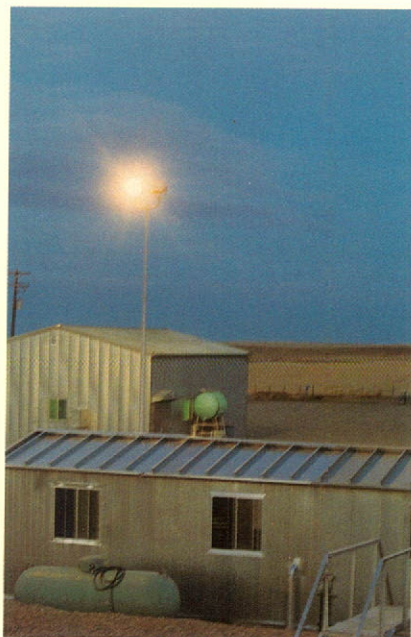


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Ulster Petroleums Ltd.

Annual Report 1987



Shareholders' Meeting

The Annual General Meeting of the Shareholders of Ulster Petroleum Ltd. will be held in the Mount Royal Room at the Westin Hotel in Calgary, Alberta on Friday, May 27, 1988 at 10:00 a.m.

Please sign and return the proxy form in the enclosed postage paid envelope if you cannot attend this meeting.

Cover Photos

Cactus #19 drilling Ulster et al Loon 12-5-86-9 W5M Granite Wash oil well.

Retlaw central battery and production facilities.

Crew at work on Cactus #19.

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Corporate Profile

Ulster Petroleum Ltd. became a public company on September 17, 1968 and functioned primarily as a land broker during its early years.

In 1980-81 the current management group joined Ulster with a commitment to convert it into a successful exploration company.

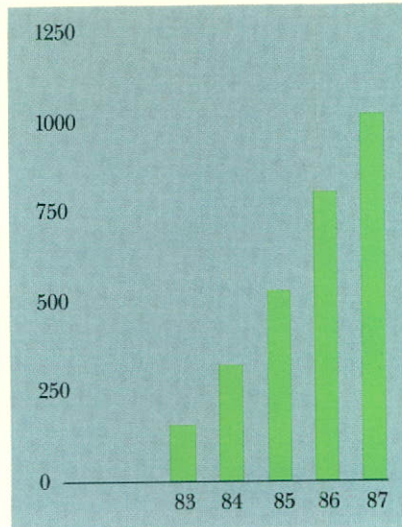
Today, Ulster is a solid junior exploration company with an excellent growth record and exceptional exploration potential.

Ulster has a staff of 29 employees, 12 of whom form the exploration and development group. This group is responsible for identifying and assembling exploration prospects within those oil and gas prone areas of Alberta where significant land positions can be assembled. This approach enables the Company to take advantage of initial drilling successes, to pursue similar prospects along the same trend, and to concentrate its efforts in those areas of its greatest expertise.

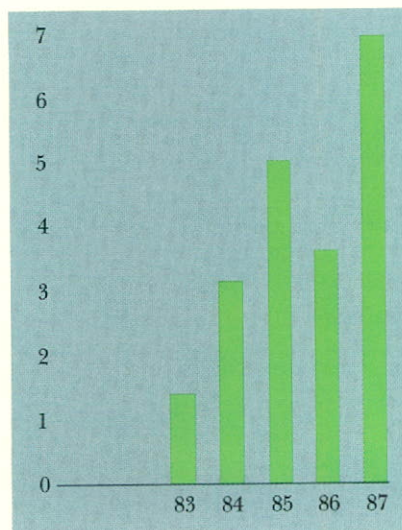
The Company's common shares are owned by approximately 7,500 registered shareholders and at least as many additional shareholders represented by brokerage firms.

The common shares of Ulster are listed on The Toronto Stock Exchange.

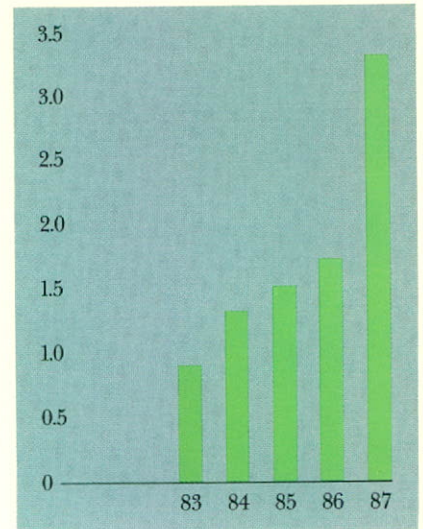
The stock symbol is ULP.



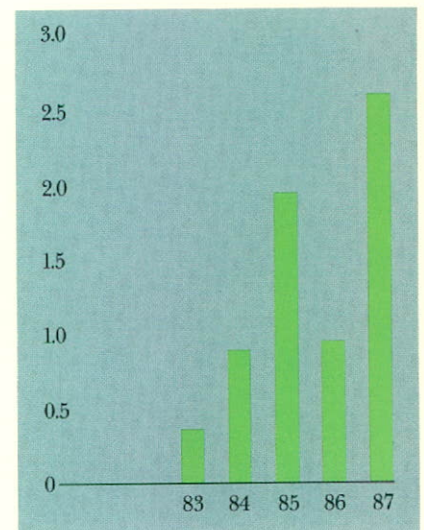
Daily Oil Production (barrels)



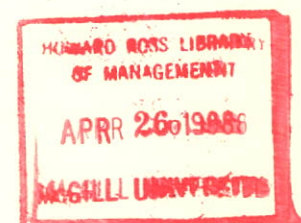
Working Capital Provided from Operations (\$ millions)



Daily Gas Production (mmcf)



Earnings (\$ millions)



Report to Shareholders

Last year's Report to Shareholders closed with an optimistic reaffirmation of our faith in the future of Ulster and the resiliency of the Oil Industry in general. *At that time, however, little could we have imagined the positive growth and changes in Ulster in 1987.*

Before expanding on this observation, I would first of all like to welcome the 4,000 shareholders and two directors (Messrs. Howard and Schwartz) who have joined Ulster from Canadian Westgrowth Ltd. in 1987. We look forward to sharing a long and prosperous relationship with you.

Industry Observations

Although only the strong of heart (some say foolhardy) should attempt to predict the future price of any commodity, we as operating managers must attempt to quantify the risks and assess the likely courses of action in order to establish a business plan which will allow us to survive during the worst cases and profit in all others.

With this objective in mind, we believe that the worst of the world oil price volatility and instability is behind us and that prices appear to be settling into an extended period within a \$15-20 (U.S.) per barrel trading range. We believe that Ulster can successfully produce and explore for oil within this price range and more importantly that it will limit worldwide energy exploration and conservation and thus have a positive effect on long-term oil prices.

