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Ranchmen's Resources (1976) Ltd.

ANNUAL REPORT 1979

RANCHMEN'S RESOURCES (1976) LTD.

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

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

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

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

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

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

STOCK EXCHANGE LISTING
Alberta Stock Exchange
The Toronto Stock Exchange

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

OFFICERS AND KEY PERSONNEL

Chairman of the Board & Treasurer
J. G. McDonald

President
R. J. White

Controller & Assistant Treasurer
E. K. Kaita

Manager — Operations
T. D. Brooker

Manager — Engineering
K. E. Sully

Manager — Land
R. A. Germiquet

Secretary
R. G. Powers

Assistant Secretary
Carol P. Todd

The Annual Meeting and Special General Meeting of the Company will be held in the Bel-Aire Room, Calgary Inn, 320 Fourth Avenue S.W., Calgary, on Monday, May 26, 1980 at 10:00 a.m. and 10:45 a.m., respectively MST. The Notice of Meeting and Information Circular are enclosed with this report.

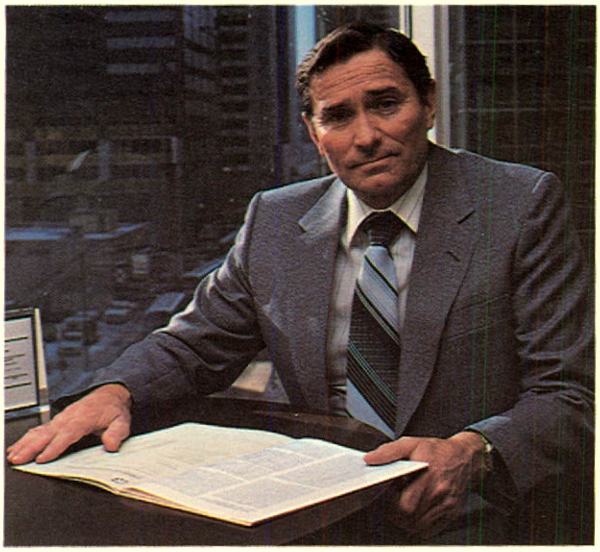
Highlights

	December 31,		
Financial	**1979**	1978	1977
Gross Income	**$5,536,202**	5,465,213	5,213,548
Cash Flow from Operations	**1,843,908**	1,760,636	1,204,165
per share	**1.28**	1.29	0.88
Earnings (Loss)	**633,418***	26,439	(292,576)
per share	**.46**	.02	(.22)
Working Capital (Deficit)	**1,170,013**	(748,952)	(883,846)
Capital Expenditure	**3,245,424**	1,621,030	2,730,607
Debt — Long Term	**8,378,996****	11,314,394	11,622,810
Current	**—**	407,908	341,928
Production			
Oil (barrels per day)	**351**	347	432
Gas (million cubic feet per day)	**5.474**	6.794	7.612
Reserves (Proved plus Probable)			
Oil (barrels)	**1,891,838**	2,205,054	2,088,378
Gas (billion cubic feet)	**27.514**	38.465	30.189
Net Lands (acres)	**123,237**	171,990	209,715

* After other gains and writedown of real estate held for resale.

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

Report of the Directors to the Shareholders:



Ronald J. White
President

On behalf of your Board of Directors, I am pleased to report on the 1979 activities of your Company.

The activation and financing of Ranchmen's Exploration Ltd. ("REL") through institutional investors was initiated in late 1978, became effective January 1, 1979 and closed on July 25, 1979.

A second important corporate transaction took place in early December when an Agreement in Principle was reached by the Company and Canadian Oil & Gas Fund Ltd. ("COGF") with Total Eastcan Exploration Ltd. ("Eastcan").

The agreement provides for a substantial refinancing of the Company in conjunction with the purchase of Eastcan's working interest in approximately 25,000,000 acres of Federal offshore Labrador permits, of which 18,500,000 acres are also held under Province of Newfoundland permits. Negotiation of a "Definitive Agreement" is progressing and it is presently anticipated that the transaction could close by June 30, 1980.

The REL and Eastcan transactions are described in more detail in the Financial Section (page 4) and the Eastcan permits are shown on the map on page 9.

Financial

Selected financial data are detailed on the following page. Of particular interest to Shareholders are the following comparative summaries of earnings and cash flow.

