:		
Royalties and other payments to		
Provincial Government	126,000	69,000
Non-deductible depreciation and depletion	78,000	25,000
Other	(7,000)	(6,000)
Resource allowance	(139,000)	(82,000)
Depletion allowance	(30,000)	(4,000)
	157,000	—
Alberta royalty tax credit	(55,000)	(31,000)
	<u>\$102,000</u>	<u>(31,000)</u>

Certain petroleum and natural gas properties of the Company have tax values in excess of their net book value in the amounts of \$1,328,000. The future income tax benefits related to these amounts have not been recognized in the accounts.

## 7. SEGMENTED INFORMATION:

	Canada	United States	Total
Petroleum and natural gas:			
Production revenue	\$ 1,429,000	148,000	1,577,000
Production expense	472,000	12,000	484,000
	<u>\$ 957,000</u>	<u>136,000</u>	<u>1,093,000</u>
Other income			179,000
Unallocated expenses			(1,007,000)
Earnings before income taxes			<u>\$ 265,000</u>
Property, plant and equipment, net book value:			
Producing petroleum and natural gas properties	\$ 3,174,000	458,000	3,632,000
Non-producing properties	8,227,000	1,407,000	9,634,000
Production equipment	736,000	—	736,000
Leasehold improvements	50,000	—	50,000
Other equipment	57,000	—	57,000
	<u>\$12,244,000</u>	<u>1,865,000</u>	<u>14,109,000</u>



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## 8. SUBSEQUENT EVENT:

Subsequent to the year end the Company made a rights offer to its shareholders on the basis of one share for every five shares held at a subscription price of \$4.00 per share. The offer was fully subscribed and resulted in the issue of an additional 1,889,010 shares for a net consideration of \$7,271,000, including a deferred income tax benefit of \$271,000. The proceeds were added to the general funds of the Company and will be expended on continuing exploration and development of oil and gas properties.

## 9. COMMITMENTS:

The Company has contracted for the use of a drilling rig for a period of three years ending in August 1983. The rental payments under the contract are capitalized as part of the Company's drilling costs. The future minimum lease payments under the contract are as follows:

Year ending December 31

1981	\$1,460,000
1982	1,460,000
1983	936,000

The future minimum lease payments under other operating leases are \$88,000 per annum, expiring in 1985.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Ulster Petroleums Ltd. as at December 31, 1980 and the 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 financial statements present fairly the financial position of the Company as at December 31, 1980 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  
April 15, 1981

Peat, Marwick, Mitchell & Co.  
Chartered Accountants





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