Natural gas prices on the other hand continued their dramatic slide in 1987 but may now be showing the first signs of bottoming out. Accordingly, we do not anticipate any significant short-term changes in natural gas prices and we are cautiously optimistic about longer term prices. We do see the improved access to markets gained by smaller companies during the last two years, however, as a positive development. This has allowed Ulster to become an aggressive explorer for high quality low cost natural gas which can be readily marketed for the first time since 1980.

The Oil Industry is now going through a consolidation and rationalization phase which will see many of the weaker companies liquidated and/or combined with their stronger compatriots. This will significantly reduce the number of companies in the game but will create a positive operating environment where the remaining participants will be much more healthy, stable and competitive.

Westgrowth Acquisition

In keeping with the changing environment within the industry and our desire to create a stronger and more competitive operating company, Ulster acquired all of the outstanding shares of Canadian Westgrowth Ltd., effective October 27, 1987. This transaction has created a combined company with:

- Shareholders' equity of more than \$62 million;
- Working capital of more than \$6 million and long-term debt of \$5 million;
- Oil and gas properties and equipment with a 15% discounted value of more than \$100 million; and
- A substantial inventory of undeveloped land with excellent exploration potential.

This solid and significant financial base will allow the Company to continue to finance its exploration activities from current cash flows and will also enable it to pursue a \$30-50 million property acquisition — if one can be found which will provide both a reasonable return on our investment and complement our ongoing exploration objectives.

Corporate Objectives

Ulster is a "long-term exploration" company committed to sustained and profitable annual growth based upon three cornerstones:

- Solid Financial Base
- Strong Land and Reserve Base
- Experienced Exploration Group

Ulster has been built from the ground up based upon the pursuit of drilling and exploration opportunities. This was a time consuming process, however, the discipline necessary to overcome the start-up problems and the momentum gained during this process, provide an immeasurable long-term benefit to the Company and its staff.

Although Ulster will continue to selectively pursue property and/or corporate acquisitions, we believe that a company can only sustain its growth and prosperity if it is a successful explorer.

Exploration Activities

Ulster's exploration and development expenditures increased to \$8 million in 1987 and are expected to reach \$12 million in 1988 and \$20 million in 1989. This level of future commitment is a function of our increased financial capabilities and a response to the quality and quantity of the new exploration lands acquired in 1986-87.

Detailed descriptions of these activities are provided in both the exploration and the production sections of this report.

Staff

The success of a company is primarily a function of the effort and determination of its staff. At Ulster we are extremely fortunate to have an experienced management group which has remained intact since 1981 and an excellent supporting cast which includes a number of individuals obtained from Canadian Westgrowth Ltd.

Their efforts have created the successful Company you own today, and they will no doubt guide us to continuing success in the future.

On Behalf of the Board of Directors



Donne C. Traxel
President

March 30, 1988



Exploration Activity

Exploration and development expenditures for the year ended December 31, 1987 totalled \$8,717,000, net of exploration incentives recovered of \$1,097,000. This total represents a 34% increase in expenditures over the level incurred in 1986 and as explained below is primarily attributable to increased land acquisitions and exploratory drilling on the Company's gas exploration program.

Ulster participated in the drilling of only nine wells during the first six months of 1987, as the Oil Industry tried to adjust to the roller coaster ride of world oil prices and the uncertainty of future expectations. As this

industrywide pessimism began to subside at mid-year, activity levels gradually improved with the result that Ulster drilled nine wells in each of the third and the fourth quarters of the year. This renewed level of activity accelerated in the first quarter of 1988 as Ulster drilled a total of 16 wells and farmees drilled eight additional wells on Company lands.

Although oil prices have weakened during the first quarter of 1988, we believe that they will remain in the \$15-20 (U.S.) range for a few years. This range of oil prices, when combined with the quantity and quality of exploration lands acquired during the last two years, should make the balance of 1988 and 1989 one of the most active and successful

exploratory periods in the Company's history. With these expectations in mind, our 1988 capital budget has been set at \$12 million and 1989's should reach \$20 million.

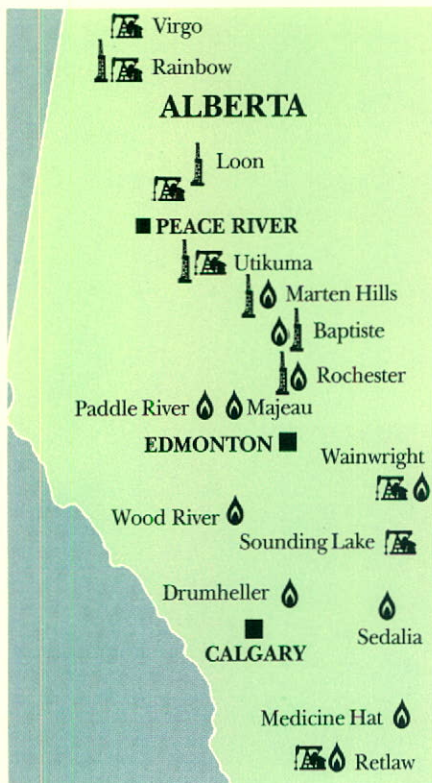
This increase in exploration activity has also been complemented by a significant increase in the level of our participation in each new project. This trend is clearly illustrated by the jump to 69% in the average working interest in our exploratory wells and the 74% average working interest in land acquisitions during the year. These percentages reflect our general corporate philosophy of participating in low cost gas and oil prospects for up to 100% and in the higher cost and/or higher risk exploratory prospects for up to 50%.

Ulster is an active and highly respected production and drilling operator. This is reflected by the fact that the Company operates 225 producing oil and gas wells and was the operator of over 40 wells drilled during the last 18 months (or 90% of the wells in which the Company has participated). Having operatorship of the majority of our property interests has allowed us to maximize the return on our property investments and maintain our corporate overhead at one of the lowest net levels within our industry.




Ulster's net capital expenditures and the results of our drilling activities are summarized in the offsetting tables and described in detail in the narratives which follow.

Capital Expenditures	1987		1986	
	(000)			
Developmental drilling and construction of production facilities	\$3,034	(35%)	\$3,383	(52%)
Exploratory drilling and seismic activities	2,489	(28%)	1,346	(21%)
Land acquisition and rentals	2,609	(30%)	1,236	(19%)
Geological and geophysical expenses capitalized	585	(7%)	534	(8%)
Total Expenditures	<u>\$8,717</u>		<u>\$6,499</u>	

Development Wells			Exploratory Wells		
	1987	1986		1987	1986
Oil	7	16	Oil	4	7
Gas	2	2	Gas	5	—
Service	1	—			
Dry	2	3	Dry	6	3
Total	<u>12</u>	<u>21</u>	Total	<u>15</u>	<u>10</u>
Average Working Interest	(26.5%)	(29.7%)	Average Working Interest	(69.3%)	(25.7%)



Ulster Petroleum Ltd.