	1979	1978
Cash Flow from operations	**$1,843,908**	1,760,636
Per Share	**1.28**	1.29
Net Earnings	**633,418**	26,439
Per Share	**.46**	.02

Cash flow from operations during 1979 was slightly higher than the previous year and the increase would have been greater but for the sale of producing properties to REL. However, the lack of an appreciable increase in cash flow from operations has been more than offset by the reduction of our debt service cost. In fact, our overall debt management during the last three fiscal years has resulted in a reduction of long term debt from $11,622,810 to $8,378,996, with a current interest rate of 7.5% which is not deductible for income tax purposes.

Conversely, earnings for the year are sharply increased as a result of the REL sale. On a per share basis, after giving effect to the writedown of real estate, $.24 out of the $.46 net earnings per share are attributable to this transaction.

Operations

The Company participated in 79 wells during the year (including 19 farmed out to third parties), resulting in 16 oil wells, 56 gas wells and 7 dry holes. Eight of the oil wells and 38 of the gas wells were infill wells on producing projects.

Independent engineers have evaluated the Company's reserves and future cash flow effective December 31, 1979 and the results are summarized on pages seven and eight.

Production and reserve estimates have also been affected by the REL sale as shown below:

	1979	1978
Production		
Oil (barrels per day)	**351**	347
Gas (million cubic feet per day)	**5.474**	6.794
Reserves		
Oil (barrels)	**1,891,838**	2,205,054
Gas (billion cubic feet)	**27.514**	38.465

John G. McDonald
Chairman of the Board

The Company was active in the negotiation of farmouts to third parties during the year that resulted in 19 wells being drilled. Eleven of these wells were gas wells, 7 were dry and 1 completed as an oil well.

Shareholders' Equity

On April 25, 1979, the 14,500 Series "B" Preferred Shares owned by COGF were converted into Class "C" Common Voting Shares, increasing the issued shares of that class to 109,462.

At the Special General Meeting held June 25, 1979 shareholders of all classes approved the consolidation of the Class "B" Common, Non-Voting Shares into Class "A" Common, Non-Voting Shares on the basis of two Class "A" Common, Non-Voting Shares received for each three Class "B" Common, Non-Voting Shares held.

Common Shares outstanding at year end were as follows:

	December 31, 1979	December 31, 1978
Class "A" Common, Non-Voting .	**1,334,300**	1,070,070
Class "B" Common, Non-Voting .	**NIL**	227,602
Class "C" Common, Voting . . .	**109,462**	70,262
	1,443,762	1,367,934

We expect that the current negotiations between Eastcan, COGF and the Company may result in a substantial increase in the outstanding Class "A" Common, Non-Voting Shares and the issuance of a new class of Convertible Cumulative Redeemable Preferred Shares. The Special General Meeting of shareholders to be held on May 26 will seek shareholder approval of the required increase in the Company's authorized capital.

The Toronto Stock Exchange

The Class "A" Common, Non-Voting Shares of the Company have been approved for listing on The Toronto Stock Exchange and were posted for trading on March 14, 1980.

Staff

This past year was a turning point in the development of the Company and the Board of Directors acknowledges the contribution of our dedicated staff.

On behalf of The Board of Directors

RJWhite

R. J. White

FINANCIAL

The following table provides a comparative summary of financial results:

	1979	1978
Gross Income	**$5,536,202**	5,465,213
Net Revenue	**4,273,781**	4,039,062
Expenses — cash	**2,195,873**	2,278,426
— non-cash	**1,216,197**	1,218,197
Income taxes — current	**234,000**	—
— deferred	**1,130,000**	516,000
Cash Flow from operations	**1,843,908**	1,760,636
Per share	**1.28**	1.29
Net Earnings (after Other gains and writedown of real estate)	**633,418**	26,439
Per share	**.46**	.02
Capital Expenditures	**3,245,424**	1,621,030
Working Capital (deficiency) at year end	**1,170,013**	(748,952)
Long-term debt net of cash on deposit for first debenture repayment	**8,378,996**	11,314,394

Gross and net revenue were slightly higher than the previous year, notwithstanding the reduction brought about by the sale to REL.

Cash expense is slightly lower than the previous year, with 43% attributable to interest, 29% to operating, and 28% to overhead.

Non-cash expense essentially including depletion, depreciation and amortization of financing expenses is relatively unchanged.

Net earnings increased over the 1978 fiscal period. Most of this increase was attributable to a gain on the sale of certain oil and gas properties to REL and a book gain on the issue of 80% of the new outstanding common shares of REL to institutional investors which was partly offset by the writedown of real estate held for resale, the net effect being $.24 in earnings per share.