-  Oil Production
-  Gas Production
-  Exploration Activity

Gas Exploration Activity

In 1986 Ulster commenced a major exploration program in central and southern Alberta with the objective of developing sufficient natural gas reserves to fill our available industrial gas contracts and pursue new marketing opportunities which we see developing within the next few years.

As of the date of this report, Ulster has purchased an 85% average working interest in more than 48,000 gross acres of lands and drilled 11 successful gas wells as part of this program. *These wells have increased Ulster's natural gas reserves by more than 30 bcf and production capability by more than 15 mmcf/d. More importantly, this activity has created the potential for significant future reserve additions from follow-up locations.*

The major areas of recent activity are briefly summarized below.

Rochester

Ulster purchased a 50% working interest in four sections of mineral rights in the Rochester area (Twp 62, Rge 24, W4M) in July 1987 and subsequently drilled a natural gas well at 2-21-62-24 W4M which tested significant commercial quantities of natural gas from four separate zones.

An additional four sections of adjoining Crown mineral rights were purchased in November 1987 and a successful follow-up well was drilled in 10-16-62-24 W4M in December.

Both wells are being completed and production tested for commencement of production later this year.

Additional drilling is planned to define the areal extent of this gas field in 1988.



Majeau

Ulster purchased two sections of mineral rights (100% working interest) in the Majeau area (Twp 57, Rge 3, W5M) and in December 1986 drilled a Mannville natural gas well at 8-9-57-3 W5M. This well commenced production in September 1987 and is currently producing 1.4 mmcf/d of natural gas which is being sold under an industrial contract.

A follow-up well was drilled in 12-10-57-3 W5M in 1987 which is now being completed and production tested.

Marten Hills

Ulster purchased two sections of mineral rights (100% working interest) in the Marten Hills area (Twp 74, Rge 2, W5M) and in December 1987 drilled a Wabiskaw natural gas well at 16-36-74-2 W5M.

An additional nine sections of mineral rights were purchased in this prospect area in February 1988 and a successful follow-up well was then drilled in 14-30-74-1 W5M in March. Two more wells will be drilled in this prospect area prior to spring break-up and further drilling is planned for early next winter.

Production from these wells will not commence before the first quarter of 1989 since the necessary facilities and tie-ins cannot be completed until next winter.

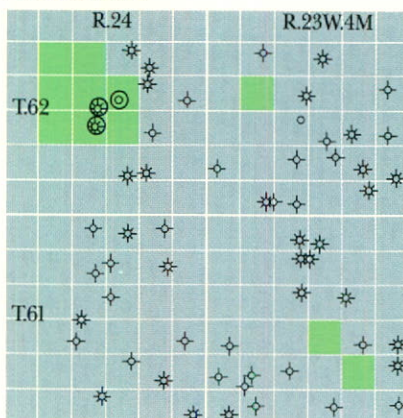
Baptiste

Ulster purchased two sections of mineral rights (100% working interest) in the Baptiste area (Twp 67, Rge 23, W4M) and in December 1987 drilled a natural gas well at 14-23-67-23 W4M. This well will be completed this summer and should

commence production later this year into an industrial gas contract.

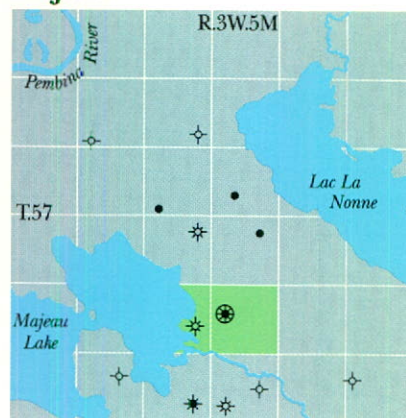
A follow-up well will be drilled on this prospect in March 1988 to evaluate the offsetting Crown acreage.

Rochester



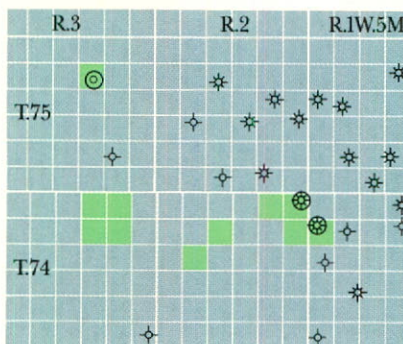
- Ulster Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Majeau



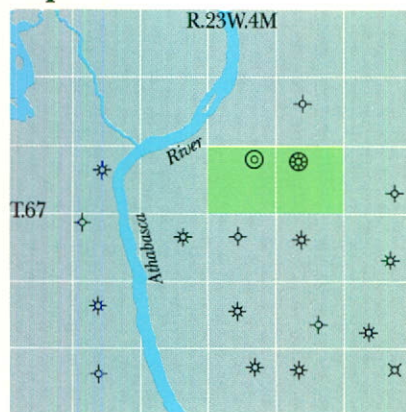
- Ulster Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Marten Hills



- Ulster Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Baptiste



- Ulster Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Other Gas Program Areas

Ulster purchased 18 sections of mineral rights (100% working interest) in the Thornbury area (Twp 80, Rge 14, W4M) in 1987 and will spud its first exploratory well on this acreage prior to spring break-up in 1988.

Ulster drilled a successful Basal Quartz/Glaucinite natural gas well (56% working interest) at 10-34-11-18 W4M in the Retlaw area in November 1987. This well is being completed and will be produced into an industrial gas contract.

Ulster purchased a 100% working interest in two sections of lands in the Jarvie area (Twp 63, Rge 26, W4M) and drilled a dry hole at 7-6-63-26 W4M in July 1987. An additional location has however been identified on this prospect which will be drilled in 1988.

Oil Exploration Activity

Loon

During 1987 Ulster continued to direct the major portion of its exploration and development efforts into the Loon area in northern Alberta where the Company has a 25% average working interest in over 45,000 gross acres and an additional 27,360 gross acres tied up under exploration agreements.