We also report a positive working capital position resulting from the sale of assets to REL and our own debt management policies. All demand bank debt has been retired and an amount of $1,621,004 has been set aside in a bank Term Deposit Receipt against the redemption of the first $2,000,000 income debenture due December, 1981.

Capitalization

The 14,500 Series "B" Convertible Cumulative Redeemable Preferred shares owned by COGF were converted into Class "C" Common, Voting Shares of Ranchmen's Resources (1976) Ltd. on April 25, 1979. This increased COGF's ownership of Class "C" Common, Voting Shares from 70,262 to 109,462 which constitutes 100% of the issued Class "C" Common, Voting Shares, and about 8% of total outstanding common shares.

On June 25, 1979 a Special General Meeting was held to approve the conversion of 227,602 Class "B" Common, Non-Voting Shares into 151,730 Class "A" Common, Non-Voting Shares (3 for 2 basis). Class "B" and "C" Shareholders voted 100% and Class "A" over 99% in favor of the exchange. Class "B" Common, Non-Voting Shares have now been eliminated.

The income debenture holder exercised its right to purchase 100,000 shares at $3.50 per share prior to December 19, 1979.

During the year, the Company established a Stock Option Plan for its senior employees, excluding directors, the Chairman and the President. A total of 61,000 shares have been set aside for the plan. Of these, options were issued to purchase 50,000 shares at $5.15 per share and 12,500 shares were purchased by exercise of these options before year-end. Class "A" Common, Non-Voting Shares outstanding now total 1,334,300. In February 1980, a further 12,500 were purchased through exercise of these options.

REL Transaction

REL is an Alberta company, 80% owned and controlled by a group of Canadian pension funds. The Company retains 20% of the common stock equity of REL which entitles it to elect one less than a majority of the Board of Directors. At the closing of the REL financing on July 25, 1979 the Company was appointed manager of REL.

The pension funds invested a total of $10,014,200, consisting of $7,153,000 First Mortgage, 11¾% Bonds and $2,861,200 of Class "A" Voting Shares. The REL common shares were purchased at a unit cost of $10.00 and may be exchanged one for one for Class "A" Common, Non-Voting Shares of the Company until June 30, 1983.

The invested funds were used to purchase working interests of 13.21% in the Bluemount properties, 10.71% in Medicine Hat #4, and 51.55% in Princess (Secs. 6 & 7) for $4,441,600 from the Company. A further $4,303,600 will be used for future development of the Bluemount properties under a Farmout Agreement between REL, the Company and Ranchmen's Exploration & Development Partnership (1976).

This Agreement provides that REL pays 26.42% of all new drilling costs and increases its working interest from 13.21% to 19.815%.

The remaining $1,269,000 of the original investment will be subject to a Joint Venture Agreement which provides REL with the right to participate up to 50% with the Company in new programs.

The Eastcan Transaction

The Company issued a Press Release on December 12, 1979 disclosing the terms of a Letter of Intent that had been executed by the Company and COGF with Eastcan. The arrangements between the Company, Eastcan and COGF may involve the following interdependent conditions which are now under negotiation pursuant to the said Letter of Intent:

1. The Company will acquire Eastcan's approximate 11% working interest in oil and gas permits relating to lands offshore Labrador.
2. Eastcan will concurrently subscribe $50 million for Class "A" Common, Non-Voting Shares of the Company, and $5 million for Convertible Cumulative Redeemable Preferred Shares of the Company.
3. The Company will concurrently issue by private placement, $40 million of Convertible Cumulative Redeemable Preferred Shares to other investors. The proceeds from this issue will be applied toward the purchase of Eastcan's interest in the Labrador permits.
4. $40 million of the proceeds received from the sale of shares to Eastcan under paragraph 2 above will be used toward the acquisition of onshore oil and gas properties to provide additional cash flow, and to balance the Company's risk exposure.
5. COGF will sell to Eastcan that number of shares that equals 40% of the issued Class "C" Common, Voting Shares of the Company.
6. The Company will offer Class "A" Common, Non-Voting Shares to the limited partners of Ranchmen's Exploration & Development Partnership (1976) and Ranchmen's Exploration & Development Partnership (1977) in

Ranchmen's Staff at Work

exchange for their limited partnership interests and to certain investors holding working interests in lands common to the two limited partnerships.