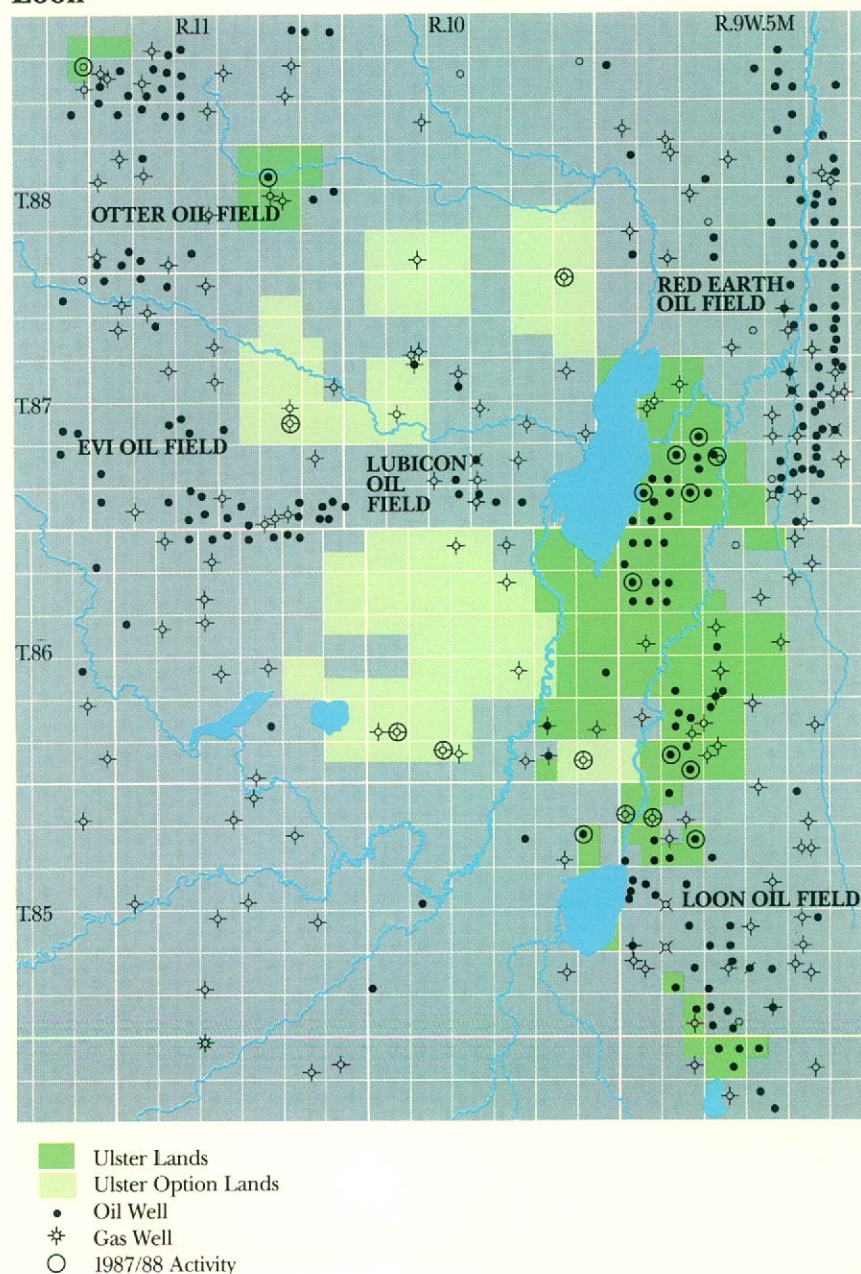
The following geological overview of the Loon area and brief history of our involvement therein is provided for the many first time readers of Ulster's annual report.

The Loon area, as we generically use the term at Ulster, consists of a 1,000 square mile area located within Townships 84-88 and Ranges 7-12 W5M in northern Alberta. This area has a number of major oil fields including Red Earth, Loon,

Otter, Evi, and Lubicon and a substantial amount of lightly explored but still highly prospective acreage.

The Granite Wash formation, at a drilling depth of approximately 5,000 feet, is the primary

Loon



objective in this area. This formation is a highly prolific sandstone reservoir and a typical well has recoverable oil reserves of approximately 250,000 barrels (although some individual wells have produced over one million barrels) and receives a production allowable of 100 barrels per day. Exploration for Granite Wash production is relatively high risk, however, the financial rewards for success are excellent.

The Slave Point formation is a carbonate reservoir found approximately 300 feet above the Granite Wash within this area. A Slave Point well typically has recoverable reserves of 100,000 barrels or less and production rates of 30-50 barrels per day and accordingly is normally considered to be a secondary objective.

The Loon area is highly prospective for production from both the Granite Wash and the Slave Point formations and many wells (13 out of 36 wells that Ulster operates) have been dually completed and produce oil from both zones. The average cost of a dry hole is \$250,000 and the average cost for a dually completed well is \$750,000.

Ulster drilled its first exploratory well in the Loon area at 10-8-86-9 W5M in July 1982. This well has produced over 168,000 barrels of light gravity oil from the Granite Wash formation and is still producing 75 barrels of oil per day.

Subsequent exploratory efforts have lead to the discovery of four new oil pools:

Loon Granite Wash	
"B" Pool	— 6 wells
Loon Granite Wash	
"E" Pool	— 9 wells
Loon Slave Point	
"G" Pool	— 23 wells
Loon Granite Wash	
"J" Pool	— 2 wells

In spite of a partner imposed slow down in drilling activity Ulster did manage to drill 12 wells (44% average working interest) in this area in 1987 and an additional 8 during the first quarter of 1988. The results of this drilling activity are as follows:

Dual Granite Wash/Slave	
Point Oil Wells	6
Slave Point Oil Wells	3
Granite Wash Oil Wells	2
Gas Wells	1
Dry Holes	7
Drilling	1
TOTAL WELLS	<u>20</u>

Although Ulster's existing land holdings still offer excellent development potential (a minimum of three wells are scheduled for drilling immediately after break-up in 1988), our exploratory efforts were severely restricted until late last year, primarily due to a combination of partner inactivity and weak oil prices. Since we sincerely believe that the Loon area still offers excellent potential for the discovery of significant new oil reserves, Ulster successfully negotiated a series of farmin and option agreements on 27,360 gross acres

of land offsetting our existing production. These lands, together with the additional acreage purchased at Crown land sales, have provided the basis for the drilling of 8 exploratory wells during the 1987-88 winter drilling seasons. Three of these exploratory wells have been completed and additional exploratory drilling has already been planned for the 1988-89 winter drilling season.

To date, Ulster has participated in the drilling of 45 successful oil wells in the Loon area which today provide us with net daily oil production of more than 600 barrels. We believe, however, that the potential still exists to significantly increase this production rate in the future.

Other Drilling Activity

Ulster has undertaken a major positive initiative to generate third party drilling activity on Company lands which we are no longer actively exploring. The initial results of this program have been very encouraging, producing 2 oil wells (at Grand Forks and Pembina) and 2 natural gas discoveries (at Provost in Alberta and Beaton in British Columbia) from the 8 wells drilled to date. A number of additional wells have also been committed for drilling later this year.

Please refer to the production section of this report for current drilling activities and plans on the Company's major producing property holdings.