7. The Shareholders of REL will exchange substantially all of their issued Class "A" Common Shares in REL for Class "A" Common, Non-Voting Shares of the Company.

   If the Eastcan transaction closes, and assuming all Limited Partners, private investors and REL shareholders exchange their interests for Class "A" Common, Non-Voting Shares, it is expected that the common share ownership (both Class "A" Common, Non-Voting and Class "C" Common, Voting) of the Company would be approximately as follows:

Present Shareholders 23%

Former Limited Partners, private investors and former REL shareholders 21%

Eastcan 54%

COGF 2%

Eastcan and certain institutional investors would hold $5,000,000 and $40,000,000 respectively, of Convertible Cumulative Redeemable Preferred Shares that are convertible into Class "A" Common Shares of the Company at a conversion price yet to be determined. In addition, COGF will subscribe for warrants to purchase 400,000 Class "A" Common Shares at a price yet to be agreed upon. The warrants are to be issued as consideration for the cancellation of the COGF Management Agreement with the Company. Upon conversion of the Preferred Shares and exercise of the warrants, the resulting common share ownership (both Class "A" Common, Non-Voting and Class "C" Common, Voting) is expected to be approximately as follows:

Present shareholders 16%

Limited Partners, private investors and REL shareholders 14%

Institutional investors 25%

Eastcan 40%

COGF 5%

The Class "C" Common, Voting Shares of the Company will be owned 60% by COGF and 40% by Eastcan.

OPERATIONS

Drilling Program

During 1979, the Company was a working interest participant in 60 wells, with 15 being completed as oil wells, 42 producing gas wells, and three shut-in gas wells. Of the wells in which the Company was a paying participant, none were dry holes. In addition, the Company farmed out interests in portions of its undeveloped land holdings, which resulted in other operators drilling 19 wells, one of which is an oil well, two producing gas wells, nine shut-in gas wells, and seven dry holes. Under the terms of most farmout agreements, the other operator pays all well costs to earn a large interest in the farmout lands until the cost of the well has been recovered, after which both parties share more or less equally in the proceeds of production.

	% Company Interest	Oil	Gas	Dry
Company Participation:				
Bellshill Lake	31.77	1	—	—
Deer Mountain	31-42	2	—	—
Hilda Gas Unit	1.18	—	4	—
Kessler Provost	15.89	—	4	—
Kiron	31.77	2	—	—
Matziwin	6.25	—	8	—
Med. Hat No. 4	18.50	—	5	—
Princess	.22	—	7	—
Ranfurly	5.78	—	1	—
Rosalind	15.89	—	1	—
Suffield East	.70	—	1	—
Taber	64.4	1	—	—
Thompson Lake	15-31	1	2	—
Tower	8.50	—	1	—
Wander	1.00	—	1	—
Warburg	.68	8	—	—
West Hilda	8.75	—	10	—
Company Farmout				
Alliance	1.58	—	—	1
Galahad	3.17	—	—	1
Hayter	6.34	1	1	1
Killam	1.58-6.34	—	5	4
Paintearth	1.58	—	1	—
Rosalind	3.80	—	2	—
Springburn	.92	—	1	—
Wavy Lake	6.34	—	1	—
Total:		16	56	7

Production and Reserves

A summary of average production and year-end reserves for the past three years is set out below:

	1979	1978	1977
Production			
Oil (barrels per day)	**351**	347	432
Gas (million cubic feet per day)	**5.474**	6.794	7.612
Reserves (proven plus probable)			
Oil (barrels)	**1,891,838**	2,205,054	2,088,378
Gas (billion cubic feet)	**27.514**	**38.465**	**30.189**

A progressive increase in reserves and oil and gas production over the three year period has been effectively offset by the sale of about 20% of the company's assets to Ranchmen's Exploration & Development Partnership (1977) and REL.

A summary of the company's proven plus probable net reserves, as well as a summary of their future cash flow discounted at 0, 12, 15 and 20% are shown on the following tables.

SUMMARY OF NET RESERVES

	Proven		**Proven plus Probable Additional**	
Property	**Oil**	**Gas**	**Oil**	**Gas**
	(barrels)	**(billion cubic feet)**	**(barrels)**	**(billion cubic feet)**
Bellshill Lake	91,812		91,812	
Deer Mountain	177,036		1,156,433	
Provost Project 10	81,733		81,733	
Zama	137,000		137,000	
Other Oil	405,182		424,860	
Kessler Provost		1.765		2.342
Med. Hat #4		4.789		4.789
Rosalind		2.170		2.170
Other Gas		15.175		18.213
Total	892,763	23.899	1,891,838	27.514

Ranchmen's Staff at Work

CASH FLOW SUMMARY

Proven Plus Probable Reserves (thousands of dollars) Discounted at

Property	0%	12%	15%	20%
OIL				
Bellshill Lake	1,815	957	851	718
Deer Mountain	20,654	4,036	2,873	1,642
Provost Project 10	1,207	783	718	631
Zama	5,265	1,797	1,478	1,119
Other	10,568	3,694	3,182	2,573
Sub-Total	39,509	11,267	9,102	6,683
GAS				
Kessler Provost	5,550	2,677	2,333	1,909
Med. Hat #4	18,171	7,057	5,927	4,611
Rosalind	5,826	3,693	3,374	2,947
Other	85,223	20,193	16,533	12,628
Sub-Total	114,770	33,620	28,167	22,095
Total	154,279	44,887	37,269	28,778

Fair Market Value of undeveloped lands $3,248,641

Land

A 28% reduction in the Company's net working interests from 171,900 acres to 123,237 acres reflects the sale of a 13.21% interest in certain properties to R.E.L. and a further reduction through farmouts to third parties. The change also reflects the normal expiration of some leases and farmout leases and the conversion of working interests to royalty interest through farmouts.

Under most farmout agreements, the Company retains a royalty interest in the lands until the capital costs of the earning well are paid out, at which time the Company has the option to convert back to a working interest. The Company now owns royalty interests in 52,480 lease acres.

As at December 31, 1979 the fair market value of the 85,144 acres of undeveloped lands was determined to be $3,248,641 by independent engineers.

1980 PROGRAM

Canada

A number of wells planned for late 1979 were delayed until 1980 because of a shortage of rigs.

At Deer Mountain, Ranchmen's Swan Hills 4-28-68-8 W5M is now suspended following a lengthy delay caused by drilling and completion problems. A second well planned for this winter was deferred.

A southerly offset to the Whitecourt 10-36 oilwell, drilled in Lsd. 16 of Section 25, will be completed shortly. This well was drilled on a farmin under which the Company and its partners earned additional interests in 800 acres.

An unsuccessful exploratory well was recently drilled on a D_3 reef prospect at East Windfall by the Company and its partners.

Of promising interest to our Company is a 15,000 foot test (Getty et al Robb 16-35) being drilled adjacent to our Mercoal lands. The Company and partners have granted an option whereby the Optionee can earn a 50% interest in our lands by drilling a 15,000 foot well. Results from the current well will not be known before mid-year.

U.S.A.

Operations in the U.S. are carried out through the Company's wholly-owned subsidiary, Bluemount Minerals Inc. In Oklahoma, the Company will participate with a $12^1/_2$% interest in 14 wells along the Sooner oil trend northwest of Tulsa.

EASTCOAST OFFSHORE
TOTAL EASTCAN INTERESTS
FEDERAL GOVERNMENT PERMITS
NEWFOUNDLAND PROVINCIAL PERMITS & FEDERAL GOVERNMENT PERMITS
GODTHAAB
DAVIS STRAIT
HEKJA A-72
CUMBERLAND BASIN
SAGLEK BASIN
TOTAL EASTCAN
GILBERT E-47
OGMUND F-32
SNORRI J-90
HOPEDALE E-33
BJARNI O-82 & H-81
GUDRID H-55
HOPEDALE BASIN
ROBERVAL K-92
HOPEDALE
CARTWRIGHT
GOOSE BAY
LABRADOR
QUEBEC
T-E
ATLANTIC OCEAN
EAST NEWFOUNDLAND BASIN
Strait of Belle Isle
GANDER
NEWFOUNDLAND
Gulf of St. Lawrence
MARITIMES BASIN
ST. JOHNS
BONAVISTA PLATFORM
HIBERNIA O-15
ADOLPHUS 2K-41
BEN NEVIS I-45
FLEMISH BASIN
SYDNEY BASIN
P.E.I.
CHARLOTTETOWN
NOVA SCOTIA
HALIFAX
SABLE ISLAND
SCOTIAN BASIN
VENTURE D-23
Grand Banks
60°
55°
50°
45°
65

Consolidated Balance Sheet

December 31, 1979
(with comparative figures for 1978)