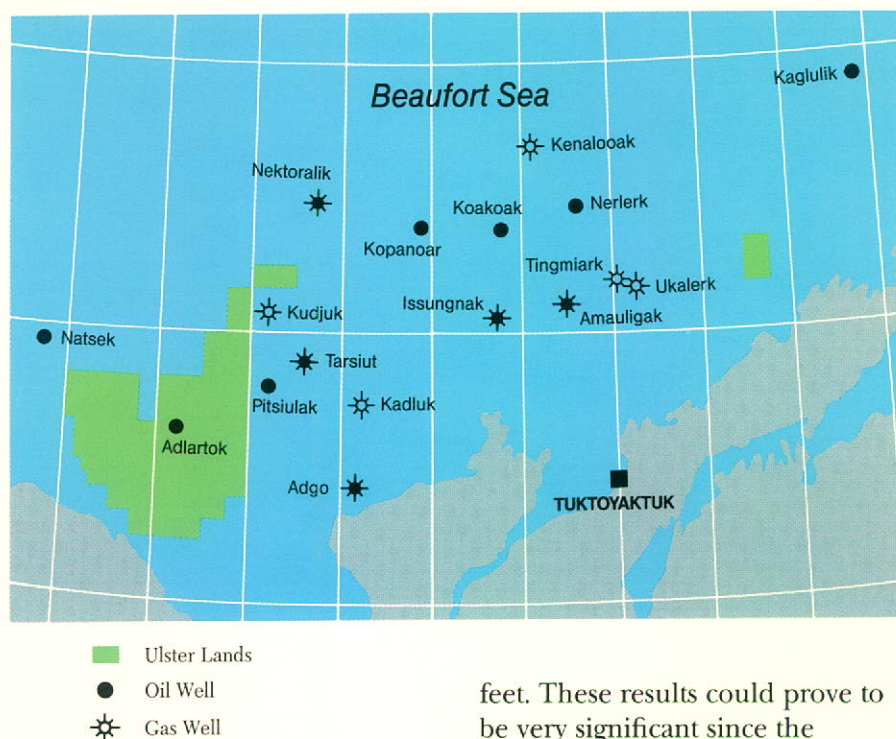
Land Holdings

In spite of the uncertain economic times which faced the industry in 1986-87, Ulster remained committed to and in fact accelerated its efforts towards its long-term goal of building an inventory of land which can be used as the basis for our rapidly expanding future exploration activities.

To this end, Ulster invested 30% of its 1987 capital budget purchasing a 74% average working interest in 29,700 gross acres of mineral rights at Alberta land sales. This total represents the most active year in the Company's history and, if initial drilling successes are any indication, one of the most profitable. This trend has continued into the first quarter of 1988 with the purchase of a 100% working interest in an additional 8,000 acres at a cost of \$900,000.

As at December 31, 1987 Ulster had an undeveloped land inventory in Western Canada of over 113,900 net acres, one-third of which was purchased at attractive prices in 1986-87.

Never, in our corporate history, has Ulster had a greater quantity nor better quality of prospective land holdings.



Beaufort Sea

Ulster has a 10% average working interest in more than one million gross acres of mineral rights in the Beaufort Sea. These interests were acquired during the early 1970's and have been carried by third parties over the years.

In 1985, the Adlartok P-09 well (Ulster 1.5% carried interest) was drilled on Ulster's lands and successfully tested over 4,000 barrels of oil per day from four intervals between 5,360 and 5,806

feet. These results could prove to be very significant since the productive sand reservoirs are expected to extend over a large geophysically defined structure. A second large geophysically defined structure has been identified on the eastern edge of this land block, but to date remains untested.

Gulf's ongoing evaluation of its Amauligak structure in 1987 and their planned activity for 1988 is particularly encouraging to all land owners in the Beaufort Sea since its success could result in the construction of the infrastructure necessary to develop many of the other fields already discovered.

Although Ulster's cash investment in the Beaufort Sea is nominal and our anticipated future carrying costs minimal, we remain convinced that these lands will have significant future value and some day produce oil for the account of the Company.

Land Holdings

(Acres)

	Gross	Net	Net Undeveloped
Alberta	543,700	179,500	106,200
Saskatchewan	64,800	2,900	1,900
British Columbia	33,500	9,100	5,800
	642,000	191,500	113,900
Beaufort Sea	1,086,000	112,000	112,000
Total	1,728,000	303,500	225,900

Production and Reserves

Reserves

The Company's proved and probable additional oil and natural gas reserves as at December 31, 1987 are summarized in the offsetting table.

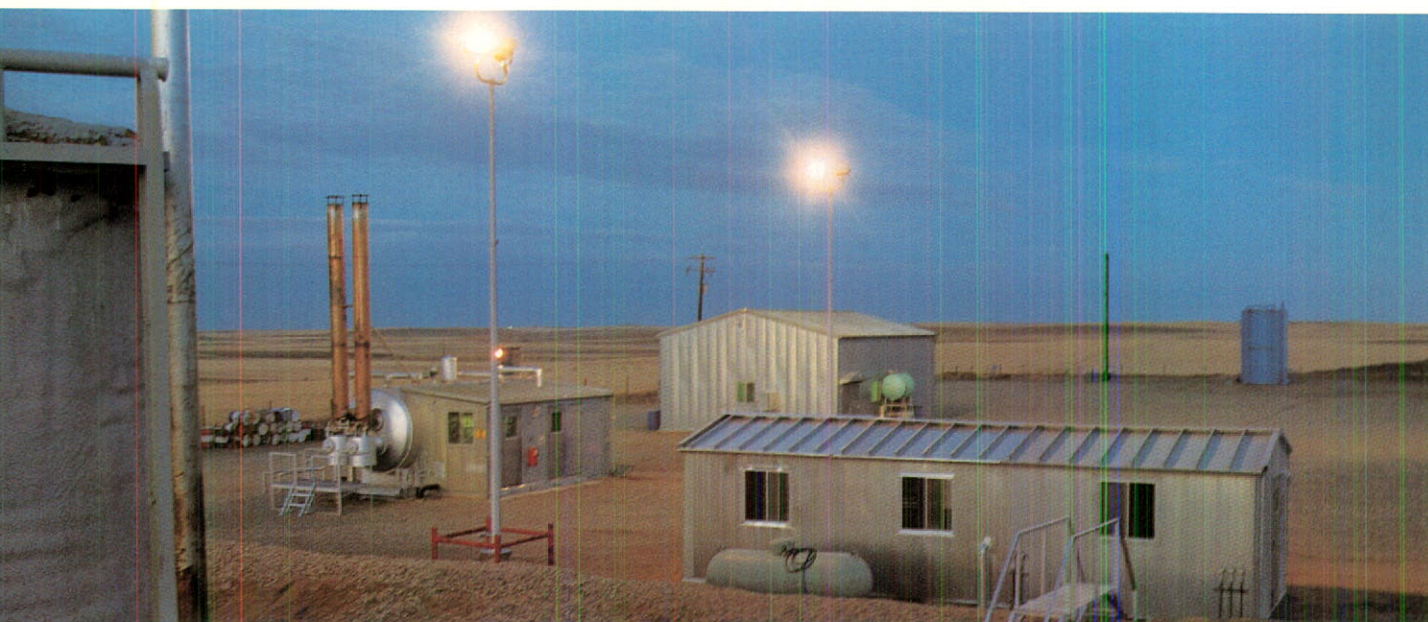
This information has been compiled from detailed independent evaluations of the Company's properties effective January 1, 1987 and individual reports on new wells drilled and/or acquired during the year. These estimates were prepared without consideration of income taxes and indirect costs such as interest and administrative expenses.