Assets

	1979	1978
Current assets:		
Cash and short-term deposits	$ 363,411	588,028
Accounts receivable	2,810,806	1,469,994
Inventory of material and supplies, at cost	158,807	186,929
Total current assets	3,333,024	2,244,951
Non-current investments and receivables:		
Term deposit (Note 2)	1,621,004	—
Mortgages receivable, net of current portion	24,404	279,322
Real estate held for resale, at cost less amounts written off	373,416	369,104
Investment in Ranchmen's Exploration Ltd., at equity	378,048	—
	2,396,872	648,426
Property and equipment, at cost less depreciation and depletion:		
Oil and gas properties	17,001,910	18,036,639
Production equipment	2,148,174	2,301,147
Office equipment	82,658	73,345
	19,232,742	20,411,131
Less accumulated depreciation and depletion	3,669,321	2,445,797
	15,563,421	17,965,334
Other assets:		
Unamortized financing costs	274,752	334,949
Sundry, at cost	46,901	166,688
	321,653	501,637
	$21,614,970	21,360,348

Approved on behalf of the Board:

R J White, Director

, Director

See accompanying notes.

Liabilities and Shareholders' Equity

	1979	1978
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,124,648	1,922,553
Current portion of long-term debt	38,363	407,908
Due to parent company, Canadian Oil & Gas Fund Ltd.	—	663,442
Total current liabilities	2,163,011	2,993,903
Long-term debt (Note 2):		
Bank loans — net of current portion	—	1,282,450
Income debentures	10,000,000	10,000,000
Mortgage payable, net of current portion	—	31,944
	10,000,000	11,314,394
Prepayment for future gas production	546,454	314,837
Deferred income taxes	2,052,074	922,074
Minority interest in subsidiary	3,423	3,423
Shareholders' equity:		
Share capital (Note 3):		
Preferred shares with a nominal or par value of $10 per share Authorized: 1,400,000 Shares Issued: nil (1978 - 14,500) Series B 8% Convertible Cumulative Redeemable Preferred Shares	—	145,000
Common shares without nominal or par value Authorized: 4,900,000 (1978 - 5,000,000) Shares divided into 4,600,000 (1978 - 4,400,000) Class "A" Common Non-Voting Shares; nil (1978 - 300,000) Class "B" Common, Non-Voting Shares; and 300,000 Class "C" Common Voting Shares		
Issued: 1,334,300 (1978 - 1,070,070) Class "A"	6,064,472	4,512,085
nil (1978 - 227,602) Class "B"	—	1,138,012
109,462 (1978 - 70,262) Class "C"	496,312	351,312
Contributed surplus	1,737,590	1,737,590
Deficit	(1,448,366)	(2,072,282)
	6,850,008	5,811,717
Commitment and Contingent liabilities (Note 5)	$21,614,970	21,360,348

See accompanying notes.

Consolidated Statement of Earnings and Deficit

Year Ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
Revenues:		
Sales of natural gas and crude oil	**$5,062,013**	5,422,363
Less royalties	**1,520,090**	1,721,151
Deduct Alberta Royalty Tax Credit	**257,669**	295,000
	1,262,421	1,426,151
Production revenue	**3,799,592**	3,996,212
Other	**474,189**	42,850
	4,273,781	4,039,062
Expenses:		
Operating	**643,413**	805,113
General and administrative	**603,920**	567,873
Depreciation	**127,000**	131,000
Depletion	**1,029,000**	1,027,000
Amortization of financing expenses	**60,197**	60,197
Interest — income debentures	**749,726**	644,287
— other long-term debt	**198,814**	230,556
— other	**—**	30,597
	3,412,070	3,496,623
Earnings before the following	**861,711**	542,439
Other gains (Note 4)	**1,393,809**	—
Writedown of real estate held for resale	**(258,102)**	—
Earnings before income taxes	**1,997,418**	542,439
Income taxes — current	**234,000**	—
— deferred	**1,130,000**	516,000
Net earnings	**633,418**	26,439
Deficit, beginning of year	**2,072,282**	2,087,121
Dividends paid on Preferred Shares	**9,502**	11,600
Deficit, end of year	**$1,448,366**	2,072,282
Earnings per share	**$ .46**	.02
Fully diluted earnings per share	**$ .38**	.02

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
Source of funds:		
Operations		
Net earnings	**$ 633,418**	26,439
Add items not requiring working capital:		
Writedown of real estate held for resale	**258,102**	—
Depreciation	**127,000**	131,000
Depletion	**1,029,000**	1,027,000
Amortization of financing expenses	**60,197**	60,197
Deferred income taxes	**1,130,000**	516,000
Other gains	**(1,393,809)**	—
Working capital provided from operations	**1,843,908**	1,760,636
Prepayment for future gas production	**231,617**	314,837
Proceeds on issue of Class "A" Common Shares	**414,375**	—
Proceeds on sale of property and equipment	**5,525,451**	54,781
	8,015,351	2,130,254
Use of Funds:		
Reduction of long-term debt	**1,314,394**	308,416
Investment in Ranchmen's Exploration Ltd.	**7,153**	—
Additions to property and equipment	**3,245,424**	1,621,030
Purchase of term deposit and interest thereon	**1,621,004**	—
Dividends paid on Preferred Shares	**9,502**	11,600
Other	**(101,091)**	54,314
	6,096,386	1,995,360
Increase in working capital	**1,918,965**	134,894
Working capital deficiency, beginning of year	**748,952**	883,846
Working capital (deficiency), end of year	**$1,170,013**	(748,952)

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1979

1. Significant Accounting Policies:

a) Principles of Consolidation:

The consolidated balance sheet includes the accounts of Ranchmen's Resources (1976) Ltd. and its wholly-owned subsidiaries, Bluemount Minerals Inc., Bluemount Minerals Ltd., Brady Oil and Gas Limited and that company's 60% owned subsidiary, Greenvalley Holdings Limited (inactive).

Accounts of the United States subsidiary are immaterial.

b) Property and Equipment:

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

c) Joint Venture Accounting:

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

d) Financing Costs:

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

e) Investment at Equity:

The Company owns 20% of the common shares of Ranchmen's Exploration Ltd. and the investment is accounted for by the equity method.

(f) Earnings Per Share:

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

2. Long-term Debt:

The Floating Rate Secured Serial Income Debentures bear interest at 1.5% plus one-half of the prime bank rate with a minimum of 5.5% and a maximum of 7.5% per annum payable semi-annually to the extent of available profit with a provision for deferral, if necessary. The debentures have been issued in five series of $2,000,000 principal amount each, maturing on each December 22, of 1981, 1982, 1983, 1984 and 1985. During the year the Company purchased a term deposit which, together with interest thereon, will be applied against the Series A Floating Rate Secured Serial Income Debenture due on December 22, 1981 in the amount of $2,000,000. The debentures are secured by a first fixed mortgage on certain oil and gas properties and a floating charge on all assets, and are redeemable by the Company on or after December 19, 1979 with accrued interest to the date of redemption.

3. Share Capital:

During July 1979, the share capital was reorganized by the consolidation of the authorized and issued Class "A" Common, Non-Voting Shares and the Class "B" Common, Non-Voting Shares on the basis of three Class "B" Common, Non-Voting Shares for two Class "A" Common, Non-Voting Shares.

The Series "B" 8% Convertible Cumulative Redeemable Preferred Shares were converted into 39,200 Class "C" Common, Voting Shares in April of 1979.

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

The Company had reserved 100,000 Class "A" Common, Non-Voting Shares pursuant to a share purchase warrant indenture with the income debenture holders whereby the warrant holders could purchase up to an aggregate of 100,000 shares at any time prior to the close of business on December 19, 1979, 1981, and 1983 at $3.50, $4.00 and $5.00 per share respectively. These warrants were exercised during 1979.

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

The Company has reserved 286,120 Class "A" Common, Non-Voting Shares for issuance pursuant to a share exchange agreement with the holders of Class "A" Common Shares of Ranchmen's Exploration Ltd. which may be exercised by any or all of the Ranchmen's Exploration Ltd. shareholders on or before June 30, 1983 on a share for share basis. The subscription price for the Class "A" Common Shares was $10 per share.

The Company has reserved 61,000 Class "A" Common, Non-Voting Shares for a key employee stock option plan on such terms and conditions as the President of the Company shall determine. During 1979 options were granted to officers and employees to purchase 50,000 Class "A" Common, Non-Voting Shares at a price of $5.15 exercisable as to one quarter of the options annually to December 31, 1982. The right to exercise the options is cumulative. During 1979 one quarter of the options were exercised.

4. Other Gains:

During the year, the Company and Ranchmen's Exploration Ltd. entered into a series of transactions whereby: (1) 80% of the new outstanding common shares of Ranchmen's Exploration Ltd. were issued to institutional investors resulting in a book gain to the Company of $566,517; and (2) certain oil and gas properties having a carrying value of $3,407,485 were sold by the Company for $4,441,600. The portion of this gain applicable to the Company's 20% interest in Ranchmen's Exploration Ltd. ($206,823) has been deferred.