	Oil		Gas		Present Worth Discounted at		
	Gross	Net	Gross	Net	0%	15%	20%
	(mbbls)		(mmcf)		(000)	(000)	(000)
Proven							
Reserves	5,485	4,628	58,352	47,840	\$ 298,200	\$ 82,400	\$ 65,500
Probable							
Additional							
Reserves	1,707	1,395	14,455	11,354	103,800	20,000	14,200
Total	<u>7,192</u>	<u>6,023</u>	<u>72,807</u>	<u>59,194</u>	<u>\$402,000</u>	<u>\$102,400</u>	<u>\$79,700</u>

Production

The Company's oil production increased by 25% to average 1,002 barrels per day in 1987. This rate of growth was somewhat less than anticipated and is a direct response to the severely restricted level of drilling activity during the 1986-87 winter drilling season as described in detail under the exploration activity heading of this report. This situation is improving significantly as we enter 1988 and as such we expect increased growth rates in the future.

Natural gas sales more than doubled in 1987 to average 3.4 mmcf/d and will increase significantly again in 1988 as the recent discoveries described in detail elsewhere in this report are put onto production. This dramatic growth marks the beginning of a long-term trend towards a more balanced corporate mix between future oil and natural gas revenues and is designed to take advantage of the expanding market opportunities for natural gas.



The tables presented on this page include the major production areas of the Company as at December 31, 1987 and their 1987 production volumes. These properties have been listed in order based upon their current daily production volume.

Since this report will be the first exposure to Ulster for many of our shareholders and since many of our producing properties are new and/or have ongoing exploration activity associated with them, we have prepared the following brief narratives and maps for those major producing properties not discussed elsewhere in this report.

Retlaw

Ulster has a 43% average working interest in 22,760 gross acres and operates 26 Glauconite oil wells and 18 gas wells in the Retlaw area of southern Alberta (Twp 12, Rge 18, W4M).

Current daily production from this property is 115 barrels of oil and 2.2 mmcf of natural gas, net to Ulster. Natural gas from this property is sold under a TransCanada PipeLines contract and a number of industrial gas contracts.

The Retlaw oil pool was unitized in 1983 and became one of Canada's first experimental immiscible carbon dioxide (CO₂) floods in 1984. The injected CO₂ is expected to provide the desired reservoir pressure maintenance and swell the oil in place thereby reducing its viscosity and increasing the ultimate oil recovery from this reservoir.

Oil Production by Area

(barrels)	1987	1986	1985
Loon	228,300	183,100	84,000
Retlaw (1)	7,000	n/a	n/a
Wainwright	41,000	44,500	45,300
Virgo (1)	6,700	n/a	n/a
Utikuma (1)	4,800	n/a	n/a
Others	77,800	65,200	56,800
	<u>365,600</u>	<u>292,800</u>	<u>186,100</u>
	(1,002 b/d)	(802 b/d)	(510 b/d)

Gas Production by Area

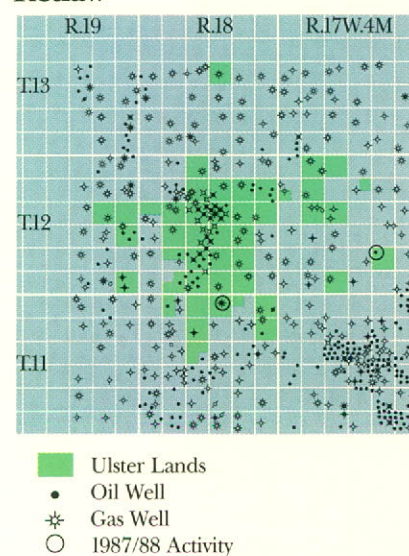
(mmcf)	1987	1986	1985
Retlaw (1)	136.2	n/a	n/a
Wood River	275.4	6.3	—
Medicine Hat	259.9	278.7	143.4
Majeau	122.6	—	—
Paddle River (1)	54.3	n/a	n/a
Others	403.6	321.5	391.6
	<u>1,252.0</u>	<u>606.5</u>	<u>535.0</u>
	(3.4 mmcf/d)	(1.7 mmcf/d)	(1.5 mmcf/d)

(1) Production since date of acquisition of this Canadian Westgrowth Ltd. property.

CO₂ has been successfully injected into the northern portion of this pool for a period of four years and the waterflood follow-up phase has now commenced. CO₂ is now being injected into the southern portion of the pool with waterflooding scheduled to commence in 1989.

Although current oil prices cannot support the initial start-up capital costs of such enhanced recovery projects, the technology gained from this project could prove to be a valuable asset in the future.

Retlaw



Wainwright

Ulster has a 22% average working interest in 9,760 gross acres and operates 60 Sparky oil wells and 10 Viking/Colony gas wells in the Wainwright area in east-central Alberta (Twp 45, Rge 6, W4M).

Current daily production from this property is 112 barrels of oil and 125 mcf of natural gas, net to Ulster. Natural gas from this property is sold under contract to Northwestern Utilities.

Although the Sparky oil reserves underlying the Company lands offer the potential for additional development, such activity will not be undertaken without a significant improvement in world oil prices.

Utikuma

Ulster has a 51% average working interest in 1,760 gross acres containing two producing Gilwood oil wells in the Utikuma area of northern Alberta (Twp 80, Rge 9, W5M). These wells provide 80 barrels of net oil production per day to the Company.

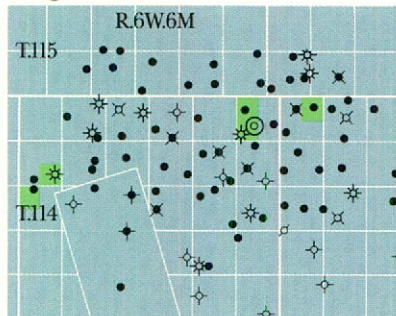
A follow-up well will be drilled by a farmee in Section 30-80-9 W5M in 1988 and an extensive seismic program was shot this winter over a seven section block of option lands controlled by the Company. The results of this program will be used to identify additional drilling locations for the 1988-89 winter drilling season.

Virgo

Ulster has a 25% average working interest in 800 gross acres containing two producing Keg River oil wells and two shut-in gas wells in the Virgo area of northwestern Alberta (Twp 114, Rge 5, W6M). These wells provide 110 barrels of net oil production per day to the Company.

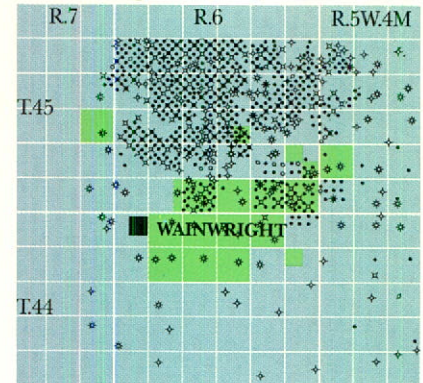
A follow-up well will be drilled by a farmee in Section 36-114-6 W6M in 1988.