5. Commitment and Contingent Liabilities:

The Company has entered into a 25 year management agreement with a shareholder, Canadian Oil & Gas Fund Ltd., wherein the Company will pay reasonable administrative costs and 5% of the cost of property acquired and of shares of corporations acquired on behalf of the Company, (see Note 8a)).

As general partner of certain limited partnerships, the Company is contingently liable for all of the liabilities and obligations of the partnerships in excess of their assets.

6. Remuneration of Directors and Senior Officers:

The aggregate management fees and remuneration paid to directors and senior officers (which includes the five highest paid employees) for the period ended December 31, 1979 was approximately $248,000 (1978 - approximately $212,600).

7. Deferred Income Taxes:

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

	1979	1978
Earnings before income taxes	**$1,997,418**	542,439
Add non-allowable items, including crown royalties, debenture interest and depletion on assets and cost of assets disposed of which are not deductible for income tax purposes	**2,938,518**	2,157,830
Income for purposes of income tax calculations before earned depletion and resource allowance	**4,935,936**	2,700,269
Deduct:		
Earned depletion allowance	**952,744**	477,227
Federal resource allowance	**843,361**	872,616
Income for purposes of income tax provision	**$3,139,831**	1,350,426

8. Subsequent Events:

a) The Company issued a Press Release on December 12, 1979 disclosing the terms of a Letter of Intent that had been executed by the Company and its parent, Canadian Oil & Gas Fund Ltd. with Total Eastcan Exploration Ltd. The arrangements between the parties may involve the following interdependent conditions which, however, have not yet been agreed:

i) The Company will acquire Total Eastcan Exploration Ltd.'s approximate 11% working interest in oil and gas permits relating to lands offshore Labrador for approximately $50 million.

ii) Total Eastcan Exploration Ltd. will concurrently subscribe $50 million for Class "A" Common, Non-Voting Shares of the Company, and $5 million for Convertible Cumulative Redeemable Preferred Shares of the Company.

iii) The Company will concurrently issue by private placement, $40 million of Convertible Cumulative Redeemable Preferred Shares to other investors. The proceeds from this issue will be applied toward the purchase of Total Eastcan Exploration Ltd.'s interest in the Labrador permits.

iv) $40 million of the proceeds received from the sale of shares to Total Eastcan Exploration Ltd. under paragraph 2 above will be used toward the acquisition of onshore oil and gas properties to provide additional cash flow, and to balance the Company's risk exposure.

v) Canadian Oil & Gas Fund Ltd. will sell to Total Eastcan Exploration Ltd. that number of shares that equals 40% of the issued Class "C" Common, Voting Shares of the Company.

vi) The Company will offer Class "A" Common, Non-Voting Shares to the limited partners of Ranchmen's Exploration & Development Partnership (1976) and Ranchmen's Exploration & Development Partnership (1977) in exchange for their limited partnership interests and to certain investors holding working interests in lands common to the two limited partnerships.

vii) The Shareholders of Ranchmen's Exploration Ltd. will exchange substantially all of their issued Class "A" Common Shares in Ranchmen's Exploration Ltd. for Class "A" Common, Non-Voting Shares of the Company.

viii) Canadian Oil & Gas Fund Ltd. is negotiating for warrants to purchase 400,000 Class "A" Common Non-Voting Shares at a price yet to be agreed upon as consideration for the cancellation of the management agreement with the Company

b) Subsequent to the year end, the Company acquired 30% (3,000 shares) of the issued and outstanding common shares having a par value of $1 and 27,000 preferred shares of American Oil & Gas Fund, Inc. from certain officers of the Company for an aggregate consideration of $30,000, being the original issue price plus interest at cost. The Company is also committed to purchase an additional 10,800 common and 97,200 preferred shares of that company for an aggregate consideration of $108,000.

The Company has agreed to subscribe for 40,000 Non-Voting Redeemable Convertible Preferred Shares (out of 400,000 shares) having a par value of $10 each of Ranchmen's Exploration Inc., which is presently a wholly-owned subsidiary of American Oil & Gas Fund, Inc.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ranchmen's Resources (1976) Ltd. as at December 31, 1979 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, 1979 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 11, 1980

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Ranchmen's Resources (1976) Ltd.

ANNUAL REPORT 1979

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