Virgo



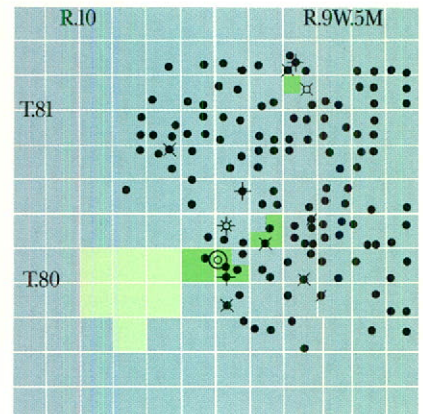
- Ulster Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Wainwright



- Ulster Lands
- Oil Well
- * Gas Well

Utikuma



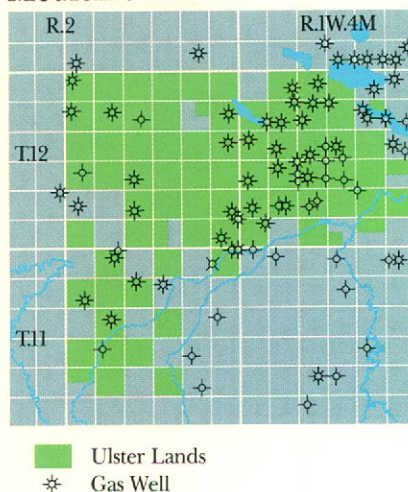
- Ulster Lands
- Ulster Option Lands
- Oil Well
- * Gas Well
- 1987/88 Activity

Medicine Hat

Ulster has a 96% average working interest in 38,880 gross acres and operates 20 Medicine Hat gas wells in this southeastern Alberta field (Twp 12, Rge 2, W4M). The Company's natural gas production of 700 mcf/d from this property is contracted to TransCanada PipeLines but excess volumes are sold under an industrial contract in order to maximize operational efficiency.

This property was developed by Ulster in the early 1970's and is now in its twilight years.

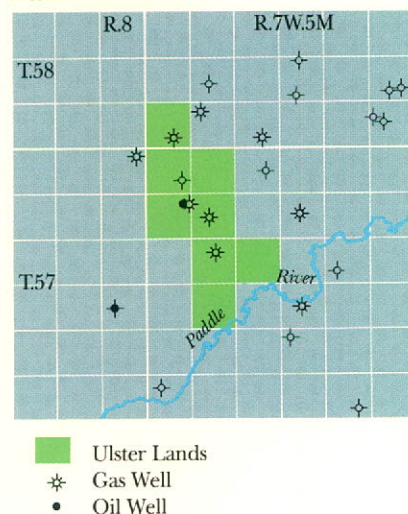
Medicine Hat



Paddle River

Ulster has a 17% average working interest in 5,120 gross acres containing four Nordegg natural gas wells in the Paddle River area of central Alberta (Twp 57, Rge 7, W5M). This property was placed on production in August 1987 and currently produces 800 mcf/d net to the Company which is sold into an industrial contract.

Paddle River



Wood River

Ulster has a 50% working interest in an Ellerslie/Colony natural gas well in the Wood River area of central Alberta (Twp 43, Rge 23, W4M).

Production from this well is sold under an industrial gas contract and is expected to decline significantly in 1988 due to depletion of the most prolific of the two productive reservoirs in this well.

Financial Review and Analysis

Ulster's financial results for the year ended December 31, 1987 were highlighted as follows:

- Net earnings increased by 130% to \$2,540,000 (\$0.14 per common share);
- Working capital provided from operations increased by 90% to \$6,930,000 (\$0.37 per common share); and
- Production revenues totalled \$9,780,000 for the year as compared to \$5,896,000 in 1986.

Each of these amounts represents a record high for the Company, but more importantly, 1987 marks the sixth consecutive year that Ulster has reported a profit.

Statement of Operations

Oil production exceeded 1,000 barrels per day in 1987 with the result that over 80% of the Company's production revenues were generated from our oil

interests. The average selling price for our oil production increased 26% in 1987 to average \$22.77 per barrel while net royalties and production expenses remained relatively unchanged.

Natural gas production more than doubled in 1987, however, net income from gas sales only increased by 28% due to the collapse in natural gas prices during the year. Although natural gas prices appear to have bottomed, we do not expect net

production revenues to increase in the same proportion as production volumes until 1989.

Interest expense for the year declined to \$402,000 as a direct result of the Company's reduced level of borrowings and a reduction in the rate of interest paid on our long-term debt to 7%. This interest rate is fixed for a period of ten years and as such this benefit will be ongoing.

	1987		1986	
Barrel of Oil				
Selling price	\$22.77	100.0%	\$18.04	100.0%
Royalties	(1.77)	(7.8%)	(1.38)	(7.7%)
Production expenses	(4.81)	(21.1%)	(4.41)	(24.4%)
Net production revenue	<u>\$16.19</u>	71.1%	<u>\$12.25</u>	67.9%
Mcf of Natural Gas				
Selling price	\$ 1.46	100.0%	\$ 2.23	100.0%
Royalties	(.06)	(4.1%)	(.09)	(4.0%)
Production expenses	(.61)	(41.8%)	(.78)	(35.0%)
Net production revenue	<u>\$.79</u>	54.1%	<u>\$ 1.36</u>	61.0%



Balance Sheet

A review of Ulster's balance sheet as at December 31, 1987 reveals a solid and significant financial base which will enable the Company to maintain an expanding level of operations. The highlights of this financial base are as follows:

- Shareholders' equity exceeds \$62 million;
- Working capital exceeds \$6 million and long-term debt is \$5 million, represented by a ten year 7% Convertible Debenture (convertible at \$2.59 per common share); and
- Investment in oil and gas properties and equipment exceeds \$63 million and has a 15% discounted present value of more than \$100 million, excluding our substantial undeveloped land holdings.

This base will allow the Company to continue to finance its exploration activities from current cash flows and to pursue a \$30-50 million property acquisition — if one can be found which will provide both a reasonable return on our investment and complement our ongoing exploration objectives.

Oil and Gas Properties

The Company's investment in oil and gas properties increased by \$24,430,000 in 1987. This total includes additions to oil and gas properties from operations of \$8,717,000 (net of \$1,097,000 in incentives recovered) and \$15,713,000 in properties and equipment acquired through the acquisition of Canadian Westgrowth Ltd. in October 1987. Property additions through operations were financed primarily from cash flows from operations, whereas the acquisition of Westgrowth properties was satisfied by the issuance of common shares.

Property additions for the year include capitalized geological and geophysical expenses of \$585,000 (\$534,000 in 1986). This amount represents costs directly related to the maintenance of the Company's exploration group and reflects Ulster's commitment to growth through exploration.

Income Tax Pools

As at December 31, 1987, Ulster had the following pools available for Canadian Income Tax purposes: \$30.6 million in Canadian Exploration Expense, \$8.2 million in Canadian Development Expense, \$7.7 million in Undepreciated Capital Cost Allowance, and \$17.8 million in Canadian Oil and Gas Property and Foreign Exploration Expenses.

Normal Course Issuer Bid

In October 1987, Ulster obtained permission from The Toronto Stock Exchange to acquire a maximum of 2,000,000 of its common shares through the facilities of the Exchange during a 12 month period ending October 29, 1988. During 1987, the Company purchased 15,750 of its common shares for a total consideration of \$31,000 under the provisions of this normal course issuer bid.

Ulster has not established a maximum price which it is prepared to pay for its common shares pursuant to this bid, however, we believe that the common shares of the Company are currently trading at less than their underlying asset value and accordingly represent a prudent and appropriate investment of our cash reserves.

6. Share capital continued

a) Authorized share capital

At a special meeting of the shareholders held on October 23, 1987, it was resolved that the Company's articles be amended to increase the authorized number of common shares without nominal or par value to an unlimited number.

b) Acquisition of Canadian Westgrowth Ltd.

Effective October 27, 1987 the Company issued 12,455,364 common shares for a consideration of \$23,587,000 net of share issue expenses and deferred income taxes and 1,528,834 common share purchase warrants in conjunction with the acquisition of all of the outstanding shares of Canadian Westgrowth Ltd. Each warrant will entitle the holder to acquire 1.5 common shares for a consideration of \$5.00 on or before November 30, 1991.

c) Private placement

Effective March 31, 1987, the Company privately placed 1,000,000 common shares for a total consideration of \$2,017,000 net of share issue expenses and deferred income taxes.

d) Normal course issuer bid

During the year, the Company purchased 15,750 (1986 - 283,100) common shares for \$31,000 (1986 - \$376,000) under the terms of its normal course issuer bid. These shares were cancelled and the issued share capital was reduced accordingly.

e) Stock options

The Company has reserved 1,000,000 common shares for granting under option to full time employees. As at December 31, 1987 options on 652,000 common shares have been granted and are exercisable, at prices ranging from \$0.94 to \$2.45 per share, to a maximum of 20% per annum on a cumulative basis. Options aggregating 55,000 terminate on December 31, 1988, 352,000 on December 31, 1989, 65,000 on December 31, 1995 and 180,000 on December 31, 1996. During the year options on 100,500 common shares were exercised at prices ranging from \$0.94 to \$1.50 per share for a total cash consideration of \$107,000.

7. Deferred income taxes

The provision for deferred income taxes differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate to the Company's earnings before income taxes. This difference results from the following items:

	1987	1986
Computed "expected" income tax expense	\$2,036,000	633,000
Increase (decrease) in taxes resulting from:		
Royalties and other payments to provincial governments	602,000	309,000
Non-deductible depreciation and depletion	198,000	223,000
Resource allowance	(665,000)	(471,000)
Depletion allowance	(154,000)	(73,000)
Alberta royalty tax credit	(532,000)	(237,000)
	<u>\$1,485,000</u>	<u>384,000</u>

Oil and gas properties with a net book value of \$9,451,000 (1986 - \$9,893,000) have no cost for income tax purposes. This amount relates primarily to prior years' private placements of common shares whereby all wells drilled and related production accrue to the Company but the related income tax deductions and grants accrue to the investors.

8. Comparative figures

Certain 1986 comparative figures have been reclassified to conform to the 1987 presentation.

Five Year Review

	1987	1986	1985	1984	1983
Daily Production					
Oil (barrels per day)	1,002	802	510	300	138
Gas (mcf per day)	3,400	1,700	1,500	1,300	900
Reserves (Proved and Probable)					
Oil (thousands bbls)	7,200	4,400	4,500	3,300	2,900
Gas (mmcf)	72,800	30,200	18,500	19,800	19,900
	(000 omitted)				
Statement of Earnings					
Production revenue	\$ 9,780	5,896	7,447	4,672	2,456
Other revenue	547	458	280	157	190
	<u>10,327</u>	<u>6,354</u>	<u>7,727</u>	<u>4,829</u>	<u>2,646</u>
Production expenses	2,563	1,707	1,979	1,312	757
General and administrative	432	398	376	357	326
Interest	402	608	352	107	155
Depletion & depreciation	<u>2,905</u>	<u>2,343</u>	<u>2,122</u>	<u>1,592</u>	<u>920</u>
	<u>6,302</u>	<u>5,056</u>	<u>4,829</u>	<u>3,368</u>	<u>2,158</u>
Deferred income taxes	<u>1,485</u>	<u>384</u>	<u>921</u>	<u>561</u>	<u>127</u>
Earnings before extraordinary item	<u>\$ 2,540</u>	<u>914</u>	<u>1,977</u>	<u>900</u>	<u>361</u>
Earnings per share	<u>\$ 0.14</u>	<u>0.06</u>	<u>0.12</u>	<u>0.06</u>	<u>0.03</u>
Statement of Changes in Financial Position					
Working capital provided from operations	\$ 6,930	3,641	5,020	3,053	1,408
Per common share	0.37	0.24	0.30	0.19	0.10
Additions to oil & gas properties	24,430	6,499	6,306	5,618	5,569
Issue of shares (net)	25,744	57	(1,126)	228	5,552
Balance Sheet					
Oil & gas assets	\$63,028	40,618	37,904	33,692	29,666
Long-term debt	5,500	4,900	3,900	2,000	—
Shareholders' equity	62,392	34,172	32,624	30,938	29,620
Common Shares Outstanding					
Year end	29,435	15,894	15,738	16,583	16,493
Weighted average	18,492	15,490	16,117	16,379	14,440
Share Trading Activity					
Price — High	\$ 3.90	1.95	2.10	1.62	2.48
— Low	1.50	1.17	1.10	1.06	1.25
Volume	14,364	5,944	10,361	6,804	7,410

Corporate Information

Directors

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Financial Director
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Sussex, England

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President
Trans-Canada Resources Ltd.
Calgary, Alberta

Mr. Derek C. Martin
Executive Vice President
CEDA International Ltd.
Calgary, Alberta

Mr. Roy R. Schwartz
Vice President, Corporate
Development
Imasco Limited
Montreal, Quebec

Mr. Donne C. Traxel
President
Ulster Petroleum Ltd.
Calgary, Alberta

Officers and Senior Personnel

Donne Traxel
President
Cedric Stapleton
Vice President, Exploration

John Frank
Vice President, Operations
Bob Woima
Vice President, Finance &
Administration

Brad Crowe
Land Manager

Judy Stripling
Controller

Anne Ries
Secretary

Incorporation

Became a public Alberta
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Stock Exchange Listing

Toronto Stock Exchange
Stock Symbol: ULP

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